SOUTHERN CALIFORNIA BUSINESS DEVELOPMENT CORPORATION

Southern California Business Development Corporation
Financial Statements
As of and for the Year Ended June 30, 2017
with Independent Accountants' Compilation Report

An independently owned member RSM US Alliance

RSM

Vasquez & Company LLP
Certified Public Accountants and Business Consultants

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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, 2017 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 in accordance with accounting principles generally accepted in the United States of America. We have performed the 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 7, 2017

Southern California Business Development Corporation
Balance Sheet
June 30, 2017

ASSETS		
Cash and cash equivalents	$	1,402,922
Loans receivable, net of allowance for credit losses		2,930,000
Interest receivable		47,295
Total assets	$	4,380,217
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Income tax payable	$	5,472
Total liabilities		5,472
Shareholders' equity		
Common stock - $1 par value, 4,200,000 shares authorized, issued and outstanding		4,200,000
Additional paid-in capital		80,000
Retained earnings		174,745
Less: Treasury stock		(80,000)
Total shareholders' equity		4,374,745
Total liabilities and shareholders' equity	$	4,380,217

See accompanying notes and independent accountants' compilation report.

Interest income		
Loans		$ 60,553
Other		102
	Total interest income	60,655
Expenses		
Taxes and licenses		3,348
Professional fees		5,670
Management fees		11,720
	Total expenses	20,738
	Income before income tax	39,917
Provision for income taxes		9,673
	Net income	$ 30,244

See accompanying notes and independent accountants' compilation report.

Southern California Business Development Corporation
Statement of Changes in Shareholders' Equity
Year ended June 30, 2017

	Common Stock		Additional		Treasury Stock		Total
	No. of Shares	Amount	Paid in Capital	Retained Earnings	No. of Shares	Amount	Shareholders' Equity
Balance at July 1, 2016	4,200,000	$ 4,200,000	$ 80,000	$ 144,501	(80,000)	$ (80,000)	$ 4,344,501
Net income	-	-	-	30,244	-	-	30,244
Balance at June 30, 2017	4,200,000	$ 4,200,000	$ 80,000	$ 174,745	(80,000)	$ (80,000)	$ 4,374,745

See accompanying notes and independent accountants' compilation report.

Cash flows from operating activities		
Net income	$	30,244
Adjustments to reconcile net income to		
net cash provided by operating activities:		
Change in operating assets and liabilities		
Prepaid income tax		4,201
Income tax payable		5,472
Cash provided by operating activities		39,917
Change in cash and cash equivalents		39,917
Cash and cash equivalents at beginning of year		1,363,005
Cash and cash equivalents at end of year	$	1,402,922

See accompanying notes and independent accountants' compilation report.

NOTE 1 NATURE OF ACTIVITIES

The Southern California Business Development Corporation (SCBDC) (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 ensure that the 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, 2017, the Company’s uninsured funds totaled $1,152,922.

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, 2017, 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, 2017 consist of the following:

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

Details of loans receivable from LALDC are as follows:

Loan granted on August 27, 1999, payable on September 1, 2009 at 5% interest, payable annually on September 30. Interest rate was reduced to 2% effective October 1, 2011. On December 31, 2015, extended maturity date to September 30, 2018.	$ 2,500,000
Loan granted on September 30, 2002, payable on September 1, 2009 at 4% interest, payable annually on September 30. Interest rate was reduced to 2% effective October 1, 2011. On December 31, 2015, extended maturity date to September 30, 2018.	200,000
Loan granted on September 30, 2005, payable on September 1, 2009 at 4% interest, payable annually commencing on September 30, 2006. Interest rate was reduced to 2% effective October 1, 2011. On December 31, 2015, extended maturity date to September 30, 2018.	200,000
Partial payment by LALDC of loan balances on December 31, 2015.	(500,000)
Loan granted in February 2016, payable on September 1, 2018 at 2% interest, payable annually commencing on September 30, 2016.	700,000
	$ 3,100,000

NOTE 3 LOANS RECEIVABLE (CONTINUED)

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.

The loans are collateralized by all of the assets of LALDC under a 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, 2017, follows:

		Amount
Balance at beginning of year	$	170,000
Recoveries of loans previousy wriiten off, net of expense		-
Provision charged to income		-
Balance at end of year	$	170,000

The Company did not have any impaired loans as of June 30, 2017.

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.

For the year ended June 30, 2017, the Company paid LALDC $11,720 of management fees.

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, 2017 consists of the following:

Current:		
Federal	$	6,086
State		3,587
		9,673
Deferred:		
Federal		-
State		-
		-
Total	$	9,673

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, 2017:

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

Management believes that the valuation allowance at June 30, 2017 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, 2017, 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 MERGER AGREEMENT

On April 7, 2017, SCBDC reached an agreement to merge (the “Merger”) with and into Main Street BIDCO Capital, a California Business and Industrial Development Corporation, a California corporation (“MSBIDCO”). MSBIDCO will be the surviving corporation. The agreement has been approved by the Board of Directors of SCBDC and is subject to the approval of SCBDC’s Shareholders and LALDC’s Board of Directors. If the Merger is approved, as a result of the Merger (1) LALDC will hold 53% of the issued and outstanding shares of MSBIDCO; (2) the current SCBDC shareholders will hold 47% of the issued and outstanding shares of MSBIDCO and will have the right to appoint up to 4 directors on MSBIDCO’s board of directors; (3) a key consideration precedent requires MSBIDCO to assume LALDC’s obligations under two promissory notes that collectively have a principal balance of $3,100,000 owed to SCBDC and that SCBDC will release LALDC from its obligations under such promissory notes; and (4) the Merger will have the effect of terminating these promissory notes by operation of law since post-Merger MSBIDCO will be both the debtor and the obligor under those notes

As of June 30, 2017, the merger agreement is still awaiting the approval of SCBDC’s Shareholders and LALDC’s Board of Directors.

NOTE 8 SUBSEQUENT EVENTS

The Company has evaluated events or transactions that occurred subsequent to the balance sheet date through September 7, 2017, the date the accompanying financial statements were available to be issued, for potential recognition or disclosure in the financial statements and determined that no subsequent matters required disclosure or adjustment to the accompanying financial statements.

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