

Southern California Business Development Corporation
Financial Statements
As of and for the Year Ended June 30, 2015
with Independent Accountants' Compilation Report

An Independently Owned Member
McGLADREY ALLIANCE



 **Vasquez**
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Certified Public Accountants and Business Consultants

The logo for Vasquez & Company LLP features a stylized "V" and "C" in blue and grey, with an ampersand between them. To the right of the graphic, the name "Vasquez & Company LLP" is written in a black, sans-serif font, with "Vasquez" on the top line and "& Company LLP" on the bottom line. Below the name, the text "Certified Public Accountants and Business Consultants" is written in a smaller, black, sans-serif font.

Southern California Business Development Corporation
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Independent 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, 2015 and the related statements of operations, changes in 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 the 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.



Los Angeles, California
September 8, 2015

Southern California Business Development Corporation
Balance Sheet
June 30, 2015

ASSETS

Cash and cash equivalents	\$ 1,563,389
Loans receivable, net of allowance for credit losses	2,730,000
Interest receivable	47,295
Prepaid income tax	<u>1,872</u>
Total assets	\$ <u>4,342,556</u>

LIABILITIES AND SHAREHOLDERS' EQUITY

Liabilities

Accounts payable	\$ 1,645
Income tax payable	<u>1,458</u>
Total liabilities	<u>3,103</u>

Shareholders' equity

Common stock - \$1 par value, 4,200,000 shares authorized, issued and outstanding	4,200,000
Retained earnings	<u>139,453</u>
Total shareholders' equity	<u>4,339,453</u>

Total liabilities and shareholders' equity \$ **4,342,556**

See accompanying notes and independent accountants' compilation report.

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

Interest income	
Loans	\$ 63,059
Other	153
Total interest income	<u>63,212</u>
 Expenses	
Taxes and licenses	3,726
Professional fees	9,770
Management fees	9,965
Total expenses	<u>23,461</u>
 Income before income tax	 39,751
Income tax expense	<u>9,199</u>
 Net income	 \$ <u><u>30,552</u></u>

See accompanying notes and independent accountants' compilation report.

Southern California Business Development Corporation
Statement of Changes in Shareholders' Equity
Year ended June 30, 2015

	<u>Common Stock</u>	<u>Retained Earnings</u>	<u>Total</u>
Balance at July 1, 2014	\$ 4,200,000	\$ 108,901	\$ 4,308,901
Net income	-	30,552	30,552
Balance at June 30, 2015	<u>\$ 4,200,000</u>	<u>\$ 139,453</u>	<u>\$ 4,339,453</u>

See accompanying notes and independent accountants' compilation report.

Southern California Business Development Corporation
Statement of Cash Flows
Year ended June 30, 2015

Cash flows from operating activities	
Net income	\$ 30,552
Adjustments to reconcile net income to net cash provided by operating activities:	
Change in operating assets and liabilities	
Prepaid income tax	(146)
Accounts payable	1,645
Income tax payable	1,458
Cash provided by operating activities	<u>33,509</u>
Cash flows from financing activities	
Collection of loans receivable	-
Cash provided by financing activities	<u>-</u>
Change in cash and cash equivalents	33,509
Cash and cash equivalents at beginning of year	<u>1,529,880</u>
Cash and cash equivalents at end of year	<u>\$ 1,563,389</u>
Supplemental disclosure of cashflow information	
Taxes paid during the year	<u>\$ 8,927</u>

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, 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 Company's financial statements are prepared on the accrual basis of accounting 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 doubtful.

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.

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 that 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.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2015, the Company's uninsured funds totaled \$1,313,389.

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 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.

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, 2015, 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, 2015 consist of the following:

	Amount
Loans receivable	\$ 2,900,000
Less allowance for credit losses	(170,000)
	\$ 2,730,000

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.

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%.

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.

NOTE 3 LOANS RECEIVABLE (CONTINUED)

An analysis of the change in allowance for credit losses for the year ended June 30, 2015, follows:

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

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. Management fee for the year ended June 30, 2015 amounted to \$9,965.

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, 2015 consists of the following:

Current		
Federal	\$	5,677
State		<u>3,522</u>
		<u>9,199</u>
 Deferred		
Federal		-
State		<u>-</u>
		<u>-</u>
	\$	<u>9,199</u>

NOTE 5 INCOME TAXES (CONTINUED)

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, 2015:

Deferred tax assets:	
Allowance for credit losses	\$ 60,000
Valuation allowance	(60,000)
	<u>\$ -</u>

Management believes that the valuation allowance at June 30, 2015 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, 2015, the Company has concentrated its loans to one entity, LALDC, in the total amount of \$2,900,000 as described in Note 3.

NOTE 7 SUBSEQUENT EVENTS

Subsequent to June 30, 2015 and through September 8, 2015, 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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