REGIONAL COMMUNITY FINANCE, INC.

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2020

Postlethwaite & Netterville
A Professional Accounting Corporation
pncpa.com

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TABLE OF CONTENTS

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A Professional Accounting Corporation

INDEPENDENT AUDITORS' REPORT

The Board of Directors
Regional Community Finance, Inc.

We have audited the accompanying consolidated financial statements of Regional Community Finance, Inc. and its subsidiary (collectively, the Organization), which comprise the consolidated statements of financial position as of December 31, 2020 and 2019, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. 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. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Postlethwaite & Netterville

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Regional Community Finance, Inc. as of December 31, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information included on page 17 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. This supplementary information included on page 17 is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, such information is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 2, 2021, on our consideration of the Organization'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 provide an opinion on the effectiveness of the Organization'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 the Organization's internal control over financial reporting and compliance.

Postlethwaite & Netterville

Metairie, Louisiana
June 2, 2021

REGIONAL COMMUNITY FINANCE, INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2020 AND 2019

ASSETS

	2020	2019
Cash and cash equivalents	$ 416,715	$ 284,380
Restricted cash and cash equivalents	32,546	29,200
Accounts receivable	52,681	-
Interest receivable	5,822	2,488
Prepaid insurance	437	437
Other asset	-	2,532,422
Notes receivable	15,670,062	16,212,425
Property	305,000	305,000
Investment in partnership	12,024	12,040
Total assets	$ 16,495,287	$ 19,378,392

LIABILITIES AND NET ASSETS

	2020	2019
Accounts payable	$ 4,174	$ 56,509
Deferred revenue	869,568	894,008
Deferred rent expense	581,524	145,381
Loans payable	10,254,841	12,744,265
Interest payable	170,578	162,982
Other liabilities	16,270	10,331
Total liabilities	11,896,955	14,013,476
Net assets without donor restriction	4,598,332	5,364,916
Total liabilities and net assets	$ 16,495,287	$ 19,378,392

The accompanying notes are an integral part of these consolidated financial statements.

REGIONAL COMMUNITY FINANCE, INC.
CONSOLIDATED STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	2020	2019
Revenues and Support		
Rental income	$ 626,173	$ 208,725
Contributions	841,100	1,400,000
Interest income	474,194	480,230
Other income	14,984	2,547,833
Total revenue	1,956,451	4,636,788
Expenses		
Program services:		
Accounting fees	4,500	4,000
Interest expense	349,623	513,059
Forgiveness of notes receivable	1,337,000	-
Rental expense	1,006,813	335,714
Loss on disposition of assets	3,697	-
Loss on investment in partnership	16	-
	2,701,649	852,773
Supporting services:		
Legal and professional fees	-	600
Bank fees	737	644
Dues, licenses and fees	67	50
Property and liability insurance	3,482	8,562
Accounting fees	11,100	3,620
Management fees	6,000	6,000
	21,386	19,476
Total expenses	2,723,035	872,249
Change in net assets	(766,584)	3,764,539
Net assets at beginning of year	5,364,916	1,600,377
Net assets at end of year	$ 4,598,332	$ 5,364,916

The accompanying notes are an integral part of these consolidated financial statements.

REGIONAL COMMUNITY FINANCE, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	2020	2019
Cash flows from operating activities:		
Changes in net assets	$ (766,584)	$ 3,764,539
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Forgiveness of notes receivable	1,337,000	1,736,301
Assignment of note receivable	(841,100)	(1,400,000)
Forgiveness of notes payable	-	(1,736,301)
Increase in loans payable for interest expense	-	86,228
Loss on investment in partnership	16	-
Changes in operating assets and liabilities:		
Accounts receivable	(52,681)	-
Interest receivable	(3,334)	4,484
Other asset	2,532,422	(2,532,422)
Accounts payable	(52,335)	59,067
Other liability	5,939	135,381
Interest payable	7,596	(14,840)
Deferred revenue	(24,440)	(24,867)
Deferred rent expense	436,143	-
Net cash provided by operating activities	2,578,642	77,570
Cash flows from investing activities:		
Payments received on notes receivable	46,463	160,494
Net cash provided by investing activities	46,463	160,494
Cash flows from financing activities:		
Payments on notes payable	(2,489,424)	(149,360)
Net cash used in financing activities	(2,489,424)	(149,360)
Net increase in cash and cash equivalents	135,681	88,704
Cash and cash equivalents at beginning of year	313,580	224,876
Cash and cash equivalents at end of year	$ 449,261	$ 313,580
Reconciliation to Consolidated Statements of Financial Position		
Cash and cash equivalents for cash flow statement include:		
Cash and cash equivalents	$ 416,715	$ 284,380
Restricted cash and cash equivalents	32,546	29,200
	$ 449,261	$ 313,580
Supplemental Disclosure of Cash Flow Information:		
Cash paid for interest	$ 342,027	$ 527,899

The accompanying notes are an integral part of these consolidated financial statements.

(1) Summary of Significant Accounting Policies

(a) History and Organization

Regional Community Finance, Inc. (the Organization, "RCF") is a non-profit organization under the laws of the State of Louisiana and was created to foster low and moderate income housing and to promote economic development through community development projects primarily targeted to benefit low and moderate income residents. The Organization fulfills this mission by providing community development financing to New Markets Tax Credit and other real estate projects. The organization was formally known as GCHP Housing Finance, Inc. and changed its name to Regional Community Finance, Inc., on December 19, 2017.

These financial statements have been consolidated to include the Organization's wholly owned subsidiary, GCHP-MLK Leverage Lender, LLC. Other non-consolidated partnership interests include .50% of 2700 Bohn Motor, LLC which is accounted for under the cost method and 21% of GCHP-Elysian II GP, LLC which is accounted for under the equity method. All intercompany transactions have been eliminated.

(b) Basis of Accounting and Presentation of Net Assets

The accompanying consolidated financial statements of the Organization have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP), which require the Organization to report information regarding its financial position and activities to the following net asset classifications.

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of the Organization's management and board of directors.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. The Organization had no net assets with donor restrictions as of December 31, 2020 and 2019.

Contributions restricted by donors are reported as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restrictions are accomplished) in the reporting period in which the revenue is recognized. All other donor restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the consolidated statements of activities.

(1) Summary of Significant Accounting Policies (continued)

(c) Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates, and those differences could be material.

(d) Cash and Cash Equivalents

Cash includes amounts on deposit at financial institutions. Cash equivalents represent cash demand deposits and all highly liquid debt instruments with an original maturity of three months or less from the date of purchase.

(e) Restricted Cash and Cash Equivalents

The Organization maintains restricted cash accounts as required by grant and loan agreements.

(f) Receivables

Receivables are stated at the amount management expects to collect from outstanding balances. The Organization uses the direct write-off method to provide for uncollectable accounts. Receivables are charged to bad debt when they are deemed uncollectable. The use of this method does not result in a material difference from the valuation method required by U.S. GAAP.

(g) Property

Property consists of land that was donated to the Organization on May 28, 2013.

Impairment of long-lived assets is reviewed whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent the carrying value exceeds the fair value of the asset. Fair market value is determined primarily using appraisals. There were no impairments of long-lived assets recorded by management during the years ended December 31, 2020 and 2019.

(h) Deferred Revenue

Deferred revenue consists of a note receivable purchased by the Organization from Regions Bank as of August 1, 2016 with a loan balance of $800,140 and $815,124 as of December 31, 2020 and 2019, respectively. The purchase price was below the carrying value of the loan; therefore, the related note receivable is included in notes receivable and deferred revenue on the consolidated statements of financial position. The deferred revenue is recognized in revenue as the principal portion of the note is paid to the Organization. For the years ended December 31, 2020 and 2019, $14,984 and $15,411, was recognized as revenue from the note receivable, respectively, and is included in other income.

(1) Summary of Significant Accounting Policies (continued)

(h) Deferred Revenue (continued)

Deferred fee income revenue consists of fees to be earned by the Organization related to the 2700 Bohn Motor, LLC financing agreement with a deferred balance of \$69,428 and \$78,884 as of December 31, 2020 and 2019, respectively. The deferred revenue is recognized over the life of the loan. For the year ended December 31, 2020 and 2019, \$9,456 was recognized as revenue from the deferred fees, and is included in interest income.

(i) Revenue Recognition

The Organization recognizes contributions when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give – that is, those with measurable performance or other barriers and right of return (or release) – are not recognized until the conditions on which they depend have been substantially met.

Rental income is recognized as the rent becomes due. Rental payments received in advance are deferred until earned. All leases between Regional Community Finance and the tenants of the property are operating leases. Tenant rent charges for the current month are due on the first of the month. Tenants who are evicted or move out are charged with damages or cleaning fees, if applicable. Tenant receivables consist of amounts due for rental income, other tenant charges, and charges for damages and cleaning fees in excess of forfeited security deposits. Regional Community Finance does not accrue interest on the tenant receivable balances.

(j) Expense Allocation

The costs of the various program and supporting services have been summarized on a natural and functional basis in the consolidated statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Such allocations are determined by management on an equitable basis. All other costs are charged directly to the appropriate functional category.

(k) Tax Exempt Status

The Organization is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code.

The Organization has processes presently in place to ensure the maintenance of its tax-exempt status; to identify and report unrelated income; to determine its filing and tax obligations in jurisdictions for which it has nexus; and to identify and evaluate other matters that may be considered tax positions. The Organization has determined that there are no material uncertain tax positions that require recognition or disclosure in the consolidated financial statements.

(1) Summary of Significant Accounting Policies (continued)

(l) Accounting Pronouncements Issued but Not Yet in Effect

On September 17, 2020, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2020-07, *Not-for-Profit Entities (Topic 958), Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The ASU requires nonprofits to change their financial statement presentation and disclosure of contributed nonfinancial assets, or gifts-in-kind. The FASB issued the update in an effort to improve transparency in reporting nonprofit gifts-in-kind. The ASU requires the new standard to be applied retrospectively, with amendments taking effect for the Organization's fiscal year ending December 31, 2022.

In February 2016, the FASB issued ASU 2016-02, *Leases*. This accounting standard requires lessees to recognize assets and liabilities related to lease arrangements longer than 12 months on the balance sheet as well as additional disclosures. In July 2018, the FASB issued ASU 2018-11, *Leases (Topic 842): Targeted Improvements*, to simplify the lease standard's implementation. The amended guidance relieves businesses and other organizations of the requirement to present prior comparative years' results when they adopt the new lease standard. Instead of recasting prior year results using the new accounting when they adopt the guidance, companies can choose to recognize the cumulative effect of applying the new standard to leased assets and liabilities as an adjustment to the opening balance of retained earnings. On June 3, 2020, the FASB deferred the effective date of this standard for certain entities. This standard will be effective for the Organization's fiscal year ending December 31, 2022.

(2) Liquidity and Availability of Resources

The following represents the Organization's financial assets available for general expenditures at December 31:

Financial assets at year-end:	2020	2019
Cash and cash equivalents	$ 416,715	$ 284,380
Restricted cash and cash equivalents	32,546	29,200
Accounts receivable	52,681	-
Interest receivable	5,822	2,488
Other asset	-	2,532,422
Notes receivable	15,670,062	16,212,425
Total financial assets	16,177,826	19,060,915
Less amounts not available to be used within one year for general expenditures:		
Cash restricted for specific uses	20,881	21,040
Notes receivable	15,587,421	16,165,899
	15,608,302	16,186,939
Financial assets available to meet general expenditures within one year	$ 569,524	$ 2,873,976

(2) Liquidity and Availability of Resources (continued)

RCF maintains cash reserves as required by loan agreements. Cash flow projections for each project, prepared by an independent third party, are included in the transaction process to ensure the receipts from lending activity cover expenditures from financing activities for the organization. As part of its liquidity plan, excess cash is invested in short term investments with maturities of no more than 3 months, including US government securities and certificates of deposit. Funds are invested to ensure full FDIC coverage to the extent permissible by existing loan covenants.

(3) Concentration of Credit Risk

Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of cash and cash equivalents. The Organization maintains its cash and cash equivalents in various bank accounts that, at times, may exceed federally insured limits. The Organization's cash and cash equivalent accounts have been placed with high credit quality financial institutions. The Organization has not experienced, nor does it anticipate, any losses with respect to such accounts.

(4) Notes Receivable

Details of notes receivable are as follows as of December 31:

	2020	2019
Note Receivable – FNBC MLK Investments, LLC		
Note receivable for $1,947,000 dated March 31, 2011. The Note bears interest at a rate per annum of 0.5% payable quarterly beginning July 1, 2011. The note matures March 30, 2051.	$ 1,947,000	$ 1,947,000
Note Receivable – GCHP-Polybar - QLICI B Note		
Note receivable for $2,736,301 dated June 27, 2013. The note bears interest at a rate per annum of 1.0% payable in monthly payments of principal and interest in the amount of $3,335.28 commencing on January 31, 2020 thorugh January 31, 2044. The note matures February 29, 2044. This note was assigned to RCF and partially forgiven during the year ended December 31, 2019. See Note 7.	823,438	854,917
Note Receivable – FNBC NMTC Small Deal Fund		
Note receivable for $1,337,000 dated December 22, 2014. The note bears interest at a rate per annum of 1.496% payable annually beginning December 20, 2014. The note was forgiven in 2020.	-	1,337,000

(4) Notes Receivable (continued)

	2020	2019
Note Receivable – Old Morrison Partners, L.P.		
Note receivable for $860,000 dated February 1, 2010 and assigned to the Organization by Regions Bank as of August 1, 2016. The note bears interest at a rate per annum of 5% payable monthly beginning September 1, 2016. The note matures December 27, 2027.	800,140	815,124
Note Receivable – Odyssey House		
Note receivable for $4,858,384 dated December 5, 2017. The note bears interest at a rate per annum of 1.595212% payable quarterly beginning December 5, 2017. The note matures December 5, 2038.	4,858,384	4,858,384
Note Receivable – GCHP-Elysian, LLC		
Note receivable for $841,100 dated April 1, 2012 with an interest rate of 0% per annum. Principal is due April 31, 2052. The note was assigned to RCF during the year ended December 31, 2020.	841,100	-
Notes Receivable – Odyssey House		
Note receivable for $5,000,000 dated December 5, 2017. The note bears interest at a rate per annum of 6.09% payable quarterly beginning December 5, 2017. The note	5,000,000	5,000,000
Notes Receivable – GCHP-Mid City		
Note receivable for $1,400,000 dated December 6, 2012 bearing interest at a rate per annum of 0%. The note matures December 5, 2047.	1,400,000	1,400,000
Total notes receivable	$ 15,670,062	$ 16,212,425

(5) Long-Term Debt

Details of long-term debt are as follows as of December 31:

	2020	2019
Note Payable – New Orleans Redevelopment Authority Note payable with New Orleans Redevelopment Authority (NORA) for $2,000,000 dated March 31, 2011. The Note bears interest at a rate per annum of 0.5% which accrued from the date of the note until the Option Date. Beginning on the Option Date, interest accrues at the Prime Rate plus 1%, adjusted annually, payable monthly in arrears. Outstanding principal will be amortized over the remaining term of the loan in equal monthly installments payable in arrears. Principal and interest shall be paid out of monthly cash flow. The note matures March 31, 2041 and is collateralized by substantially all of the assets of the entity.	$ 2,000,000	$ 2,000,000
Note Payable – State of Louisiana, Office of Community Development (OCD) Note payable with State of Louisiana, OCD for $1,000,000 dated November 27, 2013. The note has an interest rate of 1% per annum paid monthly in arrears on the tenth day of the month beginning six months after the initial date of advance of loan proceeds. Commencing eighteen months from the initial advance date, principal will amortize in equal monthly installments over the remaining term of the loan and through October 26, 2019 be deposited into a sinking fund. On October 27, 2019 all deposits in the sinking fund will be paid to lender as a "Balloon Payment" and principal will be due to lender on the tenth of the month in arrears. The maturity date is November 27, 2043. The note is collateralized by a security interest in the Junior Leveraged Loan and Junior Leveraged Loan Documents; a security interest in the Jr. Leveraged Loan and Sinking Fund deposit accounts; a Mortgage on the property located at 1701 Baronne St., New Orleans, Louisiana and the Guarantee Agreement.	817,802	849,835
Note Payable – Rhodes Loan Note payable with 2700 Bohn/Rhodes, LLC for $605,363 dated December 5, 2017. The note has an interest rate of 0%. The note matures on December 5, 2024. The note is unsecured.	605,363	605,363

(5) Long-Term Debt (continued)

	2020	2019
Note Payable – Twain Community Partners		
Note payable with Twain Community Partners II, Inc. for $2,345,743 dated December 5, 2017. The note has an interest rate of 5.75% and matures on August 1, 2019. This note has an interest reserve stating that a portion of the loan equal to $212,520, which is an amount determined by Lender, sufficient to pay all projected interest payments through the Maturity Date, which will be held back by Lender, and distributed by Lender to itself to apply against interest accruing under the loan when due. Interest is payable monthly beginning January 1, 2018. The note is collateralized by an assignment of the Tax Credit Certificate and repayment guarantees. This loan was paid in full in March 2020.	-	2,345,743
Note Payable – Note A		
Note payable with Reinvestment Fund Inc. for $5,000,000 dated December 5, 2017. The note has an interest rate of 6.09% and matures on December 5, 2024. Interest is payable quarterly in arrears. The note is collateralized by a leasehold mortgage and repayment guarantees.	4,888,884	4,978,443
Note Payable – Note B		
Note payable with Reinvestment Fund Inc. for $2,000,000 dated December 5, 2017. The note had an interest rate of 6.25% and interest was payable quarterly in arrears. The note was collateralized by a leasehold mortgage and repayment guarantees. The loan was paid in full in 2020.	-	500,000
Note Payable – New Orleans Redevelopment Authority		
Note payable with New Orleans Redevelopment Authority (NORA) for $500,000 dated December 5, 2017. The note has an interest rate of 2.5% and maturity on December 5, 2037. Interest is payable quarterly in arrears. Principal will be amortized over a forty-year period, beginning the first day of the first month after the disbursement date payable quarterly until the loan is paid in full. Any unpaid principal or accrued interest is due to the lender upon maturity. The loan is collateralized by cash accounts, financial assets, promissory notes executed by Investment Fund (Odyssey House in Note 4), and leasehold mortgage. The loan was funded and used to settle the remaining balance of Note B above.	494,175	-

(5) Long-Term Debt (continued)

	2020	2019
Note Payable – Bohn Rhodes CDBG		
Note payable with Bohn Rhodes, L.L.C. for $1,500,000 with an interest rate of 1% and maturity on December 5, 2047. Upon advance of loan proceeds, principal shall begin to amortize in equal monthly installments over the period of time beginning six months after the initial date of advance. Loan is due and payable quarterly in arrears. The loan is collateralized by leasehold mortgage, security agreement, and pledge of leases and rents.	1,476,593	1,500,000
Total long-term debt	10,282,817	12,779,384
Less unamortized debt issuance costs	27,976	35,119
Total long-term debt, net	$ 10,254,841	$ 12,744,265

(6) Related Party Transactions

A Director and related party of RCF is also the President of Gulf Coast Housing Partnership, Inc. ("GCHP") which is the parent company of GCHP-Management, LLC, GCHP-Mid City, Old Morrison Partners, L.P. and GCHP – Polybar, LLC.

The Organization has contracted with GCHP-Management, LLC to provide management services. During the years ended December 31, 2020 and 2019, the Organization was charged $6,000 for management services by GCHP-Management, LLC.

The Organization has entered into numerous notes payable and notes receivable with GCHP and subsidiaries over the normal course of business. See Notes 4 and 5. Additionally, see the description of the GCHP – Polybar, LLC project unwind which occurred during the year ended December 31, 2019, in Note 7.

A note receivable due from GCHP-Mid City was assigned to RCF by the State of Louisiana OCD in the amount of $1,400,000 during the year ended December 31, 2019, resulting in contribution revenue in the amount of the note.

(7) PolyBar Unwind

In December 2019, the New Market Tax Credit transaction compliance period ended for the GCHP – PolyBar, LLC project and the transaction was unwound. The related notes receivable and long-term debt in Note 4 and Note 5 were restructured as follows:

During the year ended December 31, 2019, Note B in the amount of $2,736,001 with a balance of $2,591,218 was assigned to Regional Community Finance, Inc. ("RCF") by FNBC NMTC #1, L.L.C. The borrower on this note is GCHP PolyBar, L.L.C. In consideration of the assignment of Note B, RCF forgave the Junior Leverage Loan note receivable due from FNBC NMTC #1, LLC. RCF then forgave a portion of the note due from Polybar in the amount of $1,736,301 resulting in debt forgiveness expense. Subsequently, GCHP forgave notes payable due from RCF in the same amounts.

During the year ended December 31, 2019, contribution revenue of $1,736,301 related to debt forgiveness was presented net of this debt forgiveness expense.

(8) Operating Leases

The Organization leases the property at 2700 South Broad Avenue from 2700 Bohn Motor, L.L.C. (see Note 1a) for $47,583 per month until 2025, $72,458 per month until 2029 and $97,916 per month in 2029 with annual increases of 2.5% until the initial lease expires on August 31, 2037. There is a fifteen-year renewal option with annual rent increases of 2.5%. Rent expense related to this lease agreement has been straight-lined on the consolidated statements of activities in accordance with US GAAP.

Minimum future lease payments as of December 31, 2020, are as follows:

Year ended December 31,	Minimum Rent
2021	$ 571,000
2022	571,000
2023	571,000
2024	571,000
2025	869,500
Thereafter	13,975,822
	$ 17,129,322

On December 5, 2017, the Organization provided financing in the form of two loans totaling $9,858,384 to an investment fund that made investments under the New Markets Tax Credit program for the development of the property at 2700 South Broad Avenue. The Organization signed an Option Agreement with GS Group NMTC INVESTOR LLC, the tax credit investor in the investment fund, to acquire the tax credit investor's interest at the end of the Tax Credit Investment Period. This option will begin at the end of 2024.

As a result of this Option Agreement, and as is typical with investments made related to the New Markets Tax Credit program, all the agreements related to the financing and construction of 2700 South Broad Street on or around December 5, 2017, including this operating lease, will be renegotiated when the option is exercised.

(8) Operating Leases (continued)

At that time the accrued expense liability created by straight-lining the lease agreement, which will total approximately $2,326,096 by the end of 2024, will be adjusted, the impact of which will be reflected in the consolidated statements of activities.

The Organization entered into an operating lease with Odyssey House Louisiana, LLC for the property described above, receivable in monthly payments of $52,181. The lease began during the year ended December 31, 2019, and will end on the tenth anniversary of the commencement of the lease. Rental revenue under the lease was $626,173 for the year ended December 31, 2020.

The Organization entered into an operating lease with Odyssey House Louisiana, LLC for additional space in the property described above, receivable in monthly payments of $6,270. Lease payments began in January 2021 and will end on the fifth anniversary of the commencement of the lease.

Future minimal rental receipts under the leases are as follows:

Year ended December 31,	Minimum Rent
2021	$ 701,412
2022	701,412
2023	701,412
2024	701,412
2025	701,412
Thereafter	2,504,688
	$ 6,011,748

(9) Subsequent Events

Management has evaluated subsequent events through the date that the consolidated financial statements were available to be issued, June 2, 2021, and determined that there were no other events other than the commencement of the operating lease described in Note 8 that required additional disclosure. No events after this date have been evaluated for inclusion in these consolidated financial statements.

REGIONAL COMMUNITY FINANCE, INC.

SCHEDULE OF COMPENSATION, BENEFITS, AND OTHER PAYMENTS TO AGENCY HEAD FOR THE YEAR ENDED DECEMBER 31, 2020

Agency Head: Kathy Laborde

R.S. 24:513 (A) (3) requires reporting of the total compensation, reimbursements, and benefits paid to the agency head or chief executive officer. This law was further amended by Act 462 of the 2015 Regular Session which clarified that nongovernmental or not for profit local auditees are required to report only the compensation, reimbursements, and benefits paid to the agency head or chief executive officer paid from public funds.

The Organization is not required to report the total compensation, reimbursements, and benefits paid to the agency head as these costs are not supported by public funds.

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A Professional Accounting Corporation

INDEPENDENT AUDITORS' 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*

To the Board of Directors
Regional Community Finance, Inc.

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 consolidated financial statements of Regional Community Finance, Inc. (the Organization), which comprise the consolidated statement of financial position as of December 31, 2020, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated June 2, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Organization's internal control over financial reporting (internal control) as a basis for designing the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 over financial reporting 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. 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 may exist that have not been identified.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's consolidated 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 consolidated 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.*

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.

Postlethwaite & Netterville

Metairie, Louisiana
June 2, 2020