

**Southern California Business Development Corporation**  
**Financial Statements**  
*for the Year Ended June 30, 2011*  
*with Accountants' Compilation Report*

**Southern California Business Development Corporation**  
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## Accountants' Compilation Report

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

We have compiled the accompanying balance sheet of Southern California Business Development Corporation as of June 30, 2011 and the related statements of operations, shareholders' equity and cash flows for the year then ended. We have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or provide any assurance about whether the financial statements are in accordance with accounting principles generally accepted in the United States of America.

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 designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of financial statements.

Our responsibility is to conduct the compilation in accordance with *Statements on Standards for Accounting and Review Services* issued by the American Institute of Certified Public Accountants. The objective of a compilation is to assist management in presenting financial information in the form of financial statements without undertaking to obtain or provide any assurance that there are no material modifications that should be made to the financial statements.

*Vasquez + Company LLP*

Los Angeles, California  
December 1, 2011

**Southern California Business Development Corporation**  
**Balance Sheet**  
**June 30, 2011**

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**ASSETS**

Cash and cash equivalents	\$ 881,962
Loans receivable, net of allowance for credit losses	3,230,000
Accrued interest receivable	<u>76,500</u>
<b>Total assets</b>	<b>\$ <u>4,188,462</u></b>

**LIABILITIES AND SHAREHOLDERS' EQUITY**

**Liabilities**

Income tax payable	\$ <u>18,436</u>
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**Shareholders' equity**

Common stock - \$1 par value, 4,200,000 shares authorized, issued and outstanding	4,200,000
Accumulated deficit	<u>(29,974)</u>
<b>Net shareholders' equity</b>	<b><u>4,170,026</u></b>

<b>Total liabilities and shareholders' equity</b>	<b>\$ <u>4,188,462</u></b>
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*See accompanying notes and accountants' compilation report.*

**Southern California Business Development Corporation**  
**Statement of Operations**  
**Year ended June 30, 2011**

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**Interest income**

Loans	\$ 102,666
Other	1,147
<b>Gross interest income</b>	<u>103,814</u>

**Expenses**

Professional fees	8,025
Management fees	4,821
Other	2,686
<b>Total expenses</b>	<u>15,532</u>

**Income before income tax** 88,282

Income tax expense 24,647

**Net income** \$ 63,635

*See accompanying notes and accountants' compilation report.*

**Southern California Business Development Corporation**  
**Statement of Shareholders' Equity**  
**Year ended June 30, 2011**

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	<u>Common Stock</u>	<u>Accumulated Deficit</u>	<u>Total</u>
Balance at July 1, 2010	\$ 4,200,000	\$ (93,609)	\$ 4,106,391
Net income	<u>-</u>	<u>63,635</u>	<u>63,635</u>
Balance at June 30, 2011	<u>\$ 4,200,000</u>	<u>\$ (29,974)</u>	<u>\$ 4,170,026</u>

*See accompanying notes and accountants' compilation report.*

**Southern California Business Development Corporation**  
**Statement of Cash Flows**  
**Year ended June 30, 2011**

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**Cash flows from operating activities**

Net income	\$ 63,635
Adjustment to reconcile net income to net cash provided by operating activities	
Change in operating assets and liabilities	
Income tax payable	<u>18,436</u>

**Net increase in cash and cash equivalents** 82,071

**Cash and cash equivalents at beginning of year** 799,891

**Cash and cash equivalents at end of year** \$ 881,962

*See accompanying notes and 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 it 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, and September 2005, the Company granted additional loans of \$500,000, \$200,000 and \$200,000, respectively, to LALDC.

**NOTE 2      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Accounting**

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America 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.

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.

**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 collectibility 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 less than three months to be cash equivalents. The Company's policy is to invest cash in excess of operating requirements in income producing investments.

On July 21, 2010, the Dodd-Frank financial regulatory reform legislation was signed into law making all noninterest-bearing transaction accounts fully insured without limit effective December 31, 2010 until January 1, 2013. During the two-year period, all noninterest-bearing accounts of all banks are covered. The legislation also modifies the methodology for FDIC assessments from deposit based to asset based. In addition, on July 21, 2010, the regulatory reform signed into law made the standard maximum deposit insurance amount of \$250,000 permanent. The \$250,000 per depositor is in addition to the full insurance on noninterest-bearing transaction accounts. The Company maintains cash balances at one financial institution located in Southern California. As of June 30, 2011, the Company's uninsured funds totaled \$631,962.

**NOTE 3      LOANS RECEIVABLE**

On August 27, 1999, the Company granted a loan to Los Angeles LDC, Inc. 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 Los Angeles LDC, Inc. 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 Los Angeles LDC, Inc. 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%.

**NOTE 3      LOANS RECEIVABLE (CONTINUED)**

On September 30, 2005, the Company granted an additional loan to Los Angeles LDC, Inc. 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 November 29, 2011, the Company's Board of Directors approved the extension of all the loans granted to Los Angeles LDC totaling \$3,400,000 to September 30, 2012. In addition, effective October 1, 2011, the Company reduced the interest rates on the loans to 2%.

On September 30 of each year commencing in 2005, unless the Company delivers a termination notice to Los Angeles LDC, Inc. 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 Los Angeles LDC, Inc. of its determination not to extend the maturity.

As set out by each subordinated note, Los Angeles LDC, Inc. agreed to adhere to several covenants, during the term of the notes. These covenants deal with the business activity and loan products of Los Angeles LDC, Inc., 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 subsequently reduced the loan loss reserve requirement to 3%.

An analysis of the change in allowance for credit losses for the year ended June 30, 2011, follows:

Balance at beginning of year	\$	170,000
Recoveries of loans previously written off, net of expenses		-
Provision (credit) charged to income		-
Balance at end of year	\$	<u>170,000</u>

The Company did not have any impaired loans as of June 30, 2011.

**NOTE 4      MANAGEMENT SERVICES AGREEMENT WITH LOS ANGELES LDC, INC.**

In March 2002, the Company entered into a management services agreement with Los Angeles LDC, Inc. in which the Company agreed to compensate Los Angeles LDC, Inc. for the provision of general administrative services. The Company also agreed to pay Los Angeles LDC, Inc. 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, 2011 consists of the following:

Current		
Federal	\$	18,385
State		<u>6,262</u>
		<u>24,647</u>
Deferred		
Federal		-
State		<u>-</u>
		<u>-</u>
	\$	<u><u>24,647</u></u>

The principal types of differences between assets and liabilities for financial statement and income tax return purposes are allowance for credit losses and net operating loss carry forwards. These differences resulted in a deferred tax asset. The deferred tax asset is recognized in the accompanying balance sheet as follows at June 30, 2011:

Deferred tax assets:		
Net operating loss carryforward	\$	64,000
Allowance for credit losses		<u>59,500</u>
		123,500
Valuation allowance		<u>(123,500)</u>
	\$	<u>-</u>

Management believes that the valuation allowance at June 30, 2011 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, 2011, the Company has concentrated its loans to one entity, Los Angeles LDC, Inc. in the total amount of \$3,400,000 as described in Note 3.

**NOTE 7            SUBSEQUENT EVENTS**

Subsequent to June 30, 2011 and through December 1, 2011, 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, except for the matter discussed in Note 3.

