



2018 Annual Report

SECU Foundation

PEOPLE HELPING PEOPLE®

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Report of Independent Auditors



CliftonLarsonAllen

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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, 2018 and 2017, and the related statements of activities and changes in net assets, and cash flows for the years then ended, and the related notes to 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, 2018 and 2017, 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 24, 2018

Statements of Financial Position

June 30, 2018 and 2017

Assets	2018	2017
Cash and cash equivalents	\$ 39,936,527	\$ 34,797,900
Loans receivable (See Notes 2 & 3)		
NC Teacher Housing	6,064,420	6,626,494
NCHFA construction loans	572,241	2,363,818
Maple Court Apartments Veterans' Housing	362,663	372,178
Longview Terrace	182,740	195,648
Piedmont Senior Healthcare	1,668,364	1,963,095
YMCA	-0-	1,368,004
Habitat for Humanity	5,303,894	1,452,605
Less: allowance for loan losses	(60,008)	(40,004)
Total loans receivable	<u>14,094,314</u>	<u>14,301,838</u>
Prepaid expenses	-0-	7,599
Total assets	\$ 54,030,841	\$ 49,107,337
 Liabilities		
Accounts payable and other liabilities	\$ 268,509	\$ 65,313
Grants payable		
SECU Internship Program	677,699	1,044,422
SECU Family House at UNC Hospitals	1,994,072	1,978,058
NC GreenPower Projects	148,513	94,716
State Employees Combined Campaign	79,783	59,874
Exploring North Carolina	-0-	50,000
Governor's Awards for Excellence	51,202	-0-
USS Battleship NORTH CAROLINA	750,000	1,500,000
SECU Hospice House projects	1,026,042	1,000,000
Asheville Art Museum	1,500,000	1,500,000
NC Feeding America Food Banks	-0-	398,932
SECU MemoryCare	180,000	1,257,104
Cancer Center at CarolinaEast	1,159,816	2,307,982
NC FFA – SECU Dormitory	250,000	-0-
ABC Autism Clinic of NC	500,000	-0-
NC Symphony Grant	59,400	-0-
MATCH Wellness	99,303	-0-
NC Freedom Park Grant	500,000	-0-
Total grants payable	<u>8,975,830</u>	<u>11,191,088</u>
Scholarships payable		
University scholarships	9,701,037	10,149,070
Community College scholarships	813,176	839,744
SECU Continuing Education scholarships	225,000	435,000
SECU Partnership East	1,142,511	1,351,291
SECU Appalachian Partnership	1,137,027	1,453,868
Total scholarships payable	<u>13,018,751</u>	<u>14,228,973</u>
Total liabilities	<u>22,263,090</u>	<u>25,485,374</u>
 Net Assets		
Unrestricted – undesignated	12,097,470	2,960,245
Unrestricted – designated	19,670,281	20,661,718
Total net assets	<u>31,767,751</u>	<u>23,621,963</u>
Total liabilities & net assets	\$ 54,030,841	\$ 49,107,337

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

Statements of Activities and Changes in Net Assets

Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Revenues, gains, and other support		
SECU member contributions	\$ 15,642,139	\$ 14,652,147
SECU contributed services	558,504	192,437
Interest and dividends	451,790	436,582
Total revenues, gains, and other support	<u>16,652,433</u>	<u>15,281,166</u>
Program expenses		
University scholarships	3,390,715	4,026,761
Community College scholarships	377,183	424,752
SECU Continuing Education scholarships	(96,000)	325,050
SECU Partnership East	(8,980)	12,150
SECU Appalachian Partnership	20,591	26,719
SECU Internship Program	404,410	847,228
SECU Family House projects	16,013	1,978,058
Hospice projects	39,663	1,724
State Employees Combined Campaign	79,909	878
Exploring North Carolina	-0-	100,000
NC GreenPower projects	148,796	845
Governor's Awards for Excellence	69,202	330
Biz Kid\$ Grant	-0-	75,000
SECU Innovation Awards	-0-	(32,343)
NC Feeding America Food Banks	1,068	505,312
SECU MemoryCare	2,896	14,423
NC Rural Economic Development Center	-0-	236,062
SECU Cancer Center at CarolinaEast	18,501	3,474,649
NC FFA – SECU Dormitory	400,000	-0-
SECU Youth Crisis Center	750,000	-0-
EdNC	15,000	-0-
ABC Autism Clinic	1,500,000	-0-
NC Symphony	59,400	-0-
MATCH Wellness	199,303	-0-
NC Freedom Park	500,000	-0-
Total program expenses	<u>7,887,670</u>	<u>12,017,598</u>
Management and general expense	<u>618,975</u>	<u>248,111</u>
Total expenses	<u>8,506,645</u>	<u>12,265,709</u>
Changes in net assets	8,145,788	3,015,457
Unrestricted net assets at beginning of year	23,621,963	20,606,506
Unrestricted net assets at end of year	\$ 31,767,751	\$ 23,621,963

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

Statements of Cash Flows

Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Changes in net assets	\$ 8,145,788	\$ 3,015,457
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Allowance for loan losses	20,004	20,004
(Decrease) in grants payable	(2,215,258)	(523,846)
(Decrease)/increase in scholarships payable	(1,210,222)	276,543
Increase in accounts payable	203,196	36,023
Decrease/(increase) in prepaid expense	<u>7,599</u>	<u>(7,599)</u>
Net cash provided by operating activities	4,951,107	2,816,582
Cash flows from investing activities:		
Loan issuance	(10,465,614)	(5,766,816)
Principal collected on loans	<u>10,653,134</u>	<u>3,445,820</u>
Net cash used in investing activities	187,520	(2,320,996)
Net increase in cash and cash equivalents	<u>5,138,627</u>	<u>495,586</u>
Cash and cash equivalents at beginning of year	34,797,900	34,302,314
Cash and cash equivalents at end of year	\$ 39,936,527	\$ 34,797,900

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

Notes to Financial Statements

June 30, 2018 and 2017

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, 2018 and 2017.

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, 2018 and 2017, 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, 2018 and 2017, 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 \$39,668,384 and \$34,778,698 as of June 30, 2018 and 2017, 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. Past due status is based on contractual terms of the loan. The Allowance for Loan Loss was \$60,008 and \$40,004 as of June 30, 2018 and 2017, 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, 2018 and 2017, 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 \$12,097,470 and \$2,960,245 are available to be awarded as of June 30, 2018 and 2017, respectively. The Board designated \$19,670,281 and \$20,661,718 of unrestricted net assets for current projects related to amounts included in loans receivable and any unfunded construction loan commitments as of June 30, 2018 and 2017, 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 \$558,504 and \$192,437 were recognized in the years ended June 30, 2018 and 2017, 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 both 2018 and 2017 the Foundation was subject to a 1 percent rate with estimated excise tax expenses of \$4,518 and \$4,366, respectively.

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 2018, the Foundation was required to make minimum distributions of \$12,739,871 (\$5,141,815 in 2017). The Foundation made qualifying distributions in 2018 totaling \$21,795,435 and \$18,061,822 in 2017, 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.

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.

Since 2004, through the Foundation, SECU members have funded a \$10,000 four-year college scholarship for a graduating senior in every traditional public high school and provided two \$5,000 scholarships over two years to students attending each of the 58 community colleges in the North Carolina Community College System. Beginning in 2018, the Foundation will set a limit of 435 scholarships to be distributed statewide. The allocation of scholarships will be based on the Local Education Agencies (LEA). The statewide distribution per school district ensures the equitable dissemination of scholarships across North Carolina. The Foundation will run the allocation formula

each year based on the information provided by the Department of Public Instruction. This new allocation is to address sustainability of the program and ensure its long-term success.

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 was discontinued in 2018 with no additional commitments. The outstanding balances at June 30, 2018 and 2017 were \$225,000 and \$435,000, respectively.

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, 2018 and 2017 were \$1,142,511 and \$1,351,291, 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, 2018 and 2017 were \$1,137,027 and \$1,453,868, 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 \$400,000 in 2018 and \$850,000 in 2017. The outstanding balances at June 30, 2018 and 2017 were \$677,699 and \$1,044,422, respectively.

The University scholarship, Community College scholarship, Continuing Education scholarship, SECU Partnership East, SECU Appalachian Partnership, and SECU Internship program commitments total \$5.3 million in 2018 (\$6.2 million in 2017) and total over \$70 million since inception of the scholarship programs in 2004.

In 2005, the Foundation granted \$2 million for the SECU Family House at UNC 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 balances of the grant at June 30, 2018 and 2017 were \$1,994,072 and \$1,978,058, respectively.

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 balance as of June 30, 2017 was \$44,716; the project was fully disbursed in December of 2017.

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 serves as an educational tool as well as offers greater energy efficiency. In 2018 an additional \$150,000 was granted to continue the installation of 3 or 5 kilowatt solar photovoltaic systems. The outstanding balances at June 30, 2018 and 2017 were \$148,513 and \$50,000, 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. In 2018, a 4-year renewal was granted in the amount of \$82,956 to continue supporting the campaign. The outstanding balances of the grant at June 30, 2018 and 2017 were \$79,783 and \$59,874, 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 was \$50,000 with the project fully being disbursed in September 2017.

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. In 2018 \$72,000 was granted to be disbursed equally over a four-year period. The balance as of June 30, 2018 is \$51,202.

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 upfitting to expand the onsite experience for visitors to the Battleship – The WWII Memorial for North Carolina. The outstanding balances of the grant at June 30, 2018 and 2017 were \$750,000 and \$1,500,000, respectively.

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. In 2018 an additional \$40,000 was provided for capacity building services. The outstanding balances at June 30, 2018 and 2017 were \$1,026,042 and \$1,000,000, respectively.

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, 2018 and 2017 was \$1,500,000.

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 balance at June 30, 2017 was \$398,932. The grant paid out in August 2017.

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, 2018 and 2017 were \$180,000 and \$1,257,104, respectively.

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 balances at June 30, 2018 and 2017 were \$1,159,816 and \$2,307,982, respectively.

In November 2017, the Foundation granted \$200,000 for the MATCH Wellness Program which is managed by East Carolina University. The MATCH Wellness Program, started in 2007, is a school based program that empowers 7th grade students to make healthy choices for eating and physical activity through lessons taught over a 16-week period to reduce the prevalence of obesity among children in rural eastern North Carolina. The outstanding balance at June 30, 2018 is \$99,303.

In December 2017, the Foundation granted \$1,500,000 for the construction of the SECU Autism Clinic at ABC of NC. The Clinic will be providing Davidson County and 12 surrounding counties with high-quality, evidence-based diagnostic, therapeutic, and educational services to children with autism and their families. The outstanding balance at June 30, 2018 is \$500,000.

In December 2017, the Foundation granted \$750,000 to Monarch for the construction of the SECU Youth Crisis Center. The Center will be a sixteen-bed facility to provide intervention and treatment for children and youth ages 6-17 who are experiencing a mental health crisis in the Mecklenburg County area. The grant was fully funded in January 2018.

In April 2018, the Foundation granted \$400,000 to The North Carolina Agricultural Foundation, Inc. for the construction of the North Carolina Future Farmers of America SECU Dormitory. The facility will provide 72 additional bed spaces for female campers during the summer and year-round programs. NC Future Farmers is committed to help members explore their interest in the agricultural industry. The outstanding balance at June 30, 2018 is \$250,000.

In June 2018, the Foundation provided a grant of \$59,400 to the NC Symphony for the purpose of purchasing a Mercedes Benz Sprinter Crew Van. The van will allow the NC Symphony to expand the music education programs to students of all ages across North Carolina. The outstanding balance at June 30, 2018 is \$59,400.

In June 2018, the Foundation provided a grant of \$500,000 to North Carolina Freedom Monument Project, Inc. for the construction of the North Carolina Freedom Park. The NC Freedom Park will celebrate the enduring contributions of African Americans in North Carolina who struggled to gain freedom and enjoy full citizenship. The park will represent the values of "freedom for all" and be a vibrant place for cultural enlightenment and thoughtful reflection. The outstanding balance at June 30, 2018 is \$500,000.

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, 2018 and 2017 were \$512,228 and \$645,228, 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, 2018 and 2017 were \$207,740 and \$405,740, 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, 2018 and 2017 were \$1,828,664 and \$1,999,064, respectively.

In 2011, the Foundation agreed to provide an interest free loan for \$1.25 million to Dare Education Foundation for the construction of the Hatteras Teacher Housing complex in Dare County. The new complex is located in Buxton, North Carolina. The outstanding balances of the loan at June 30, 2018 and 2017 were \$791,038 and \$856,288, respectively.

In 2015, the Foundation agreed to provide an interest free loan for \$2,500,000 to Eblen Charities, Inc., a North Carolina nonprofit 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. The construction phase was completed in July 2017 and converted to a loan in December 2017. The outstanding balances at June 30, 2018 and 2017 were \$2,724,750 and \$2,720,174, 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, \$12.5 million in loan advances have been made. Outstanding and unpaid balances at June 30, 2018 and 2017 were \$572,241 and \$2,363,818, respectively. The following paragraphs detail the individual construction loans supported by the partnership between SECU and NCHFA.

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 was \$750,000. The loan was paid off in October 2017.

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. The loan was paid off in December 2017.

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 was \$600,000. The loan was paid off in March 2018.

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 is handicap accessible, with apartments consisting of a bedroom, bathroom, kitchen/dining area, living room, and in-home care services. The outstanding loan balance was \$412,950 as of June 30, 2017. The loan was paid off in July 2017.

In August 2017, the Foundation provided a \$538,000 interest-free loan for Spring Cove NC Indian Housing in Red Springs. This is new construction of 6 apartments to provide permanent housing for low-income households for individuals with disabilities. The outstanding loan balance was \$538,000 as of June 30, 2018.

In April 2018, the Foundation provided a \$400,000 interest-free loan for Tammy Lynn Beauregard Drive Home in Wilmington. This property will be a permanent residence for persons with intellectual and developmental disabilities, with a 24/7 support staff to meet the health and safety needs of each resident. The outstanding balance was \$34,241 as of June 30, 2018.

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, 2018 and 2017:

Project Name	Location	2018	2017
Greenville Community Shelter	Greenville	\$ -0-	\$ 750,000
Harbor House	Smithfield	-0-	600,000
Lumberton Christian Care	Lumberton	-0-	600,868
Pearce Supportive Housing	Wilmington	-0-	412,950
NC Indian Housing	Spring Cove	538,000	-0-
Tammy Lynn Home	Wilmington	34,241	-0-
		\$ <u>572,241</u>	\$ <u>2,363,818</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, 2018 and 2017 were \$362,663 and \$372,178, 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, 2018 and 2017 were \$1,668,364 and \$1,963,095, 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 is providing 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. The outstanding balances at June 30, 2018 and 2017 were \$182,740 and \$195,648, respectively.

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 outstanding balance at June 30, 2017 was \$1,368,004. The loan was paid off in December 2017.

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. Fifty-five mortgages have been originated to date. The outstanding loan balances as of June 30, 2018 and 2017 were \$5,303,894 and \$1,452,605, respectively.

As discussed in Note 3, 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, 2018 and 2017 the Foundation had an allowance balance of \$60,008 and \$40,004, respectively.

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 for the years ended June 30, 2018 and 2017.

A summary of the activity in the allowance for loan losses for the years ended June 30, 2018 and 2017 are as follows:

	2018	2017
Beginning balance	\$ 40,004	\$ 20,000
Provision for loan losses	20,004	20,004
Charge-offs	-0-	-0-
Recoveries	-0-	-0-
Allowance for loan losses	<u>\$ 60,008</u>	<u>\$ 40,004</u>

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, 2018 and 2017, 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:

2018	Real Estate Loans	Total
Loans:		
Ending balance: Individually evaluated for impairment	\$ -0-	\$ -0-
Ending balance: Collectively evaluated for impairment	<u>14,154,322</u>	<u>14,154,322</u>
Ending balance	<u>\$ 14,154,322</u>	<u>\$ 14,154,322</u>
2017	Real Estate Loans	Total
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>

The Foundation did not modify any loans in the years ended June 30, 2018 and June 30, 2017.

Delinquent Loans and Loan Balances

The tables below provide an age analysis of past due loans by class at June 30, 2018 and 2017.

2018	30-59 Days	60-89 Days	90 Days or Greater	Total Past Due	Current	Total Loans
Real Estate First mortgage	\$ 98,000	\$ 182,740	\$ -0-	\$ 280,740	\$ 13,873,582	\$ 14,154,322
Total	\$ 98,000	\$ 182,740	\$ -0-	\$ 280,740	\$ 13,873,582	\$ 14,154,322

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

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:

2018	First Mortgage	Total
Performing	\$ 14,154,322	\$ 14,154,322
Non-performing	-0-	-0-
Total	\$ 14,154,322	\$ 14,154,322

2017	First Mortgage	Total
Performing	\$ 14,341,842	\$ 14,341,842
Non-performing	-0-	-0-
Total	\$ 14,341,842	\$ 14,341,842

Note 5: Grants and Scholarships Payable

The fair value of grants and scholarships payable as of June 30, 2018 and 2017 using a weighted average discount rate of 1.35 percent at June 30, 2018 (1.07 percent at June 30, 2017) are as follows:

	2018	2017
Payable within 1 year	\$ 14,134,843	\$ 13,683,241
Payable between 1 and 2 years	4,454,971	7,980,553
Payable between 2 and 3 years	2,412,311	2,459,394
Payable between 3 and 4 years	992,456	1,296,873
Total grants and scholarships payable	<u>\$ 21,994,581</u>	<u>\$ 25,420,061</u>

Interest expense recognized on grants and scholarships payable amounted to \$189,889 for 2018 (\$180,249 in 2017).

Note 6: Subsequent Events

Management evaluated subsequent events through August 24, 2018, the date the financial statements were available to be issued. Events or transactions occurring after June 30, 2018 but prior to August 24, 2018 that provided additional evidence about conditions that existed at June 30, 2018 have been recognized in the financial statements for the year ended June 30, 2018.

Board of Directors and Executive Director

Members of the Board of Directors are as follows:

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

The Executive Director is Jama Campbell.

Contact Information

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