SOUTHERN CALIFORNIA BUSINESS DEVELOPMENT CORPORATION

**Southern California Business Development Corporation**
**Financial Statements**
***As of and for the Year Ended June 30, 2016***
***with Independent Accountants' Compilation Report***

An independently owned member RSM US Alliance

RSM

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# Independent Accountants' Compilation Report

**To the Board of Directors of**
**Southern California Business Development Corporation**

Management is responsible for the accompanying financial statements of Southern California Business Development Corporation, which comprise the balance sheet as of June 30, 2016 and the related statements of operations, changes in shareholders' equity and cash flows for the year then ended, and the related notes to the financial statements (collectively, the financial statements) in accordance with accounting principles generally accepted in the United States of America. We have performed a compilation engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the American Institute of Certified Public Accountants. We did not audit or review the financial statements, nor were we required to perform any procedures to verify the accuracy or completeness of the information provided by management. Accordingly, we do not express an opinion, a conclusion, nor provide any form of assurance on these financial statements.

Vasquez + Company LLP

**Los Angeles, California**
**September 30, 2016**

**Southern California Business Development Corporation**
**Balance Sheet**
**June 30, 2016**

| | | |
|---|---|---|
| **ASSETS** | | |
| Cash and cash equivalents | $ | 1,363,005 |
| Loans receivable, net of allowance for credit losses | | 2,930,000 |
| Interest receivable | | 47,295 |
| Prepaid income tax | | 4,201 |
| **Total assets** | $ | 4,344,501 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| **Liabilities** | $ | - |
| **Shareholders' equity** | | |
| Common stock - $1 par value, 4,120,000 shares authorized, issued and outstanding | | 4,120,000 |
| Additional paid-in capital | | 80,000 |
| Retained earnings | | 144,501 |
| **Total shareholders' equity** | | 4,344,501 |
| **Total liabilities and shareholders' equity** | $ | 4,344,501 |

*See accompanying notes and independent accountants' compilation report.*

**Southern California Business Development Corporation**
**Statement of Operations**
**Year ended June 30, 2015**

| | | | |
|---|---|---|---|
| **Interest income** | | | |
| Loans | | $ | 58,000 |
| Other | | | 150 |
| | **Total interest income** | | 58,150 |
| **Expenses** | | | |
| Taxes and licenses | | | 2,685 |
| Professional fees | | | 5,050 |
| Management fees | | | 9,004 |
| Bank charges | | | 10 |
| Sponsorship and development | | | 35,000 |
| | **Total expenses** | | 51,749 |
| | **Income before income tax** | | 6,401 |
| **Provision for income taxes** | | | 1,353 |
| | **Net income** | $ | 5,048 |

*See accompanying notes and independent accountants' compilation report.*

| | Common Stock | | Treasury Stock | | | | |
|---|---|---|---|---|---|---|---|
| | No. of Shares | Amount | No. of Shares | Amount | Additional Paid in Capital | Retained Earnings | Total |
| Balance at July 1, 2015* | 4,160,000 * | $ 4,160,000 * | 40,000 * | $ - * | $ 40,000 * | $ 139,453 | $ 4,339,453 |
| Shares returned by shareholders | (40,000) | (40,000) | 40,000 | - | 40,000 | - | - |
| Net income | - | - | - | - | - | 5,048 | 5,048 |
| Balance at June 30, 2016 | 4,120,000 | $ 4,120,000 | 80,000 | $ - | $ 80,000 | $ 144,501 | $ 4,344,501 |

* *The balance at July 1, 2015 was revised to reflect the return of 40,000 shares of common stock to the Company in 2011.*

## Southern California Business Development Corporation
## Statement of Cash Flows
## Year ended June 30, 2016

| | | |
|---|---|---|
| **Cash flows from operating activities** | | |
| Net income | $ | 5,048 |
| Adjustments to reconcile net income to | | |
| net cash provided by operating activities: | | |
| Change in operating assets and liabilities | | |
| Loans receivables | | (200,000) |
| Prepaid income tax | | (2,329) |
| Accounts payable | | (1,645) |
| Income tax payable | | (1,458) |
| **Cash used in operating activities** | | (200,384) |
| **Change in cash and cash equivalents** | | (200,384) |
| **Cash and cash equivalents at beginning of year** | | 1,563,389 |
| **Cash and cash equivalents at end of year** | $ | 1,363,005 |

| | | |
|---|---|---|
| **Supplemental disclosure of cashflow information** | | |
| Taxes paid during the year | $ | 5,140 |
| **Supplemental disclosure of noncash transaction** | | |
| Return of shares of common stock | $ | 40,000 |

*See accompanying notes and independent accountants' compilation report.*

## NOTE 1 NATURE OF ACTIVITIES

The Southern California Business Development Corporation (the Company) was incorporated in September 1992 and commenced business in April 1993 as a for-profit consortium of 27 California banks. The Company's focus is community reinvestment by targeting small businesses with growth opportunities in Los Angeles, California. In August 1999, the Company decided to terminate its own lending program and to assist its target market through supporting the activities of Los Angeles LDC, Inc. (LALDC), a not-for-profit, community development financial services corporation, based in Los Angeles, CA. Accordingly, in August 1999, the Company sold its loan portfolio to LALDC, liquidated its securities portfolio and loaned $2,500,000 to LALDC using a subordinated fixed rate promissory note. In December 2000, September 2002, September 2005, and February 2016, the Company granted additional loans of $500,000, $200,000, $200,000, and $700,000 respectively, to LALDC. In 2011 and 2016, two banks returned their shares of common stock to the Company with no consideration for they no longer serve the South Los Angeles small business lending market. The value of these returned shares is reflected as additional paid-in capital.

In 2016, the Company funded a sponsorship to support the Los Angeles LDC's participation in the SBA Milken Institute Plan for Lending to Underserved Markets (PLUM). The objective of PLUM is to assess and eliminate the barriers, in selected metropolitan areas - Baltimore and Los Angeles that have been impediments to the flow of capital to small businesses in these regional economies. A primary goal of the SCBDC's sponsorship is to insure that African American led businesses and lenders are participating in the development and implementation of any solutions.

## NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Basis of Accounting

The Company's financial statements are prepared on an accrual basis in accordance with accounting principles generally accepted in the United States of America.

### Loans Receivable

Loans receivable are generally reported at the principal amount outstanding, net of unearned income, deferred loan fees and allowance for credit losses. Interest income is accrued daily as earned on all loans. Interest income is not recognized on loans receivable if collection of the interest is deemed by management to be unlikely.

The Company has a policy to discontinue the accrual of interest and transfer loans to nonaccrual (cash basis) status when reasonable doubt exists with respect to the timely collectability of such interest and principal. A nonaccrual loan may be restored to accrual basis when future payments are no longer in doubt.

Impaired loans are measured based on the present value of expected future cash flows discounted at the loan's contractual interest rate or, as a practical expedient, at the loan's observable market price at fair value of the collateral. Loans are considered impaired when it is deemed probable that the Company will be unable to collect all amounts due (both principal and interest) according to the contractual terms of the loan agreement.

## NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Provision and Allowance for Credit Losses**
The Company maintains an allowance for credit losses at a level considered by management adequate to cover probable losses on loans. The allowance for credit losses is increased by charges to income and decreased by charge-offs (net of recoveries). The allowance for credit losses is based on management's periodic analysis of the loan portfolio after giving consideration to the character of the loan portfolio, current economic conditions, past loss experience and such other factors as deserve current recognition in estimating credit losses. Although management uses the best information available to make these estimates, future adjustments to the allowance may be necessary because of economic, operating and other conditions that may be beyond the Company's control.

**Cash and Cash Equivalents**
The Company considers all highly liquid instruments purchased with a maturity of three months or less to be cash equivalents. The Company's policy is to invest cash in excess of operating requirements in income producing investments.

Cash balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000 per institution. The Company maintains cash balances at one financial institution located in Southern California. As of June 30, 2016, the Company’s uninsured funds totaled $1,113,005.

**Revenue Recognition**
The Company earns revenues primarily through charging borrowers interest on their borrowings. Interest income is recognized in the period it is earned.

**Use of Estimates**
The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. Accordingly, actual results could differ from those estimates.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant items subject to such estimation include: valuation allowances on credit losses and valuation allowance on deferred tax assets. Actual results could differ from these estimates

A material estimate that is particularly susceptible to change relates to the determination of the allowance for loan losses. Management believes that the allowance for loan losses is adequate. While management uses available information to estimate potential losses on loans, future additions to the allowance may be necessary based on changes in economic conditions.

## NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Income Taxes**
The Company is a C corporation subject to the federal and state income taxes. Generally accepted accounting principles require that the Company recognize in the financial statements the impact of a tax position if that position will more likely than not be sustained on audit, based on the technical merits of the position. As of and for the year ended June 30, 2016, the Company had no material unrecognized tax benefits, tax penalties or interest. See Note 5 for additional information.

The Company's income tax returns remain subject to examination for all tax years ended on or after June 30, 2012 with regard to all tax positions and results reported.

## NOTE 3 LOANS RECEIVABLE

Loans receivable as of June 30, 2016 consist of the following:

| | Amount |
|---|---|
| Loans receivable | $ 3,100,000 |
| Less allowance for credit losses | (170,000) |
| | $ 2,930,000 |

On August 27, 1999, the Company granted a loan to LALDC for $2,500,000, repayable on September 1, 2009. The loan is collateralized by a subordinated fixed rate promissory note. Interest is payable annually on September 30. In October 2002, the Company reduced the interest rate from 5% to 4%.

On December 22, 2000, the Company granted an additional loan to LALDC for $500,000, repayable on September 1, 2009. The loan is collateralized by a subordinated fixed rate promissory note. Interest is payable annually on September 30. In October 2002, the Company reduced the interest rate from 5% to 4%.

On September 30, 2002, the Company granted an additional loan to LALDC for $200,000 repayable on September 1, 2009. The loan is collateralized by a subordinated fixed rate promissory note. Interest is payable annually on September 30, at the rate of 4%.

On September 30, 2005, the Company granted an additional loan to LALDC for $200,000 repayable on September 1, 2009. The loan is collateralized by a subordinated fixed rate promissory note. Interest is payable annually, at the rate of 4% commencing September 30, 2006.

On September 30 of each year commencing in 2005, unless the Company delivers a termination notice to LALDC prior to September 30 of each such year, the maturity of each loan will automatically be extended by one additional year. However, the Company is under no obligation to provide any such extension. Such one-year extensions shall continue indefinitely, until the Company notifies LALDC of its determination not to extend the maturity.

## NOTE 3 LOANS RECEIVABLE (CONTINUED)

On March 15, 2015, the Company's Board of Directors approved the extension of all the loans granted to LALDC totaling $2,900,000 to September 30, 2015. In addition, effective October 1, 2011, the Company reduced the interest rates on the loans to 2%.

On December 31, 2015, the loan balance had been repaid by $500,000 and the maturity date of the remaining $2,400,000 was extended to September 30, 2018.

In February 2016, the Company granted a $700,000 loan to LALDC repayable on September 1, 2018. The loan is collateralized by all of the assets of LALDC under a subordinated fixed rate promissory note. Interest is payable annually, at the rate of 2% commencing on September 30, 2016 and continuing until September 30, 2018 or terminated under the terms and conditions of the subordinated fixed rate promissory note.

As set out by each subordinated note, LALDC agreed to adhere to several covenants, during the term of the notes. These covenants deal with the business activity and loan products of LALDC, maintenance of specific percentage loan loss reserves, defined capital, loan, and subordinated debt ratios, annual audits, quarterly financial, loan and delinquency reports, and annual certification of adherence to the covenants. The Company's Board of Directors set the loan loss reserve requirement up to 3%. The Company decided to maintain the current allowance for credit losses at $170,000.

An analysis of the change in allowance for credit losses for the year ended June 30, 2016, follows:

| | | Amount |
|---|---|---|
| Balance at beginning of year | $ | 170,000 |
| Recoveries of loans prviously written off, net of expenses | | - |
| Provision charged to income | | - |
| Balance at end of year | $ | 170,000 |

The Company did not have any impaired loans as of June 30, 2015.

## NOTE 4 MANAGEMENT SERVICES AGREEMENT WITH LALDC

In March 2002, the Company entered into a management services agreement with LALDC in which the Company agreed to compensate LALDC for general administrative services. The Company also agreed to pay LALDC 50% of any recovery obtained from certain written-off loans.

## NOTE 5 INCOME TAXES

Under the liability method, deferred tax assets and liabilities are determined based on the difference between the financial statement and income tax basis of assets and liabilities as measured by the enacted tax rates which will be in effect when these differences reverse. Deferred tax expense is the result of changes in deferred tax assets and liabilities. Valuation allowances are established when necessary to reduce deferred tax assets to the expected amount to be realized.

The provision for income taxes for the year ended June 30, 2016 consists of the following:

| | | Amount |
|---|---|---|
| Current: | | |
| Federal | $ | 553 |
| State | | 800 |
| | | 1,353 |
| Deferred: | | |
| Federal | | - |
| State | | - |
| | | - |
| Total | $ | 1,353 |

The principal type of difference between assets and liabilities for financial statement and income tax return purposes is the allowance for credit losses. This difference resulted in a deferred tax asset. The deferred tax asset is recognized in the accompanying balance sheet as follows at June 30, 2016:

| | | Amount |
|---|---|---|
| Deferred tax assets: | | |
| Allowance for credit losses | $ | 60,000 |
| Valuation allowance | | (60,000) |
| | $ | - |

Management believes that the valuation allowance at June 30, 2016 should be maintained at 100% of the deferred tax asset amount. The valuation allowance will be assessed each year-end and adjusted as necessary based on management's estimates of the realizability of the asset.

## NOTE 6 CONCENTRATION OF CREDIT RISK

As of June 30, 2016, the Company has concentrated its loans to one entity, LALDC, in the total amount of $3,100,000 as described in Note 3.

## NOTE 7 SUBSEQUENT EVENTS

Subsequent to June 30, 2016 and through September 30, 2016, the date through which management evaluated subsequent events and on which the financial statements were issued, the Company did not identify any subsequent events that require adjustments or disclosures in the financial statements.

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