

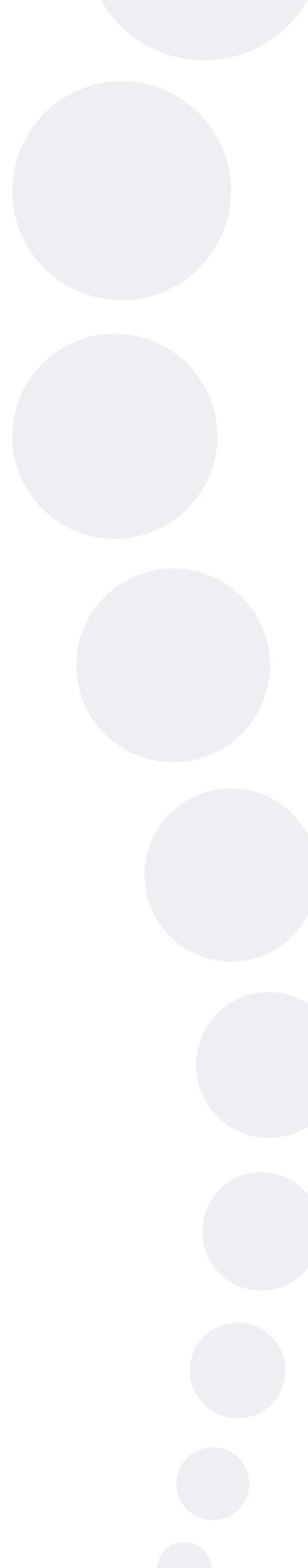
2017 Annual Report

SECU Foundation

PEOPLE HELPING PEOPLE®

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Report of Independent Auditors



CliftonLarsonAllen

CliftonLarsonAllen LLP
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INDEPENDENT AUDITORS' REPORT

Board of Directors
State Employees' Credit Union Foundation
Raleigh, North Carolina

Report on Financial Statements

We have audited the accompanying financial statements of State Employees' Credit Union Foundation (the Foundation), which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities and the changes in its net assets, and its cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit 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 financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Foundation's preparation and fair presentation of the 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 Foundation'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 financial statements.

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

Report of Independent Auditors

Board of Directors
State Employees' Credit Union Foundation

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of June 30, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The report of the Board of Directors and Executive Director and Contact Information is presented for purposes of additional analysis and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Baltimore, Maryland
August 31, 2017

Statements of Financial Position

June 30, 2017 and 2016

Assets

| | 2017 | 2016 |
|--|----------------------|----------------------|
| Cash and cash equivalents | \$ 34,797,900 | \$ 34,302,314 |
| Loans receivable (See Notes 2 & 3) | | |
| NC Teacher Housing | 6,626,494 | 4,571,643 |
| NCHFA construction loans | 2,363,818 | 4,241,007 |
| Maple Court Apartments Veterans' Housing | 372,178 | 382,191 |
| Longview Terrace | 195,648 | 202,665 |
| Piedmont Senior Healthcare | 1,963,095 | 2,247,704 |
| YMCA | 1,368,004 | -0- |
| Habitat for Humanity | 1,452,605 | 375,636 |
| Less: allowance for loan losses | (40,004) | (20,000) |
| Total loans receivable | 14,301,838 | 12,000,846 |
| Prepaid expenses | 7,599 | -0- |
| Total assets | \$ 49,107,337 | \$ 46,303,160 |

Liabilities

| | | |
|--|------------|------------|
| Accounts payable and other liabilities | \$ 65,313 | \$ 29,290 |
| Grants payable | | |
| SECU Internship Program | 1,044,422 | 733,362 |
| SECU Family House at UNC Hospitals | 1,978,058 | -0- |
| NC GreenPower Projects | 94,716 | 188,871 |
| State Employees Combined Campaign | 59,874 | 58,995 |
| Exploring North Carolina | 50,000 | -0- |
| Governor's Awards for Excellence | -0- | 34,670 |
| USS Battleship North Carolina | 1,500,000 | 1,500,000 |
| SECU Hospice House projects | 1,000,000 | 2,998,277 |
| Asheville Art Museum | 1,500,000 | 1,500,000 |
| Tarheel Challenge | -0- | 124,459 |
| NC Feeding America Food Banks | 398,932 | 793,620 |
| SECU MemoryCare | 1,257,104 | 1,782,680 |
| SECU Village at Lakeside | -0- | 1,000,000 |
| SECU Lecture Hall | -0- | 500,000 |
| Advance Community Health | -0- | 500,000 |
| Cancer Center at CarolinaEast | 2,307,982 | -0- |
| Total grants payable | 11,191,088 | 11,714,934 |
| Scholarships payable | | |
| University scholarships | 10,149,070 | 9,563,998 |
| Community College scholarships | 839,744 | 822,242 |
| SECU Continuing Education scholarships | 435,000 | 435,000 |
| SECU Partnership East | 1,351,291 | 1,552,341 |
| SECU Appalachian Partnership | 1,453,868 | 1,578,849 |
| Total scholarships payable | 14,228,973 | 13,952,430 |
| Total liabilities | 25,485,374 | 25,696,654 |

Net Assets

| | | |
|---|----------------------|----------------------|
| Unrestricted – undesignated | 2,960,245 | 3,618,556 |
| Unrestricted – designated | 20,661,718 | 16,987,950 |
| Total net assets | 23,621,963 | 20,606,506 |
| Total liabilities & net assets | \$ 49,107,337 | \$ 46,303,160 |

The accompanying notes are an integral part of the financial statements.

Statements of Activities and Changes in Net Assets

Years Ended June 30, 2017 and 2016

| | <u>2017</u> | <u>2016</u> |
|---|----------------------|----------------------|
| Revenues, gains and other support | | |
| SECU member contributions | \$ 14,652,147 | \$ 13,701,192 |
| SECU contributed services | 192,437 | 175,630 |
| Interest and dividends | 436,582 | 395,900 |
| Total revenues, gains and other support | <u>15,281,166</u> | <u>14,272,722</u> |
| Program expenses | | |
| University scholarships | 4,026,761 | 4,279,232 |
| Community College scholarships | 424,752 | 418,362 |
| SECU Continuing Education scholarships | 325,050 | 293,683 |
| SECU Partnership East | 12,150 | 18,229 |
| SECU Appalachian Partnership | 26,719 | 32,346 |
| SECU Internship Program | 847,228 | 798,362 |
| NC Museum of Art | -0- | 228 |
| SECU Family House projects | 1,978,058 | 56,000 |
| Hospice projects | 1,724 | 8,735 |
| State Employees Combined Campaign | 878 | 1,621 |
| Exploring North Carolina | 100,000 | -0- |
| NC GreenPower projects | 845 | 141,678 |
| Governor's Awards for Excellence | 330 | 491 |
| Biz Kid\$ Grant | 75,000 | -0- |
| SECU 4-H Learning Center | -0- | 675 |
| SECU Innovation Awards | (32,343) | (45,736) |
| Harbor House | -0- | 69 |
| Tarheel Challenge | -0- | 69 |
| NC Feeding America Food Banks | 505,312 | 1,193,689 |
| SECU MemoryCare | 14,423 | 1,782,680 |
| SECU Village at Lakeside | -0- | 1,000,000 |
| SECU Lecture Hall | -0- | 500,000 |
| A Chef's Life | -0- | 50,000 |
| Advance Community Health | -0- | 500,000 |
| NC Rural Economic Development Center | 236,062 | -0- |
| SECU Cancer Center at CarolinaEast | 3,474,649 | -0- |
| Total program expenses | <u>12,017,598</u> | <u>11,030,413</u> |
| Management and general expense | <u>248,111</u> | <u>238,369</u> |
| Total expenses | <u>12,265,709</u> | <u>11,268,782</u> |
| Changes in net assets | 3,015,457 | 3,003,940 |
| Unrestricted net assets at beginning of year | 20,606,506 | 17,602,566 |
| Unrestricted net assets at end of year | \$ 23,621,963 | \$ 20,606,506 |

The accompanying notes are an integral part of the financial statements.

Statements of Cash Flows

Years Ended June 30, 2017 and 2016

| | <u>2017</u> | <u>2016</u> |
|---|----------------------|----------------------|
| Cash flows from operating activities: | | |
| Changes in net assets | \$ 3,015,457 | \$ 3,003,940 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Allowance for loan losses | 20,004 | 20,000 |
| (Decrease)/Increase in grants payable | (523,846) | 897,460 |
| Increase in scholarships payable | 276,543 | 415,710 |
| Increase in accounts payable | 36,023 | 14,817 |
| (Increase) in prepaid expense | (7,599) | -0- |
| Net cash provided by operating activities | 2,816,582 | 4,351,927 |
| Cash flows from investing activities: | | |
| Loan issuance | (5,766,816) | (3,700,130) |
| Principal collected on loans | 3,445,820 | 3,152,168 |
| Net cash used in investing activities | (2,320,996) | (547,962) |
| Net increase in cash and cash equivalents | 495,586 | 3,803,965 |
| Cash and cash equivalents at beginning of year | 34,302,314 | 30,498,349 |
| Cash and cash equivalents at end of year | \$ 34,797,900 | \$ 34,302,314 |

The accompanying notes are an integral part of the financial statements.

Notes to Financial Statements

June 30, 2017 and 2016

Note 1:

Organization and Summary of Significant Accounting Policies

Organization: The State Employees' Credit Union Foundation (Foundation) is a private, non-profit, charitable foundation established by the membership of the State Employees' Credit Union (SECU or Credit Union) in North Carolina. The Foundation was approved by the Internal Revenue Service as a 501(c) (3) corporation in 2001 and began operating in July 2004. The focus of the Foundation is to promote local community development primarily through high impact projects in the areas of housing, education, healthcare and human services. The members of the Board of Directors of SECU and three additional appointees serve as the Board of Directors of the Foundation. As an extension of the cooperative ideals on which the Credit Union was founded, the funding for the Foundation is provided solely through donations of SECU members. Members provide the funding of the Foundation primarily through voluntary contributions of \$1.00 monthly maintenance fees on checking accounts. These fees would otherwise go toward the operation of the Credit Union. Additional voluntary unrestricted contributions from members are accepted. Currently, contributions are limited exclusively to SECU members. While a \$1.00 per month maintenance fee contribution is generally not a significant burden on any individual member, the collective impact of the donations creates opportunities to positively impact and improve the quality of life in neighborhoods and communities throughout North Carolina. The SECU Foundation is an outreach of the "People Helping People®" cooperative philosophy on which the Credit Union was organized and by which the Credit Union operates.

Basis of Accounting: The financial statements of the Foundation are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America for non-profit organizations. The financial statements include the accounts maintained by and directly under the control of the Foundation.

The financial statements of the Foundation are presented following the guidance of the "Not-for-Profit Organizations—Audit and Accounting Guide," including ASC 958-605 "Accounting for Contributions Received and Contributions Made" and ASC 958-205, "Financial Statements of Not-for-Profit Organizations" which require the Foundation to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

Unrestricted net assets – Unrestricted net assets are the net assets that are neither permanently restricted nor temporarily restricted by donor imposed stipulations. All net assets of the Foundation were classified as unrestricted as of June 30, 2017 and 2016.

Temporarily restricted net assets – Temporarily restricted net assets result from contributions whose use is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Foundation pursuant to these stipulations. Net assets may be temporarily restricted for various purposes, such as use in future periods or use for specified purposes. As of June 30, 2017 and 2016, the Foundation has no temporarily restricted net assets.

Permanently restricted net assets – Permanently restricted net assets result from contributions whose use is limited by donor-imposed stipulations that neither expire by the passage of time nor can be fulfilled or otherwise removed by the Foundation's actions. As of June 30, 2017 and 2016, the Foundation had no permanently restricted net assets.

Cash and Cash Equivalents: For purposes relating to the statements of cash flows, the Foundation considers all highly liquid debt instruments with a maturity of three months or less, at the time of purchase, to be cash equivalents. The Foundation also includes money market accounts as cash equivalents. Cash and cash equivalents are held at the State Employees' Credit Union.

The Foundation maintains cash balances at SECU. Accounts are insured by the National Credit Union Share Insurance Fund (NCUSIF) up to specified limits. Balances in these accounts generally exceed NCUSIF limits. The Foundation held balances in excess of NCUSIF limits of \$34,778,698 and \$34,360,101 as of June 30, 2017 and 2016, respectively.

Loans Receivable: In furtherance of its charitable purpose, the Foundation provides loans to certain tax exempt organizations primarily to build housing initiatives that support teachers, older adults and persons with disabilities in North Carolina. Loans receivable are recorded during the year in which the funds are disbursed. Prior to 2016, management concluded that loan receivable balances were fully collectible as of the date of the Statement of Financial Position based on assessment of historical collectability, the status of individual loans and the value of collateral. The Reserve for Loan Loss was \$40,004 and \$20,000 as of June 30, 2017 and 2016 respectively. Prior to that time there was not an allowance for loan loss since all loans were current and fully secured by real property, the value of which would allow the Foundation to recover any potential losses.

Grants and Scholarships: Unconditional grants and scholarships are recorded as an expense during the year of approval. Grants and scholarships subject to certain conditions are recorded as expense during the year in which conditions are substantially met or when the possibility that the conditions will not be met is remote, as determined by management. Grants and scholarships payable within one year are recorded at their fair value at the date of authorization. Grants and scholarships payable in more than one year are recorded at the present value of their future cash flows, using a risk-free rate of return based on U.S. Treasury securities.

Net Assets: As of June 30, 2017 and 2016, all net assets of the Foundation were classified as unrestricted. These assets have no donor restrictions and may be used for any purpose consistent with the mission of the Foundation. Undesignated net assets of \$2,960,245 and \$3,618,556 are available to be awarded as of June 30, 2017 and 2016, respectively. The Board designated \$20,661,718 and \$16,987,950 of unrestricted net assets for current projects related to amounts included in loans receivable and any unfunded construction loan commitments as of June 30, 2017 and 2016, respectively.

Contributed Services: Donations of services that create or enhance physical assets and essential services that require and are donated by persons with specialized skills are to be measured at fair value and reported as increases in unrestricted net assets during the reporting period. Services donated by persons without specialized skills are not recorded. The Foundation does not own physical assets. Contributed services provided by persons with specialized skills and support services in the amounts of \$192,437 and \$175,630 were recognized in the years ended June 30, 2017 and 2016, respectively.

Functional Allocation of Expenses: The Foundation reports expenses on a functional basis in the statement of activities and changes in net assets. These functions consist of programs as well as management and general.

Federal Excise Taxes: The Foundation qualifies as a tax exempt organization under Section 501(c)(3) of the Internal Revenue Code and is not subject to federal income taxation except to the extent that it has unrelated business taxable income. The Foundation is classified as a private foundation and is subject to a Federal excise tax of 2 percent on net investment income unless certain conditions are met in which case the Federal excise tax is 1 percent. In 2017 the Foundation was subject to a 1 percent rate with an estimated excise tax expense of \$4,366. The 2016 tax rate was 2 percent with an excise tax expense of \$7,918.

Management has evaluated the Foundation's tax positions and concluded that the Foundation has taken no uncertain tax positions that would require adjustments or disclosure in the Financial Statements to comply with the provisions of ASC Topic 740, Accounting for Uncertainty in Income Taxes.

The Foundation is also required to make certain minimum qualifying distributions of its assets in accordance with formulas provided by Federal law. As a private foundation, SECU Foundation is required to make a minimum distribution of 5 percent of the net value of noncharitable-use assets. The minimum distribution may be further increased for recoveries of amounts treated as distributions from a previous year. In 2017, the Foundation was required to make minimum distributions of \$5,134,712 (\$4,632,781 in 2016). The Foundation made qualifying distributions in 2017 totaling \$18,070,522 and \$13,453,268 in 2016, satisfying the minimum requirements.

Use of Estimates: When preparing these financial statements in conformity with generally accepted accounting principles in the United States of America, management is required to make certain estimates that affect the reported amounts of assets and liabilities as of the date of the financial statements and the revenues and expenses in the reporting period. Actual results could differ from those estimates.

Reclassifications: Certain amounts in the 2016 financial statements have been reclassified to conform to the presentation in the 2017 financial statements. These reclassifications had no impact on net operations, financial position, or cash flows.

Note 2: Programs, Scholarships and Grants

A key mission of the Foundation is to fund initial planning and development of projects which have the potential to attract broad-based local and state partnerships and to be self-sustaining. The SECU Foundation promotes local and community development primarily by funding high impact projects in the areas of housing, education, healthcare and human services. Ideas for potential projects are initiated primarily through local SECU branch Advisory Boards. Each SECU branch office has an Advisory Board comprised of up to twelve members who represent the interests of the membership to the local management staff and to the Board of Directors of the SECU Foundation. All grants and awards for projects are approved by the SECU Foundation Board.

Through the Foundation, SECU members have funded a \$10,000 four-year college scholarship for a graduating senior in every traditional public high school in North Carolina since 2004. In addition, the Foundation has provided two \$5,000 scholarships over two years to students attending each of the 58 community colleges in the North Carolina Community College System.

In 2013, the Foundation collaborated with the North Carolina Community College System to establish the SECU Continuing Education Scholarship Program. Ten \$750 Continuing Education Scholarships are awarded to eligible students at each of the 58 North Carolina Community College Campuses for a one-year commitment of \$435,000. This initiative helps provide students with short-term job training for new careers or retraining to advance current job skills through the Community College System's Back-To-Work Program and continuing education courses. This initiative has continued with additional one-year commitments of \$435,000 each year since.

In 2014, the Foundation, East Carolina University (ECU), North Carolina Community Colleges, and North Carolina public schools collaborated in the creation of SECU Partnership East scholarships with an initial funding of \$2.28 million. This program allows students to graduate with a four-year degree from ECU by completing the first two years of the program at any one of the partnering community colleges followed by taking ECU courses online. Students graduate with a Bachelor of Science degree in elementary education, middle grades education or special education. The outstanding balances at June 30, 2017 and 2016 were \$1,351,291 and \$1,552,341, respectively.

In 2015, the Foundation and Appalachian State University (ASU) Foundation collaborated in the creation of the SECU Appalachian Partnership program with an initial funding of \$1.76 million. The scholarships will support junior and senior students enrolled in elementary education, middle grades education or special education programs. Eligible students will graduate with a four-year teaching degree from Appalachian State University Reich College of Education by completing the first two years of coursework at regional community colleges. The outstanding balances at June 30, 2017 and 2016 were \$1,453,868 and \$1,578,849, respectively.

Additionally in 2015, the Foundation partnered with the University of North Carolina - Pembroke, Appalachian State University and East Carolina University to roll out a pilot program named the SECU Internship Program with an initial investment of \$300,000 and provided for each university to be awarded up to \$100,000 in support of paid internships for 20 qualifying in-state undergraduates for the summer of 2015. The program is designed to provide sophomore or junior college students with meaningful job experiences through internship assignments focused on local leadership in rural North Carolina communities. This initiative was continued with additional commitments of \$850,000 in 2017 and \$800,000 in 2016. The outstanding balances at June 30, 2017 and 2016 were \$1,044,422 and \$733,362, respectively.

The University scholarship, Community College scholarship, Continuing Education scholarship, SECU Partnership East, SECU Appalachian Partnership and SECU Internship program commitments total \$6.2 million in 2017 (\$6.5 million in 2016) and total over \$64 million since inception of the scholarship programs in 2004.

In 2005, the Foundation granted \$2 million for the SECU Family House at UNC Hospitals to provide a convenient, safe and affordable haven for those far from home needing a place to rest while caring for a loved one at UNC Hospitals. In 2017, an additional \$2,000,000 was granted for constructing, furnishing and landscaping an expansion of this project. The outstanding balance of the grant at June 30, 2017 was \$1,978,058.

The Foundation has partnered with NC GreenPower for the advancement of renewable energy sources since 2007. NC GreenPower is a non-profit organization that works with electric utilities across the state of North Carolina to encourage development of renewable energy. The SECU Foundation will fund an investment equal to one kilowatt hour of renewable energy production in North Carolina for each of the approximately two million members of SECU. The outstanding balances of the grant at June 30, 2017 and 2016 were \$44,716 and \$48,871, respectively.

In 2015, the Foundation granted \$140,000 to NC GreenPower Pilot Schools Program to assist in installing a 5 kilowatt solar photovoltaic system in up to 14 North Carolina K-12 schools. This project will serve as an educational tool as well as offer greater energy efficiency. The outstanding balances at June 30, 2017 and 2016 were \$50,000 and \$140,000, respectively.

Since 2007, the Foundation has provided a grant to support the administration of the North Carolina State Employees Combined Campaign which raises funds from state government employees for a variety of charities and educational efforts. The outstanding balances of the grant at June 30, 2017 and 2016 were \$59,874 and \$58,995, respectively.

In 2017, the Foundation granted \$100,000 to Friends of the North Carolina Museum of Natural History in support of the Exploring North Carolina television series in partnership with UNC-TV. These funds are for production of a four part series titled "Follow the Raindrop: The History and Future of Water in North Carolina." The outstanding balance at June 30, 2017 is \$50,000.

In 2017, the Foundation granted \$75,000 to BizKid\$ for funding of season 6 of a national financial literacy initiative based on an Emmy Award-winning public television series about kids, money, and business. The grant was fully disbursed in January 2017. The Foundation provided \$125,000 in funding in 2009 for season 3, and an additional \$250,000 in 2011 for production of the 4th and 5th seasons. The show is complemented by a website, outreach activities, and a monthly electronic newsletter.

Since 2008, the Foundation has sponsored the Governor's Awards for Excellence program. The Awards for Excellence program honors the achievements of State employees by recognizing 16 deserving State employees who have demonstrated outstanding achievements in the categories of Human Relations, Innovations, Outstanding State Government Service, Public Service, Heroism and Spirit of North Carolina. The program has a zero balance as of June 30, 2017. The balance as of June 30, 2016 was \$34,670.

In 2014, SECU Foundation increased the \$1,000,000 grant for the USS Battleship North Carolina by an additional \$2,000,000. This funding is to assist with a statewide capital campaign to build a coffer dam or walkway around the Battleship to enhance the educational benefits for all North Carolinians and visitors. The project will include repairs and up fitting to expand the onsite experience for visitors to the Battleship - The WWII Memorial for North Carolina. The outstanding balance of the grant at June 30, 2017 and 2016 was \$1,500,000.

In 2014, SECU Foundation provided a \$1,000,000 grant to establish the SECU Hospice House of WNC. It will be the first hospice facility west of Hendersonville and will serve Macon, Swain, Clay, Graham, Cherokee and Jackson counties. The six bed in-patient hospice house is a converted private residence in Franklin and will be operated by Four Seasons Hospice of Flat Rock, NC. The outstanding balance at June 30, 2017 and 2016 was \$1,000,000.

In 2015, the Foundation granted \$1,000,000 for the construction of the SECU Hospice House of Chatham County. This will be an affordable ten bed in-patient and residential hospice care facility for terminally ill patients and their families. The outstanding balance at June 30, 2016 was \$998,851 with the project fully being disbursed in September 2016.

In 2015, the Foundation granted \$1,000,000 for the construction of the SECU Hospice House of Yadkin County for the purpose of constructing an in-patient residential facility in Yadkinville. The six bed hospice home will provide a warm caring home-like environment where patients who can no longer be cared for in the home will receive quality care in their final days. The outstanding balance at June 30, 2016 was \$999,426. The grant was paid out in May of 2017.

In 2014, the Foundation granted \$1,500,000 to assist with the construction and renovation of the Asheville Art Museum. This project will enhance educational opportunities for students and teachers in the region and will contribute as an economic driver for Western North Carolina. The outstanding balance at June 30, 2017 and 2016 was \$1,500,000.

In 2015, the Foundation awarded \$500,000 to Tarheel Challenge for the construction and renovation of a new female dormitory in New London to be named SECU Veterans Hall. Tarheel Challenge is a program sponsored by the North Carolina National Guard, with a mission of assisting young people to become thriving and productive citizens within the community. The outstanding balance at June 30, 2016 was \$124,459. The grant paid out in September 2016.

In 2015, the Foundation granted \$1,200,000 to the NC Association of Feeding America Food Banks. The grant will be sufficient to add six million meals over three years to clients served by six area food banks and one food recovery agency. The food bank network of pantries, shelters and community groups will help ensure that these meals will reach all 100 counties in North Carolina. The outstanding balances at June 30, 2017 and 2016 were \$398,932 and \$793,620, respectively.

In 2016, the Foundation provided a grant of \$1,800,000 to MemoryCare of Asheville to build a new 10,000 square foot facility to house healthcare and education services for persons with Alzheimer's disease and other types of dementia in Western North Carolina. The outstanding balances at June 30, 2017 and 2016 were \$1,257,104 and \$1,782,680, respectively.

In 2016, the Foundation granted \$1,000,000 to the Good Shepherd Center in Wilmington for the SECU Village at Lakeside project. The grant is for the first phase of construction of a 40 unit complex to provide permanent supportive housing for seniors, veterans and persons with disabilities. The outstanding balance at June 30, 2016 was \$1,000,000. The grant paid out in June of 2017.

In 2016, the Foundation granted \$500,000 for funding of the SECU Lecture Hall at the Fellowship Outpatient Center in Greensboro. This facility is a non-profit drug and alcohol recovery treatment center with a mission of helping people who suffer from alcoholism and drug addiction and to provide compassionate and cost effective care. The outstanding balance at June 30, 2016 was \$500,000. The grant paid out in September 2016.

In 2016, the Foundation granted \$500,000 for Advance Community Health for a new facility in Raleigh with the purpose of providing greater healthcare to underserved citizens of North Carolina. The outstanding balance at June 30, 2016 was \$500,000. The grant paid out in August 2016.

In 2016, the Foundation granted \$236,062 to the North Carolina Rural Center to upgrade and replace technology, projectors, screens, audio and video components and replace the North Carolina rural facts and history wall displays in the NC Rural Center. The Rural Center is a non-profit agency created to develop, promote and implement sound economic strategies to improve quality of life for rural North Carolinians. The grant paid out in March of 2017.

In January 2017 the Foundation granted \$3,500,000 for the SECU Comprehensive Cancer Center at CarolinaEast in New Bern, North Carolina. The facility will provide comprehensive care for and address the high incidence of cancer among the citizens in the region. The outstanding balance at June 30, 2017 was \$2,307,982.

Note 3: Loans Receivable

In 2007, the Foundation made a \$2.25 million interest free loan for the construction of an affordable rental housing complex for teachers in Hertford County, North Carolina. The ability to offer affordable rental housing has aided in the recruitment of qualified teachers to this rural county which has historically had difficulty attracting new teachers and has an acute shortage of rental housing. The Foundation worked with the Partners for Hertford County Public Schools, the Hertford County Board of Education and other supporters within Hertford County to provide this benefit to teachers moving into the county. The “Hertford Pointe” outstanding balances at June 30, 2017 and 2016 were \$645,228 and \$804,828, respectively.

The Foundation continued the affordable teacher housing initiative by working with the Dare County School System and the Dare Education Foundation to construct a similar teacher housing complex. In 2008, the Foundation provided an interest free loan for \$2.2 million to finance the construction of the apartment complex (Run Hill Ridge) which was available for occupancy in August 2008. The outstanding balances at June 30, 2017 and 2016 were \$405,740 and \$603,740, respectively.

In 2010, the Foundation approved a \$2.25 million interest free loan to the Partners for Hoke County Public Schools Education Foundation for a 24-unit Hoke County Teacher Housing project. Additional funding of \$330,000 was approved in 2013. The outstanding balances of the loan at June 30, 2017 and 2016 were \$1,999,064 and \$2,169,464, respectively.

In 2011, the Foundation agreed to provide an interest free loan for \$1.25 million to Dare Education Foundation for the construction of an additional teacher housing complex in Dare County. The new complex is located in Buxton, North Carolina. The outstanding balances of the loan at June 30, 2017 and 2016 were \$856,288 and \$918,538, respectively.

In 2015, the Foundation agreed to provide an interest free loan for \$2,500,000 to Eblen Charities, Inc., a North Carolina non-profit corporation for the construction of a teacher housing complex for teachers that work within Buncombe County and Asheville City Schools. Additional funding of \$335,000 was approved in 2016. This project is in the construction phase and had balances at June 30, 2017 and 2016 of \$2,720,174 and \$75,073, respectively.

Beginning in 2009, the Foundation partnered with the North Carolina Housing Finance Agency (NCHFA) to finance the construction of supportive housing for persons with disabilities and special needs through local non-profit organizations. The Foundation provides 0% construction financing for a variety of projects. Each construction loan is to be repaid by permanent financing previously committed to the project by NCHFA, allowing the funds to be recycled and available for future housing projects. The projects have been located in a multitude of counties throughout North Carolina. Since 2009, \$11.9 million in loan advances have been made. Outstanding and unpaid balances at June 30, 2017 and 2016 were \$2,363,818 and \$4,241,007, respectively. The following paragraphs detail the individual construction loans supported by the partnership between SECU and NCHFA.

In 2013, the Foundation provided an interest free loan to the Inter-Faith Alliance for the construction of a 38-bed facility for the Cleveland County community. The Cleveland County Inter Faith Alliance Corporation is an organization through which the people of Cleveland County can work together to address the emergency shelter needs of homeless men while encouraging an on-going conversation of all community partners to end homelessness in Cleveland County, North Carolina. The Foundation had advanced \$500,000 as of June 30, 2016. This loan was paid off in October 2016.

In October 2014, the Foundation provided an interest free loan to Tyvola Crossing in Charlotte for the construction of a 20 unit affordable multi-family development to provide rental permanent housing for low income persons and disabilities. The Foundation had advanced the total loan amount of \$600,000 as of June 30, 2016. This loan was paid off in August 2016.

In March 2015, the Foundation provided an interest free loan to the Greenville Community Shelter for the construction of an emergency shelter to provide homeless adults and families with temporary shelter and meals. The outstanding balance for June 30, 2017 and 2016 was \$750,000.

In May 2015, the Foundation provided an interest free loan to the Lumberton Christian Care Center for the construction of a 15-bed homeless shelter in Lumberton. The outstanding balance was \$600,868 as of June 30, 2017 and 2016.

In July 2015, the Foundation provided a \$742,538 interest free loan to REACH of Macon County to provide intervention, prevention, and coordinated community response to domestic violence and sexual assault in Macon and Jackson Counties. The outstanding balance was \$728,554 at June 30, 2016. The loan was paid off in December of 2016.

In August 2015, the Foundation provided a \$600,000 interest free loan to Harbor House for a 28 room supportive housing facility in Smithfield that provides assistance for people dealing with domestic violence. The outstanding loan balance as of June 30, 2017 and 2016 was \$600,000.

In December 2015, the Foundation provided a \$600,000 interest free loan to South Eastern North Carolina CDC for the Russell Jackson Apartments. These apartments are new construction for low-income persons and individuals with special needs including homelessness in Rocky Mount. The outstanding loan balance was \$363,180 as of June 30, 2016. This loan was paid off in March of 2017.

In April 2016, the Foundation provided a \$296,175 interest free loan for the Tammy Lynn Center for Developmental Disabilities in Raleigh. This facility provides education, community and support services empowering families and enriching lives of children and adults with developmental disabilities. The outstanding balance was \$98,405 at June 30, 2016. The loan was paid off in March of 2017.

In July 2016, the Foundation provided a \$412,950 interest free loan for Pearce Supportive Housing in Wilmington to benefit individuals with disabilities. The Pearce House will be handicap accessible, with a bedroom, bathroom, kitchen/dining area and living room and will have in-home care services. The outstanding loan balance was \$412,950 as of June 30, 2017.

The terms of the construction loans call for balloon payments of all outstanding principal through proceeds from permanent financing previously committed to the project by NCHFA. The outstanding advances on these loans were as follows at June 30, 2017 and 2016:

| <u>Project Name</u> | <u>Location</u> | <u>2017</u> | <u>2016</u> |
|------------------------------|-----------------|---------------------|---------------------|
| Inter-Faith Alliance | Shelby | \$ -0- | \$ 500,000 |
| Tyvola Crossing | Charlotte | -0- | 600,000 |
| Greenville Community Shelter | Greenville | 750,000 | 750,000 |
| Lumberton Christian Care | Lumberton | 600,868 | 600,868 |
| REACH of Macon County | Franklin | -0- | 728,554 |
| Harbor House | Smithfield | 600,000 | 600,000 |
| Russell Jackson Apartments | Rocky Mount | -0- | 363,180 |
| Tammy Lynn Center | Raleigh | -0- | 98,405 |
| Pearce Supportive Housing | Wilmington | 412,950 | -0- |
| | | <u>\$ 2,363,818</u> | <u>\$ 4,241,007</u> |

In June 2010, the Foundation provided a \$435,000 installment loan to finance the construction of Maple Court Apartments Veteran Housing, located in Durham County. The housing complex provides transitional rental housing for homeless veterans and veterans at risk of being homeless. The outstanding balances at June 30, 2017 and 2016 were \$372,178 and \$382,191, respectively.

In 2013, the Foundation granted a \$2,500,000 interest free loan to Piedmont Health Services to assist with the construction of a Program for All-Inclusive Care for the Elderly (PACE) facility in Pittsboro, NC. This facility was completed in 2013 and provides services exclusively for older adults who meet State eligibility criteria for nursing home level care. The 4.5 acre rural site in Pittsboro serves residents of Chatham, Lee and southern Orange counties. A permanent loan at 3.5 percent interest for ten years was granted after the construction period. Interest only payments are due the first two years with principal and interest payments due over the remaining term of the loan. The outstanding balances at June 30, 2017 and 2016 were \$1,963,095 and \$2,247,704, respectively.

In January 2015, the Foundation provided an interest free loan to the Roanoke Chowan Development Corporation for the construction of Longview Terrace. The 12 unit apartment complex will provide housing for low to moderate income individuals with disabilities in Ahoskie. This loan was structured in two parts, with the NCHFA construction portion advanced, completed and paid in full. A permanent portion was also established with a balance of \$202,655 as of June 30, 2016. The outstanding balance at June 30, 2017 was \$195,648.

In March of 2017, the Foundation provided a \$7,000,000 interest free construction loan to the YMCA of the Triangle for construction of a YMCA facility in Garner. The facility will offer a wellness center, gym, outdoor pool and youth program with an estimated future impact of 8,000 children, families and adults. The remaining \$1.5 million will be added to designated net assets during fiscal year 2018. The outstanding balance at June 30, 2017 was \$1,368,004.

In 2015, the Foundation entered an agreement with Habitat for Humanity for the purchase of mortgage loans in North Carolina. The Foundation has agreed to provide interest free loans for a maximum loan term of 25 years in each of the 100 counties in North Carolina. Eighteen mortgages have been originated to date. The outstanding loan balances as of June 30, 2017 and 2016 were \$1,452,605 and \$375,636, respectively.

As discussed in Note 4, prior to 2016, management had concluded that loan receivable balances were fully collectible as of the date of the Statements of Financial Position based on assessment of historical collectability, the status of individual loans, and the value of collateral. In 2016, the Foundation entered an agreement with Habitat for Humanity for the purchase of mortgage loans in North Carolina and an allowance for loan loss was established. As of June 30, 2017 and 2016, the Foundation had an allowance balance of \$40,004 and \$20,000, respectively. All loans are contractually current and fully secured by real property, the value of which would allow the Foundation to recover any future potential losses.

Note 4:
Allowance for Loan Losses

In 2016 the Foundation entered into an agreement with Habitat for Humanity for the purchase of mortgage loans in North Carolina. In 2016, management established an allowance for loan losses that estimates losses inherent in the loan portfolio. The allowance for loan losses is established through a provision for loan losses charged to expense. Loans are charged against the allowance when management believes that the principal and interest is uncollectible. Any recoveries of previously charged off loans are recorded to the allowance to offset the charge-off. The Foundation has no net loan charge-offs at June 30, 2017.

A summary of the activity in the allowance for loan losses for the years ended June 30, 2017 and 2016 are as follows:

| | 2017 | 2016 |
|----------------------------------|------------------|------------------|
| Beginning balance | \$ 20,000 | \$ -0- |
| Provision for loan losses | 20,004 | 20,000 |
| Charge-offs | -0- | -0- |
| Recoveries | -0- | -0- |
| Allowance for loan losses | \$ 40,004 | \$ 20,000 |

The Foundation's loan portfolio consists of a combination of larger balance Teacher Housing loans and other Foundation loans, as well as smaller-balance homogenous Habitat for Humanity loans that are collectively evaluated for impairment. Loans classified as troubled debt restructurings are individually evaluated for impairment. The Foundation does not have any loans that are troubled debt restructurings as of June 30, 2017 and 2016, nor does it have any loans it considers to be impaired.

A summary of recorded investment in loans by portfolio segment and method of evaluation for impairment for the years ended June 30 is as follows:

| <u>2017</u> | <u>Real Estate Loans</u> | <u>Total</u> |
|---|-----------------------------|-----------------------------|
| Loans: | | |
| Ending balance: Individually evaluated for impairment | \$ -0- | \$ -0- |
| Ending balance: Collectively evaluated for impairment | <u>14,341,842</u> | <u>14,341,842</u> |
| Ending balance | <u>\$ 14,341,842</u> | <u>\$ 14,341,842</u> |

| <u>2016</u> | <u>Real Estate Loans</u> | <u>Total</u> |
|---|-----------------------------|-----------------------------|
| Loans: | | |
| Ending balance: Individually evaluated for impairment | \$ -0- | \$ -0- |
| Ending balance: Collectively evaluated for impairment | <u>12,020,846</u> | <u>12,020,846</u> |
| Ending balance | <u>\$ 12,020,846</u> | <u>\$ 12,020,846</u> |

The Foundation did not modify any loans in the years ended June 30, 2017 and June 30, 2016.

Delinquent Loans and Loan Balances

The tables below provide an age analysis of past due loans by class at June 30, 2017 and 2016.

| <u>2017</u> | <u>30-59 Days</u> | <u>60-89 Days</u> | <u>90 Days or Greater</u> | <u>Total Past Due</u> | <u>Current</u> | <u>Total Loans</u> |
|--------------------|----------------------|----------------------|---------------------------|-----------------------|-----------------------------|-----------------------------|
| Real Estate | | | | | | |
| First mortgage | \$ -0- | \$ -0- | \$ -0- | \$ -0- | \$ 14,341,842 | \$ 14,341,842 |
| Total | <u>\$ -0-</u> | <u>\$ -0-</u> | <u>\$ -0-</u> | <u>\$ -0-</u> | <u>\$ 14,341,842</u> | <u>\$ 14,341,842</u> |

| <u>2016</u> | <u>30-59 Days</u> | <u>60-89 Days</u> | <u>90 Days or Greater</u> | <u>Total Past Due</u> | <u>Current</u> | <u>Total Loans</u> |
|--------------------|----------------------|----------------------|---------------------------|-----------------------|-----------------------------|-----------------------------|
| Real Estate | | | | | | |
| First mortgage | \$ -0- | \$ -0- | \$ -0- | \$ -0- | \$ 12,020,846 | \$ 12,020,846 |
| Total | <u>\$ -0-</u> | <u>\$ -0-</u> | <u>\$ -0-</u> | <u>\$ -0-</u> | <u>\$ 12,020,846</u> | <u>\$ 12,020,846</u> |

Real Estate Credit Quality Indicators

As part of the on-going monitoring of the credit quality of the real estate portfolio, management tracks certain credit quality indicators based on whether the loans are performing or non-performing. To differentiate these categories, management tracks loan performance and when loans become 90 days or more past due, the loans are classified as non-performing. The delinquency reports enable management to monitor the loan portfolio.

The real estate credit risk profile based on payment activity by class at June 30 is as follows:

| <u>2017</u> | <u>First Mortgage</u> | <u>Total</u> |
|----------------|-----------------------|----------------------|
| Performing | \$ 14,341,842 | \$ 14,341,842 |
| Non-performing | -0- | -0- |
| Total | \$ 14,341,842 | \$ 14,341,842 |

| <u>2016</u> | <u>First Mortgage</u> | <u>Total</u> |
|----------------|-----------------------|----------------------|
| Performing | \$ 12,020,846 | \$ 12,020,846 |
| Non-performing | -0- | -0- |
| Total | \$ 12,020,846 | \$ 12,020,846 |

Note 5: ***Grants and Scholarships Payable***

The fair value of grants and scholarships payable as of June 30, 2017 and 2016 using a weighted average discount rate of 1.07 percent at June 30, 2017 (1.15 percent at June 30, 2016) are as follows:

| | <u>2017</u> | <u>2016</u> |
|--|----------------------|----------------------|
| Payable within 1 year | \$ 13,683,241 | \$ 16,411,627 |
| Payable between 1 and 2 years | 7,980,553 | 5,236,082 |
| Payable between 2 and 3 years | 2,459,394 | 2,543,031 |
| Payable between 3 and 4 years | 1,296,873 | 1,209,087 |
| Payable between 4 and 5 years | -0- | 267,537 |
| Total grants and scholarships payable | \$ 25,420,061 | \$ 25,667,364 |

Interest expense recognized on grants and scholarships payable amounted to \$180,249 for 2017 (\$161,070 in 2016).

Note 6: ***Subsequent Events***

Management evaluated subsequent events through August 31, 2017, the date the financial statements were available to be issued. Events or transactions occurring after June 30, 2017 but prior to August 31, 2017 that provided additional evidence about conditions that existed at June 30, 2017 have been recognized in the financial statements for the year ended June 30, 2017.

Board of Directors and Executive Director

Members of the Board of Directors are as follows:

Jim Johnson, Chair
Cynthia Jolly, Vice Chair
Jo Anne Sanford, Secretary/Treasurer
Chris Ayers
Shirley Bell
Bob Brinson
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Michael Clements
Al Delia
Alice Garland
Olson Huff
David King
Tom King
Mona Moon
Marilyn Sheerer
Stelfanie Williams
McKinley Wooten, Jr.

The Executive Director is Jama Dagenhart.

Contact Information

The mailing address and phone numbers of the SECU Foundation are:

SECU Foundation
PO Box 25966
Raleigh, NC 27611-5966

919-839-5000
800-438-1104 (toll-free)

The SECU Foundation website address is:

www.ncsecufoundation.org

The SECU Foundation email address is:

secufoundation@ncsecu.org

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