
REGIONAL COMMUNITY FINANCE, INC.

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2018



Postlethwaite & Netterville

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REGIONAL COMMUNITY FINANCE, INC.

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2018

REGIONAL COMMUNITY FINANCE, INC.

DECEMBER 31, 2018

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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 (the Organization), which comprise the consolidated statements of financial position as of December 31, 2018 and 2017, and the related consolidated statements of activities and changes in net assets 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.

Opinion

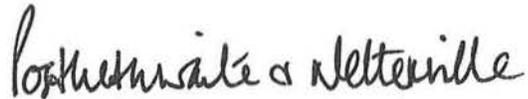
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Regional Community Finance, Inc. as of December 31, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the Organization adopted Accounting Standards Update No. 2016-14 in the current year related to the presentation of financial statements. Our opinion is not modified with respect to this matter.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 17, 2019, 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.



Metairie, Louisiana
June 17, 2019

REGIONAL COMMUNITY FINANCE, INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2018 AND 2017

	<u>ASSETS</u>	
	<u>2018</u>	<u>2017</u>
Current assets		
Cash and cash equivalents	\$ 181,482	\$ 89,514
Cash and cash equivalents, restricted	11,890	-
Interest receivable	6,972	2,488
Prepaid insurance	437	433
Notes receivables, current portion	14,255	13,561
Total current assets	<u>215,036</u>	<u>105,996</u>
Other assets		
Notes receivables	16,694,965	16,706,959
Cash and cash equivalents, restricted	31,504	472,570
Property	305,000	305,000
Investment in partnership	12,040	12,040
Total assets	<u>\$ 17,258,545</u>	<u>\$ 17,602,565</u>
 <u>LIABILITIES AND NET ASSETS</u> 		
Current liabilities		
Accounts payable	\$ 777	\$ 4,199
Deferred revenue, current portion	14,255	13,561
Deferred revenue, fee income	9,456	97,796
Other current liability	-	12,040
Loans payable, current portion	2,259,515	-
Interest payable, current portion	118,561	-
Total current liabilities	<u>2,402,564</u>	<u>127,596</u>
Long-term liabilities		
Interest payable	68,908	98,648
Deferred revenue	895,164	828,275
Loans payable	12,281,532	14,373,167
Other liabilities	10,000	-
Total long-term liabilities	<u>13,255,604</u>	<u>15,300,090</u>
Total liabilities	<u>15,658,168</u>	<u>15,427,686</u>
Net assets without donor restriction	<u>1,600,377</u>	<u>2,174,879</u>
Total liabilities and net assets	<u>\$ 17,258,545</u>	<u>\$ 17,602,565</u>

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

REGIONAL COMMUNITY FINANCE, INC.
CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
Revenue		
Rental income	\$ -	\$ 7,201
Contribution	-	199,900
Interest income	484,510	123,643
Other income	11,333	14,955
Total revenue	<u>495,843</u>	<u>345,699</u>
Expenses		
Program:		
Accounting fees	4,000	4,000
Interest expense	642,118	85,758
Forgiveness of notes receivable	402,548	-
Total program expenses	<u>1,048,666</u>	<u>89,758</u>
Support:		
Legal and professional fees	1,945	886
Bank fees	458	174
Dues, licenses and fees	50	75
Property and liability insurance	3,478	3,428
Accounting fees	9,550	9,000
Management fees	6,000	6,000
Other expense	198	-
Total support expenses	<u>21,679</u>	<u>19,563</u>
Total expenses	<u>1,070,345</u>	<u>109,321</u>
Change in net assets	(574,502)	236,378
Net assets at beginning of year	2,174,879	1,938,501
Net assets at end of year	<u>\$ 1,600,377</u>	<u>\$ 2,174,879</u>

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, 2018 AND 2017

	2018	2017
Cash flows from operating activities:		
Changes in net assets	\$ (574,502)	\$ 236,378
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Forgiveness of notes receivable	402,548	-
Increase in loans payable for interest expense	167,880	-
Changes in operating assets and liabilities:		
Decrease in other receivable	-	4,868
Decrease in interest receivable	(4,484)	-
Increase in prepaid insurance	(4)	(2)
Increase (decrease) in accounts payable	(3,422)	2,428
Increase in other liability	(2,040)	-
Increase in interest payable	88,821	50,017
Decrease in deferred revenue	66,889	(13,614)
Increase (decrease) in deferred revenue fee income	(88,340)	97,796
Net cash provided by operating activities	53,346	377,871
Cash flows from investing activities:		
Funds advanced on notes receivable	(402,548)	(9,844,769)
Payments received on notes receivable	11,994	-
Net cash used in investing activities	(390,554)	(9,844,769)
Cash flows from financing activities:		
Proceeds from notes payable	-	9,636,866
Net cash provided by financing activities	-	9,636,866
Net increase (decrease) in cash and cash equivalents	(337,208)	169,968
Cash and cash equivalents at beginning of year	562,084	392,116
Cash and cash equivalents at end of year	\$ 224,876	\$ 562,084
Reconciliation to Statements of Financial Position		
Cash and cash equivalents for cash flow statement include:		
Cash and cash equivalents	\$ 181,482	\$ 89,514
Cash and cash equivalents, current restricted	11,890	-
Cash and cash equivalents, long-term restricted	31,504	472,570
	\$ 224,876	\$ 562,084
Supplemental Disclosure of Cash Flow Information:		
Cash paid for interest	\$ 553,297	\$ 23,046

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

REGIONAL COMMUNITY FINANCE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 and 2017

(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 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) **Financial Statement Presentation**

The consolidated financial statements of the Organization have been prepared in accordance with U.S. generally accepted accounting principles ("US 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 the 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.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities and changes in net assets. The Organization had no net assets with donor restrictions as of December 31, 2018 and 2017.

(c) **Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates. Significant items subject to such estimates and assumptions include the valuation of receivables.

REGIONAL COMMUNITY FINANCE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 and 2017

(1) **Summary of Significant Accounting Policies (continued)**

(d) Receivables

Receivables are charged to bad debt when they are deemed uncollectible. As of December 31, 2018 and 2017, management has deemed that no allowance for uncollectible accounts is necessary.

(e) Restricted Cash and Cash Equivalents

The Organization maintains restricted cash accounts as required by grant and loan agreements to fund future debt payments.

(f) Property

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

Impairment of long-lived assets is tested whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. The carrying value of a long-lived asset is considered impaired when the anticipated undiscounted cash flows from such asset is separately identifiable and is less than its carrying value. In that event, a loss is recognized based on the amount by which the carrying value exceeds the fair market value of the long-lived asset. Fair market value is determined primarily using appraisals. Losses on long-lived assets to be disposed of are determined in a similar manner, except that fair market values are reduced for the estimated cost to dispose. There were no impairments of long-lived assets recorded by management during the years ended December 31, 2018 and 2017.

(g) 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 \$830,835 and \$841,835 as of December 31, 2018 and 2017, 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, 2018 and 2017, \$11,300 and \$12,955, was recognized as revenue from the note receivable, respectively, and is included in other income.

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 \$88,340 and \$97,796 as of December 31, 2018 and 2017, respectively. The deferred revenue is recognized over the life of the loan. For the year ended December 31, 2018 and 2017, \$9,456 and \$788 was recognized as revenue from the deferred fees, respectively, and is included in interest income.

(h) Expense Allocation

The costs of providing program and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among program services and supporting services benefited. Such allocations are determined by management on an equitable basis.

REGIONAL COMMUNITY FINANCE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 and 2017

(1) **Summary of Significant Accounting Policies (continued)**

(i) **Tax Exempt Status**

The Organization has received notice from the Internal Revenue service of exemption from income tax under Section 501(c)(3) of the Internal Revenue Code (“IRC”).

The Organization applies the accounting for uncertainty in income taxes approach by defining criterion that an individual tax position must meet for any part of the benefit of that position to be recognized in a company’s financial statements. This method requires recognition and measurement of uncertain income tax positions using a “more-likely-than-not” recognition threshold for all tax uncertainties. There were no uncertain tax positions at December 31, 2018 and 2017.

(j) **New Accounting Pronouncement**

On August 18, 2016, FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Organization has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented.

In November 2016, the Financial Accounting Standards Board (FASB) issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. The ASU requires presentation of total change in cash, cash equivalents, restricted cash, and restricted cash equivalents for the period in the statement of cash flows. The Company adopted this ASU effective for the year ended December 31, 2018.

(k) **Accounting Pronouncements Issued but Not Yet in Effect**

In February 2017, the FASB issued ASU 2017-02, 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. The updated guidance is effective for annual periods beginning after December 15, 2019. The Organization is currently assessing the impact of this pronouncement on the financial statements.

The Financial Accounting Standards Board (FASB) has issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*, to update its revenue recognition standard to clarify the principles of recognizing revenue and eliminate industry-specific guidance as well as help financial statement users better understand the nature, amount, timing, and uncertainty of revenue that is recognized. The standard may be applied either retrospectively to each period presented or as a cumulative-effect adjustment as of the date of adoption. This standard will be effective for the Organization for annual periods beginning after December 15, 2018.

The Organization is currently assessing the impact of these pronouncements on the financial statements.

REGIONAL COMMUNITY FINANCE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 and 2017

(2) Liquidity and Availability of Resources

The following represents the Organization's financial assets at December 31:

Financial assets at year end:	2018
Cash and cash equivalents	\$ 181,482
Restricted cash and cash equivalents	43,394
Interest receivable	6,972
Current portion of notes receivable	14,255
Total financial assets	246,103
Less amounts not available to be used within one year:	
Cash restricted for specific uses	20,046
	20,046
Financial assets available to meet general expenditures over the next twelve months	\$ 226,057

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. The current note payable with Twain Community Partners II, Inc. in the amount of \$2,259,515 is expected to be paid from proceeds of the sale of historic tax credits.

(3) Concentration of Credit Risk

The Organization maintains its cash in bank deposit accounts at several financial institutions. The balances, at times, may exceed federally insured limits. At December 31, 2018 and 2017, the Organization's cash balances exceeded federally insured limits. The Organization has not experienced any losses, and management does not believe that credit risk exists as a result of this practice.

REGIONAL COMMUNITY FINANCE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 and 2017

(4) Notes Receivable

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

	<u>2018</u>	<u>2017</u>
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 – FNBC NMTC #1, LLC		
Note receivable for \$2,736,301 dated June 27, 2013. The note bears interest at a rate per annum of 0.731% payable quarterly beginning September 10, 2013. The note matures June 27, 2053.	2,736,001	2,736,301
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 matures December 21, 2044.	1,337,000	1,337,000
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.	830,835	841,835
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
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 matures December 5, 2024.	<u>5,000,000</u>	<u>5,000,000</u>
Total notes receivable	16,709,220	16,720,520
Less current maturities	<u>14,255</u>	<u>13,561</u>
Total notes receivable, less current maturities	<u>\$ 16,694,965</u>	<u>\$ 16,706,959</u>

REGIONAL COMMUNITY FINANCE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 and 2017

(4) Notes Receivable (continued)

Accrued interest receivable on the above notes totaled \$6,972 and \$2,488 as of December 31, 2018 and 2017, respectively. During the year, the Organization had a note receivable due from GCHP-1409 OCH, L.L.C. in the amount of \$402,548 which was advanced and forgiven in the current year.

(5) Long-Term Debt

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

	2018	2017
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 – GCHP, Inc.		
Note payable with Gulf Coast Housing Partnership Inc. for \$629,486 dated June 27, 2013. The Note bears interest at an annual rate of 0%. The note matures June 27, 2023. The note is collateralized by a security interest in the Leveraged Loan and Security Agreement, Leverage Loan Note, any other loan documents or notes executed by Borrower in connection with the Leverage Loan.	629,486	629,486

REGIONAL COMMUNITY FINANCE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 and 2017

(5) Long-Term Debt (continued)

Note Payable – State of Louisiana, 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.

1,000,000 1,000,000

Note Payable – GCHP, Inc.

Note payable with Gulf Coast Housing Partnership, Inc. for \$1,106,815 dated December 16, 2016. The note has an interest rate of 2% per annum with interest paid annually. The note matures June 27, 2053. The note is unsecured.

1,106,815 1,106,815

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

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.

2,259,515 2,133,223

REGIONAL COMMUNITY FINANCE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 and 2017

(5) Long-Term Debt (continued)

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.

5,000,000 5,000,000

Note Payable – Note B

Note payable with Reinvestment Fund Inc. for \$2,000,000 dated December 5, 2017. The note has an interest rate of 6.25% and matures on December 5, 2019. Interest is payable quarterly in arrears. The note is collateralized by leasehold mortgage and repayment guarantees.

2,000,000 2,000,000

Total debt	<u>14,601,179</u>	<u>14,474,887</u>
Less current maturities	2,259,515	-
Less amortized debt issuance costs, net	60,132	101,720
Total debt, less current maturities	<u><u>\$ 12,281,532</u></u>	<u><u>\$ 14,373,167</u></u>

The Organization has a note payable with 2700 Bohn/Rhodes, LLC for \$1,500,000 dated December 5, 2017 but as of December 31, 2017 and 2018 no amounts had been drawn on the note. The note terms provide for 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.

The Organization also has a note payable with New Orleans Redevelopment Authority for \$500,000 dated December 5, 2017 but as of December 31, 2017 and 2018 no amounts had been drawn on the note. The note terms provide for an interest rate of 2.5% and maturity on December 5, 2037. Interest will be 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.

These loans will be used to settle Note B (see above) in the amount of \$2,000,000 with a maturity date of December 5, 2019.

REGIONAL COMMUNITY FINANCE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 and 2017

(6) Related Party Transactions

GCHP-Management, LLC is a subsidiary of Gulf Coast Housing Partnership, Inc. whose President is also President of Regional Community Finance, Inc. The Organization has contracted with GCHP-Management, LLC to provide management services. During the years ended December 31, 2018 and 2017, the Organization was charged \$6,000 for management services by GCHP-Management, LLC. The Organization has two notes payable with Gulf Coast Housing Partnership, Inc. as of December 31, 2018 for \$1,106,815 dated December 16, 2016; and \$629,486 dated June 27, 2013 (See Note 5).

(7) Subsequent Events

Management has evaluated subsequent events through the date that the financial statements were available to be issued, June 17, 2019, and determined that there were no other events that required additional disclosure. No events after this date have been evaluated for inclusion in these financial statements.

Subsequent to year end, Regional Community Finance, Inc. and Gulf Coast Housing Partnership, Inc. executed an Allonge to Promissory Note extending the maturity date of the note payable in the amount of \$1,106,815 to Gulf Coast Housing Partnership to December 26, 2053. Thus, this liability is presented as a long-term liability on the consolidated statements of financial position.

REGIONAL COMMUNITY FINANCE, INC.

SINGLE AUDIT REPORT

DECEMBER 31, 2018



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REGIONAL COMMUNITY FINANCE, INC.

SINGLE AUDIT REPORT

DECEMBER 31, 2018

Regional Community Finance, Inc.

Single Audit Report

December 31, 2018

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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) (a nonprofit organization), which comprise the consolidated statement of financial position as of December 31, 2018, and the related consolidated statements of activities 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 17, 2019.

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) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions 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 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.

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 determination of financial statement amounts. 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Postlethwaite & Netterville

Metairie, Louisiana
June 17, 2019



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED
BY THE UNIFORM GUIDANCE AND
THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The Board of Directors
Regional Community Finance, Inc.

Report on Compliance for Each Major Federal Program

We have audited Regional Community Finance's (the Organization) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended December 31, 2018. The Organization's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for the Organization's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the Organization's compliance.

Opinion on the Major Federal Program

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2018.

Report on Internal Control over Compliance

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the consolidated financial statements of the Organization as of and for the year ended December 31, 2018, and have issued our report thereon dated June 17, 2019, which contained an unmodified opinion on those consolidated financial statements. Our audit was performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by the Uniform Guidance, and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The 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, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Postlethwaite & Netterville

Metairie, Louisiana
June 17, 2019

Regional Community Finance, Inc.

Schedule of Expenditures of Federal Awards

For the year ended December 31, 2018

Federal Grantor/Pass-Through Grantor/ Program Title/Grant Name	Federal CFDA Number	Grant Number/ Pass-Through Entity Identifying Number	Loan Balance at December 31, 2017	Federal Expenditures in 2018	Loan Balance at December 31, 2018
U.S. Department of Housing and Urban Development:					
Pass-through program from:					
Louisiana Office of Community Development Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	OCD-DRU PR0047	\$ 1,000,000	\$ -	\$ 1,000,000
Pass-through program from:					
New Orleans Redevelopment Authority Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	ILOC-00019	2,000,000	-	2,000,000
Total			<u>\$ 3,000,000</u>	<u>\$ -</u>	<u>\$ 3,000,000</u>

See accompanying notes to the schedule of expenditures of federal awards.

Regional Community Finance, Inc.

Notes to Schedule of Expenditures of Federal Awards

December 31, 2018

1. General

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) presents the activity of all federal awards of Regional Community Finance, Inc. (the Organization) for the year ended December 31, 2018. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). The Organization's reporting entity is defined in Note 1 to the consolidated financial statements for the year ended December 31, 2018. All federal awards received directly from federal agencies are included on the Schedule, as well as federal awards passed-through other government agencies. The Schedule presents only a selected portion of the operations of the Organization; it is not intended to and does not present the consolidated financial position, consolidated statement of activities, or consolidated cash flows of the Organization.

2. Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards is presented using the accrual basis of accounting, which is described in Note 1 to the Organization's consolidated financial statements for the year ended December 31, 2018. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The Organization has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

3. Relationship to Financial Statements

Federal awards are included in the consolidated statements of financial position as follows:

Long-term debt	\$ 3,000,000
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4. Notes Payable to Federal Agencies

The Organization received funding for the GCHP – PolyBar project under the Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii by entering into a promissory note with the State of Louisiana, Office of Community Development for \$1,000,000 dated November 27, 2013. The note has an interest rate of 1% per annum and bears interest on all outstanding amounts beginning on the date which is six months after the initial date of advance of any loan proceeds (Initial Advance Date). Commencing eighteen months from the Initial Advance Date (Principal Payment Date), principal begins to amortize in equal monthly installments over the remaining term of the loan. Outstanding principal and interest is due at maturity on 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 Junior Leveraged Loan and Sinking Fund deposit accounts; a Mortgage on the property located at 1701 Baronne St., New Orleans, Louisiana and the Guarantee Agreement.

Regional Community Finance, Inc.

Notes to Schedule of Expenditures of Federal Awards

December 31, 2018

4. Notes Payable to Federal Agencies (continued)

The Organization received funding for the GCHP – 1409 OCH project under the Community Development Block Grants/State’s Program and Non-Entitlement Grants in Hawaii by entering into a promissory note with the New Orleans Redevelopment Authority for \$2,000,000 dated March 31, 2011. The note has an interest rate of .5% per annum until approximately April 2019 (Option Date) when the rate is based on the Prime Rate plus 1%. Interest is payable in arrears in the month preceding the Option Date and monthly thereafter. The outstanding principal as of the Option Date shall be amortized over the remaining term of the loan and is payable in arrears in equal monthly installments. Principal and interest shall be payable out of Monthly Cash Flow as evidenced by documentation that is satisfactory to lender. Outstanding principal and interest is due at maturity on March 31, 2041. The note is collateralized by substantially all of the assets of the entity and by the entity’s security interest in the membership interest of the Community Development Entity that has developed the property located at 1409 Oretha Castle Haley Boulevard, New Orleans, Louisiana.

Regional Community Finance, Inc.

Schedule of Findings and Questioned Costs

Year ended December 31, 2018

1) **Financial Statements**

a) Type of report issued on the financial statements: **Unmodified Opinion**

b) Internal control over financial reporting:

Material weakness identified: **No**

Significant deficiency identified not considered to be material weakness: **None reported**

Noncompliance material to financial statements noted: **No**

2) **Federal Awards**

a) Internal control over major programs:

Material weakness identified: **No**

Significant deficiency identified not considered to be material weakness: **None reported**

b) Type of auditors' report issued on compliance for major programs: **Unmodified Opinion**

c) Any audit findings disclosed that are required to be reported in accordance with The Uniform Guidance, Section 510(a): **No**

d) The following is an identification of major programs:

United States Department of Housing and Urban Development

- CFDA No. 14.228 – Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii

e) The dollar threshold used to distinguish between Type A and Type B Programs, as described in the Uniform Guidance was **\$750,000**.

f) Did the auditee qualify as a low risk auditee under the Uniform Guidance? **No**

3) Findings Relating to the Financial Statements Reported in accordance with *Government Auditing Standards*: **None**

4) Findings and Questioned Costs relating to Federal Awards: **None**