

SOUTHEAST COMMUNITY DEVELOPMENT FUND II, L.L.C.
REPORTS REQUIRED BY
FLORIDA SINGLE AUDIT ACT

For the year ended December 31, 2013

SOUTHEAST COMMUNITY DEVELOPMENT FUND II, L.L.C.

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR STATE
PROJECT AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY
CHAPTER 10.650, RULES OF THE AUDITOR GENERAL**

To the Members of
Southeast Community Development Fund II, L.L.C.:

Report on Compliance for Each Major State Project

We have audited the compliance of Southeast Community Development Fund II, L.L.C. (the "Company") with the types of compliance requirements described in the *Department of Financial Services' State Projects Compliance Supplement*, that could have a direct and material effect on each of the Company's major State projects for the year ended December 31, 2013. The Company's major State projects are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its major State projects.

Auditor's Responsibility

Our responsibility is to express an opinion on the Company's compliance based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America and Chapter 10.650, Rules of the Auditor General. Those standards and Chapter 10.650, Rules of the Auditor General, require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major State project occurred. An audit includes examining, on a test basis, evidence about the Company's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major State project. However, our audit does not provide a legal determination on the Company's compliance with those requirements.

Opinion on Each Major State Project

In our opinion, the Company complied, in all material respects, with the types of requirements referred to above that could have a direct and material effect on each of its major State projects for the year ended, December 31, 2013.

Report on Internal Control Over Compliance

Management of the Company is responsible for establishing and maintaining effective internal control over compliance with the types of requirements referred to above. In planning and performing our audit of compliance, we considered the Company's internal control over compliance with the types of requirements that could have a direct and material effect on each major State project to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major State project and to test and report on internal control over compliance in accordance with Chapter 10.650, Rules of the Auditor General, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and results of that testing based on the requirements of Chapter 10.650, Rules of the Auditor General. Accordingly, this report is not suitable for any other purpose.

Novogradac & Company LLP

Cleveland, Ohio
April 15, 2014



To the Members of
Southeast Community Development Fund II, L.L.C.:

We have audited the financial statements of Southeast Community Development Fund II, L.L.C. (“the Company”), as of and for the fiscal year ended December 31, 2013, and have issued our report thereon dated February 11, 2014.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. We have issued our Independent Auditor’s Report on Compliance for Each Major State Project and Report on Internal Control over Compliance Required by Chapter 10.650, Rules of the Auditor General, and Schedule of Findings and Questioned Costs – State Projects. Disclosures in those reports and schedule, which are dated April 15, 2014, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with Chapter 10.650, Rules of the Auditor General, which requires disclosure in the management letter noncompliance with provisions of contracts or grant agreements, or abuse, that have occurred, or are likely to have occurred, that have an effect on the financial statements or State project amounts that is less than material but which warrants the attention of those charged with governance.

Our management letter is intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, the Florida Auditor General, and the Company’s management and is not intended to be and should not be used by anyone other than these specified parties.

Novogradac & Company LLP

Cleveland, Ohio
April 15, 2014

SOUTHEAST COMMUNITY DEVELOPMENT FUND II, L.L.C.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS – STATE PROJECTS

Fiscal Year Ended December 31, 2013

A. SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unqualified opinion on the Company's basic financial statements.
2. No significant deficiencies in internal control were disclosed during the audit of the financial statements.
3. No instances of noncompliance material to the financial statements of the Company were disclosed during the audit.
4. No significant deficiencies in internal control over a major State project were reported in the Independent Auditor's Report on Compliance with Requirements Applicable to Each Major State Project and on Internal Control Over Compliance in Accordance with Chapter 10.650, Rules of the Auditor General.
5. The auditor's report on compliance with requirements that could have a direct and material effect on each major State project for the Company expresses an unqualified opinion.
6. Our audit disclosed no findings required to be reported related to State projects required to be disclosed under Chapter 10.656, Rules of the Auditor General.

The projects tested as major projects included the following:

<u>State Project</u>	<u>State CSFA No.</u>	<u>Year</u>
Department of Economic Opportunity	40.020	2013

7. The threshold for distinguishing Type A and Type B projects was \$500,000 for major State projects.

B. FINDINGS – FINANCIAL STATEMENTS

There are no findings to the Company's financial statements as of December 31, 2013.

SOUTHEAST COMMUNITY DEVELOPMENT FUND II, L.L.C.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS – STATE PROJECTS (CONTINUED)

Fiscal Year Ended December 31, 2013

C. FINDINGS AND QUESTIONED COSTS –MAJOR STATE PROJECTS

There are no findings or questioned costs relating to the Florida Department of Economic Opportunity and their regulations over the state New Markets Development Program and the Department of Financial Services' State Projects Compliance Supplement.

D. OTHER ISSUES

The Supplemental Reports do not include the Summary Schedule of Prior Audit Findings because there were no prior audit findings related to State Projects and no Corrective Action Plan is required because there were no findings required to be reported under the Florida Single Audit Act.

SOUTHEAST COMMUNITY DEVELOPMENT FUND II, L.L.C.
SCHEDULE OF EXPENDITURES AND STATE FINANCIAL ASSISTANCE

Fiscal Year End December 31, 2013

<u>STATE AGENCY</u>	<u>State CSFA No.</u>	<u>Grant Number</u>	<u>Project Expenditures</u>
Department of Economic Opportunity			
<u>Direct Projects</u>			
Florida New Markets Development Program			
Qualified Low-Income Community Investment	40.020	N/A	\$ <u>8,500,000</u>
			<u>\$ 8,500,000</u>

Pursuant to the State of Florida New Markets Tax Credit statute (the "Florida Statute"), the Company applied for and received the authority to issue up to \$10,000,000 in Florida qualified equity investments or qualified debt securities ("Florida QEIs") in 2010. Under the Florida Statute, the purchaser of a qualified debt security will be allowed to claim Florida new markets tax credits ("Florida NMTCs") over seven periods spanning six years and one day for any long-term debt security issued by the Company that is designated as a Florida QEI within the meaning of the Florida Statute and has at least 85% of its cash purchase price used by the issuer to make qualified low-income community investments ("Florida QLICs"). Pursuant to the Company's approval from the State of Florida on December 20, 2010 to issue up to \$10,000,000 of Florida QEIs, the Company designated the advances under the Loan made by the Lender in the aggregate amount of \$10,000,000 as Florida QEIs. During 2011, the Company made loans in the amount of \$8,500,000 that constitute Florida QLICs. As of December 31, 2013, \$8,500,000 constitutes Florida QLICs.

SOUTHEAST COMMUNITY DEVELOPMENT FUND II, L.L.C.
FINANCIAL STATEMENTS

For the years ended December 31, 2013 and 2012
with
Report of Independent Auditors

SOUTHEAST COMMUNITY DEVELOPMENT FUND II, L.L.C.

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Report of Independent Auditors

To the Members of
Southeast Community Development Fund II, L.L.C.:

Report on Financial Statements

We have audited the accompanying financial statements of Southeast Community Development Fund II, L.L.C. (the "Company"), a Delaware limited liability company, which comprise the balance sheets as of December 31, 2013 and 2012, and the related statements of operations, changes in members' equity (deficit) and 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 controls 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 auditors' 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 entity'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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Southeast Community Development Fund II, L.L.C. as of December 31, 2013 and 2012, and the results of its operations and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Novogradac & Company LLP

Cleveland, Ohio
February 11, 2014

SOUTHEAST COMMUNITY DEVELOPMENT FUND II, L.L.C.
BALANCE SHEETS
December 31, 2013 and 2012

	2013	2012
ASSETS		
Current assets		
Cash and cash equivalents	\$ 179,633	\$ 199,575
Due from related party	57,987	57,987
Interest receivable - qualified active low-income community business	10,833	10,833
Total current assets	248,453	268,395
Long-term assets		
Notes receivable - qualified active low-income community business	7,800,000	7,800,000
Notes receivable	1,463,500	1,463,500
Interest receivable	25,646	16,459
Total long term assets	9,289,146	9,279,959
Total assets	\$ 9,537,599	\$ 9,548,354
LIABILITIES AND MEMBERS' DEFICIT		
Current liabilities		
Accrued interest	\$ 25,556	\$ 47,445
Due to related party	1,094	26,108
Total current liabilities	26,650	73,553
Long-term liabilities		
Notes payable	10,000,000	10,000,000
Total long-term liabilities	10,000,000	10,000,000
Total liabilities	10,026,650	10,073,553
Members' deficit	(489,051)	(525,199)
Total liabilities and members' deficit	\$ 9,537,599	\$ 9,548,354

see accompanying notes

SOUTHEAST COMMUNITY DEVELOPMENT FUND II, L.L.C.
STATEMENTS OF OPERATIONS
For the years ended December 31, 2013 and 2012

	2013	2012
REVENUE		
Interest income - qualified active low-income community business	\$ 232,586	\$ 233,223
Late fee income - qualified active low-income community business	<u>2,867</u>	<u>-</u>
Total revenue	<u>235,453</u>	<u>233,223</u>
EXPENSES		
General and administrative	5,235	6,173
Professional fees	<u>10,500</u>	<u>10,500</u>
Total expenses	<u>15,735</u>	<u>16,673</u>
Net operating income	219,718	216,550
OTHER INCOME (EXPENSE)		
Interest income	127,819	70,978
Interest expense	(101,389)	(101,667)
Provision for loan loss	<u>-</u>	<u>(700,000)</u>
Net other income (expense)	<u>26,430</u>	<u>(730,689)</u>
Net income (loss)	<u>\$ 246,148</u>	<u>\$ (514,139)</u>

see accompanying notes

SOUTHEAST COMMUNITY DEVELOPMENT FUND II, L.L.C.
STATEMENTS OF CHANGES IN MEMBERS' EQUITY (DEFICIT)
For the years ended December 31, 2013 and 2012

	<u>Common Unit Holders</u>		<u>Preferred Unit Holder</u>	<u>Total Members' Equity (Deficit)</u>
	<u>Advantage Capital Community Development Fund, L.L.C.</u>	<u>Advantage Capital Florida NMTC Investor I, L.L.C.</u>	<u>Advantage Capital Florida NMTC Partners IX, LLC</u>	
Balance, January 1, 2012	\$ -	\$ -	\$ 3,940	\$ 3,940
Operating distributions	-	-	(15,000)	(15,000)
Net loss	<u>(3)</u>	<u>(23)</u>	<u>(514,113)</u>	<u>(514,139)</u>
Balance, December 31, 2012	(3)	(23)	(525,173)	(525,199)
Operating distributions	-	-	(210,000)	(210,000)
Net income	<u>3</u>	<u>23</u>	<u>246,122</u>	<u>246,148</u>
Balance, December 31, 2013	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (489,051)</u>	<u>\$ (489,051)</u>

see accompanying notes

SOUTHEAST COMMUNITY DEVELOPMENT FUND II, L.L.C.
STATEMENTS OF CASH FLOWS
For the years ended December 31, 2013 and 2012

	2013	2012
Cash flows from operating activities:		
Net income (loss)	\$ 246,148	\$ (514,139)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Provision for loan loss	-	700,000
Changes in operating assets and liabilities:		
Increase in interest receivable - qualified active low-income community business	-	(10,833)
Increase in interest receivable	(9,187)	(16,459)
Increase in due from related party	-	(51,615)
(Decrease) increase in accrued interest	(21,889)	44,667
(Decrease) increase in due to related party	(25,014)	16,469
Net cash provided by operating activities	190,058	168,090
 Cash flows from investing activities:		
Funding of notes receivable	-	(1,463,500)
Net cash used in investing activities	-	(1,463,500)
 Cash flows from financing activities:		
Operating distributions - Investor Member	(210,000)	(15,000)
Net cash used in financing activities	(210,000)	(15,000)
 Net decrease in cash and cash equivalents	(19,942)	(1,310,410)
 Cash and cash equivalents at beginning of year	199,575	1,509,985
 Cash and cash equivalents at end of year	\$ 179,633	\$ 199,575
 SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for interest	\$ 123,278	\$ 57,000

see accompanying notes

SOUTHEAST COMMUNITY DEVELOPMENT FUND II, L.L.C.
NOTES TO FINANCIAL STATEMENTS
December 31, 2013 and 2012

1. Organization and Purpose

Southeast Community Development Fund II, L.L.C. (the “Company”) is a Delaware limited liability company that was formed on August 10, 2010. The initial members were Advantage Capital Community Development Fund, L.L.C. (“ACCDF”), Steven T. Stull (“Stull”) and Michael T. Johnson (“Johnson”). Pursuant to the Amended and Restated Limited Liability Company Operating Agreement dated December 30, 2010 (the “Amended Operating Agreement”), Stull and Johnson withdrew and the Company admitted another member, Advantage Capital Florida NMTC Investor I, L.L.C. (“Florida NMTC Investor I”). The Company appointed ACCDF (the “Managing Member”) as managing member. Pursuant to the Second Amended and Restated Limited Liability Company Operating Agreement dated December 22, 2011 (the “Operating Agreement”), the Company admitted an investor member, Advantage Capital Florida NMTC Partners IX, LLC (“Investor Member” or the “Preferred Unit Holder”). Pursuant to the Operating Agreement, the Managing Member and Florida NMTC Investor I became the holders of 100% of the common units of the Company (the “Common Unit Holders”). The Common Unit Holders and the Preferred Unit Holder are collectively referred to as the “Members”.

The Company applied for and received certification from the US Treasury’s Community Development Financial Institutions Fund (“CDFI Fund”) as a qualified Community Development Entity (“CDE”) in accordance with Internal Revenue Code Section 45D and Treasury Regulations hereunder. The primary purpose of the company is to serve or provide investment capital for low-income communities or low-income persons in the Company’s Service Area (as further defined in the Operating Agreement) consistent with the New Markets Tax Credit (“NMTC”) Program. To help fulfill its primary mission, the Company makes capital or equity investments in, or loans to, qualified active low-income community businesses, (“QALICBs”), as defined in Internal Revenue Code Section 45D. The loans to or investments in QALICBs are intended to be qualified low-income community investments (“QLICIs”) under the State of Florida NMTC Program.

Ownership rights are segregated into two classes: the Common Units and the Preferred Units. The Company has issued 100 Common Units to the Managing Member, 9,900 Common Units to Florida NMTC Investor I, and 10,000 Preferred Units to the Investor Member.

The Managing Member and Florida NMTC Investor I have made capital contributions in the amounts of \$10 and \$990, respectively. In connection with the execution of the Operating Agreement, the Investor Member contributed \$10,000 and the Company returned \$981 to Florida NMTC Investor I and \$9 to the Managing Member. No additional capital is required to be contributed by the Members.

SOUTHEAST COMMUNITY DEVELOPMENT FUND II, L.L.C.
NOTES TO FINANCIAL STATEMENTS
December 31, 2013 and 2012

1. Organization and Purpose (continued)

Net income and losses are allocated in accordance with the Operating Agreement. Net income is allocated first, to the Members to the extent of the amount by which the cumulative net losses previously allocated to each Member in accordance with the Operating Agreement exceeds the cumulative net profits previously allocated to each Member; second, 99.9% of net income to the Preferred Unit Holders in accordance with their respective Sharing Percentages and 0.1% to the Common Unit Holders in accordance with their respective Sharing Percentages. Net losses shall be first allocated to the Members in proportion to their Adjusted Capital Account Balances (as defined in the Operating Agreement) until their respective capital account balances have been reduced to zero; and second, to the Common Unit Holders in proportion to their respective Sharing Percentages.

Operating distributions are made at the discretion of the Managing Member and in accordance with the Operating Agreement. For the years ended December 31, 2013 and 2012, the Company made distributions of \$210,000 and \$15,000, respectively, to the Preferred Unit holder.

2. Summary of Significant Accounting Policies and Nature of Operations

Basis of accounting

The Company prepares its financial statements on the accrual basis of accounting consistent with accounting principles generally accepted in the United States of America.

Cash and cash equivalents

Cash and cash equivalents include all cash balances and highly liquid investments with maturities of three months or less at the date of acquisition.

Concentration of credit risk

The Company maintains cash in bank deposit accounts which, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts. The Company believes they are not exposed to any significant credit risk on these accounts.

Economic concentrations

Substantially all of the Company's operations are derived from loans made to QALICBs. Future operations could be affected by changes in economic or other conditions that would affect the businesses of the underlying QALICBs.

Use of estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

SOUTHEAST COMMUNITY DEVELOPMENT FUND II, L.L.C.
NOTES TO FINANCIAL STATEMENTS
December 31, 2013 and 2012

2. Summary of Significant Accounting Policies and Nature of Operations (continued)

Fair value measurements

The Company applies the accounting provisions related to fair value measurements. These provisions define fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, establish a hierarchy that prioritizes the information used in developing fair value estimates and require disclosure of fair value measurements by level within the fair value hierarchy. The hierarchy gives the highest priority to quoted prices in active markets (Level 1 measurements) and the lowest priority to unobservable data (Level 3 measurements), such as the reporting entity's own data. These provisions also provide valuation techniques, such as the market approach (comparable market prices), the income approach (present value of future income or cash flows) and the cost approach (cost to replace the service capacity of an asset or replacement cost).

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The three levels of valuation hierarchy are defined as follows:

Level 1: Observable inputs such as quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2: Inputs other than quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3: Unobservable inputs that reflect the Company's own assumptions.

Assets and liabilities are classified based on the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of certain assets and liabilities and their classifications within the fair value hierarchy.

Entities are permitted to choose to measure financial instruments and certain other items at fair value and establish presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. Management has not elected the fair value option of any such financial assets and liabilities.

Income taxes

Income taxes on Company income are levied on the Members at the member level. Accordingly, all profits and losses of the Company are recognized by each member on its respective tax return.

SOUTHEAST COMMUNITY DEVELOPMENT FUND II, L.L.C.
NOTES TO FINANCIAL STATEMENTS
December 31, 2013 and 2012

2. Summary of Significant Accounting Policies and Nature of Operations (continued)

Income taxes (continued)

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires the Company to report information regarding its exposure to various tax positions taken by the Company. Management has determined whether any tax positions have met the recognition threshold and has measured the Company's exposure to those tax positions. Management believes that the Company has adequately addressed all relevant tax positions and that there are no unrecorded tax liabilities. Federal and state tax authorities generally have the right to examine and audit the previous three years of tax returns filed. Any interest or penalties assessed to the Company are recorded in operating expenses. No interest or penalties from federal or state tax authorities were recorded in the accompanying financial statements.

Revenue and interest recognition

The Company recognizes revenue from interest income, dividends, realized and unrealized gains or losses on its investments. Interest on the loans is calculated using the simple-interest method on principal amounts outstanding and is recognized when earned. The interest rates on the loans may be affected by the tax attributes of the NMTC Program and the legal restrictions established by the CDFI Fund. The accrual of interest is discontinued when, in management's opinion, the borrower may be unable to make payments as they become due. If the accrual of interest is discontinued, all unpaid accrued interest reversed. Interest income is subsequently recognized only to the extent cash payments are received and the principal balance is believed collectible.

Notes receivable and allowance for loan losses

The notes receivable – qualified active low-income community business balance is stated at the amount of unpaid principal, reduced by loan discounts and unearned loan fees and the allowance for loan losses. Loan origination and commitment fees as well as certain direct origination costs, are deferred and recognized into income ratably over the term of the loan. Amortization of deferred loan fees is discontinued when a loan is placed on nonaccrual status.

The allowance is increased by a provision for loan losses, which is charged to expense, and reduced by charge-offs, net of recoveries. Management's periodic evaluation of the adequacy of the allowance is based on the Company's quarterly evaluation of specific loans to determine the existence of adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, and current economic conditions. Although management uses available information to recognize losses on loans, because of uncertainties associated with local economic conditions, collateral values, and future cash flows on impaired loans, it is reasonably possible that a material change could occur in the allowance for loan losses in the near term. However, the amount of the change that is reasonably possible cannot be estimated.

SOUTHEAST COMMUNITY DEVELOPMENT FUND II, L.L.C.
NOTES TO FINANCIAL STATEMENTS
December 31, 2013 and 2012

2. Summary of Significant Accounting Policies and Nature of Operations (continued)

Notes receivable and allowance for loan losses (continued)

The Company considers a loan impaired when, based on current information or factors, it is probable that the Company will not collect the principal and interest payments according to the loan agreement. Management considers many factors in determining whether a loan is impaired, such as payment history and value of collateral. Loans that are contractually delinquent less than 90 days are generally not considered impaired, unless the borrower has claimed bankruptcy or the Company has received specific information concerning the loan impairment. The Company reviews delinquent loans to determine impaired accounts. The Company measures impairment on its notes receivable – qualified active low-income community business on a specific loan basis.

If a loan is impaired, a portion of the allowance is allocated so that the loan is reported, net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral.

The Company's notes receivable – qualified active low-income community business consists of loans to operating businesses and other entities pursuant to the NMTC program. The Company's key credit quality indicators are the financial performance of the underlying borrowers and value of the collateral as determined on a quarterly basis. Notes receivable – qualified active low-income community business that are 90 days or more past due, based on the contractual terms, are classified on nonaccrual status. Loans may also be placed on nonaccrual when management believes, after considering economic conditions, business conditions, and collection efforts, that the loans are impaired or collection of interest is doubtful. Uncollectible interest previously accrued is charged off, or an allowance is established by a charge to interest income. Interest income on nonaccrual loans is recognized only to the extent cash payments are received and the principal balance is believed to be collectible. There were no notes receivable – qualified active low-income community business past due or on nonaccrual status as of December 31, 2013 and 2012.

A loan previously classified on nonaccrual status will resume accruing interest based on the contractual terms of the loan when payments on the loan become current. Loans may also resume accruing interest if management no longer believes a loan is impaired or the collection of principal and interest is no longer in doubt.

Subsequent events

Subsequent events have been evaluated through February 11, 2014, which is the date the financial statements were available to be issued, and there are no subsequent events requiring disclosure.

SOUTHEAST COMMUNITY DEVELOPMENT FUND II, L.L.C.
NOTES TO FINANCIAL STATEMENTS
December 31, 2013 and 2012

3. Notes Receivable – Qualified Active Low-Income Community Business

At December 31, 2013 notes receivable – qualified active low-income community business consisted of the following:

<u>Borrower</u>	<u>Interest Rate</u>	<u>Maturity</u>	<u>Face Amount</u>	<u>Carrying Value</u>
DCR Engineering Services, Inc ("DCR")	8.220%	1/1/2018	\$ 2,000,000	\$ 1,300,000
DCR Engineering Services, Inc	1.000%	1/1/2018	6,500,000	6,500,000
		Total	<u>\$ 8,500,000</u>	<u>\$ 7,800,000</u>

At December 31, 2012, notes receivable – qualified active low-income community business consisted of the following:

<u>Borrower</u>	<u>Interest Rate</u>	<u>Maturity</u>	<u>Face Amount</u>	<u>Carrying Value</u>
DCR Engineering Services, Inc	8.220%	1/1/2018	\$ 2,000,000	\$ 1,300,000
DCR Engineering Services, Inc	1.000%	1/1/2018	6,500,000	6,500,000
		Total	<u>\$ 8,500,000</u>	<u>\$ 7,800,000</u>

The loans made by the Company to DCR are intended to qualify as QLICs under the Florida Statute (as defined below).

Allowance for loan losses

A summary analysis of the activity in the allowance for loan losses is as follows for the years ended December 31, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Beginning balance	\$ 700,000	\$ -
Provision for loan loss	-	700,000
Loan charged off	-	-
Recoveries	-	-
Ending balance	<u>\$ 700,000</u>	<u>\$ 700,000</u>

The unpaid principal balance represents the recorded balance prior to any partial charge-offs or allowance for loan loss. The recorded investment represents customer balance net of any partial charge-offs recognized on the loans.

SOUTHEAST COMMUNITY DEVELOPMENT FUND II, L.L.C.
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3. Notes Receivable – Qualified Active Low-Income Community Business (continued)

Allowance for loan losses (continued)

Impaired loans as of December 31, 2013 consisted of the following:

	Unpaid principal balance	Recorded investment	Average recorded investment	Allowance for loan loss	Interest income recognized	Cash basis - Interest income recognized
With no related allowance recorded:						
Notes receivable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
With allowance recorded:						
Notes receivable	<u>2,000,000</u>	<u>2,000,000</u>	<u>2,000,000</u>	<u>700,000</u>	<u>176,501</u>	<u>168,738</u>
	<u>\$ 2,000,000</u>	<u>\$ 2,000,000</u>	<u>\$ 2,000,000</u>	<u>\$ 700,000</u>	<u>\$ 176,501</u>	<u>\$ 168,738</u>

Impaired loans as of December 31, 2012 consisted of the following:

	Unpaid principal balance	Recorded investment	Average recorded investment	Allowance for loan loss	Interest income recognized	Cash basis - Interest income recognized
With no related allowance recorded:						
Notes receivable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
With allowance recorded:						
Notes receivable	<u>2,000,000</u>	<u>2,000,000</u>	<u>2,000,000</u>	<u>700,000</u>	<u>167,140</u>	<u>159,377</u>
	<u>\$ 2,000,000</u>	<u>\$ 2,000,000</u>	<u>\$ 2,000,000</u>	<u>\$ 700,000</u>	<u>\$ 167,140</u>	<u>\$ 159,377</u>

SOUTHEAST COMMUNITY DEVELOPMENT FUND II, L.L.C.
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4. Notes Receivable

On May 4, 2012 the Company lent Marquette Investments, LLC (“Marquette”), an affiliate of the Managing Member, \$208,500 under a promissory note dated as of such date. The Company lent Marquette an additional \$555,000 and \$700,000 under promissory notes dated as of May 22, 2012 and July 16, 2012, respectively. The notes are unsecured and accrue interest at rates defined in the promissory notes. Any amounts of accrued interest and any outstanding principal shall be repaid in full at the maturity dates of the notes, which is December 31, 2017 for all of the notes. As of both December 31, 2013 and 2012, the aggregate outstanding principal balance of the notes was \$1,463,500. Interest income earned on the notes for the years ended December 31, 2013 and 2012 was \$127,819 and \$70,978, respectively. As of December 31, 2013 and 2012, interest receivable on the notes was \$25,646 and \$16,459, respectively.

5. Related Party Transactions

Due from related party

During 2013 and 2012, Advantage Capital Payment Agent, L.L.C. (“ACPA”), an affiliate of the Managing Member, collected debt service payments on behalf of the Company. As of both December 31, 2013 and 2012, \$57,987, was owed to the Company.

Due to related party

During 2013 and 2012, Advantage Capital Management Corporation (“ACMC”), an affiliate of the Managing Member, advanced funds to the Company for operating expenses. These advances do not accrue interest. As of December 31, 2013 and 2012, \$1,094 and \$26,108, respectively, was owed to ACMC.

6. Notes Payable

On December 30, 2010, the Company entered into a Loan and Security Agreement (the “Loan Agreement”) with the Investor Member in the aggregate principal amount of \$10,000,000.

Under the terms of the Loan Agreement, the Investor Member made two loan advances in the amount of \$5,000,000 each, evidenced by two separate Term Notes (collectively, the “Loan”). The Loan accrues interest at a rate equal to 1.00% per annum. Interest only is payable in arrears on the last date of each calendar quarter of each year, commencing on December 31, 2011. The outstanding principal balance and any accrued interest are due and payable on January 1, 2018 (the “Maturity Date”). The Loan is not permitted to be partially prepaid or paid in full prior to December 31, 2017. The Loan is collateralized by substantially all of the assets of the Company.

SOUTHEAST COMMUNITY DEVELOPMENT FUND II, L.L.C.
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6. Notes Payable (continued)

Interest expense incurred on the Loan for the years ended December 31, 2013 and 2012 was \$101,389 and \$101,667, respectively. Accrued interest on the loan as of December 31, 2013 and 2012 was \$25,556 and \$47,445, respectively.

7. New Markets Tax Credits

Pursuant to the State of Florida New Markets Tax Credit statute (the "Florida Statute"), Advantage Capital Community Development Fund Mississippi II, L.L.C. (the "Original Florida Allocatee"), an affiliate of the Managing Member, applied for and received the authority to issue up to \$40,000,000 in Florida qualified equity investments or qualified debt securities ("Florida QEIs") in 2010. Under the Florida Statute, the purchaser of a Florida QEI will be allowed to claim Florida new markets tax credits ("Florida NMTCs") over seven periods spanning six years and one day for any long-term debt security issued by the Company that is designated as a Florida QEI within the meaning of the Florida Statute and has at least 85% of its cash purchase price used by the issuer to make qualified low-income community investments ("Florida QLICs"). On December 20, 2010, the Original Florida Allocatee received an amendment letter ("Amendment Letter") from the State of Florida reallocating \$30,000,000 of its allocation to certain affiliates of the Original Florida Allocatee. As a result of this Amendment Letter, the Company was allocated \$10,000,000 of Florida QEIs. The Company designated the advances under the Loan made by the Investor Member in the aggregate amount of \$10,000,000 as Florida QEIs.

In order to qualify for these Florida NMTCs, the Company must comply with the requirements of the Florida Statute and related guidelines. Failure to comply with the requirements could result in the recapture of the Florida NMTCs that have been previously claimed as well as the loss of any future Florida NMTC. Recapture of the Florida NMTCs may be caused by: [1] an amount of the federal Tax Credits available with respect to a Florida QEI is recaptured under Internal Revenue Code section 45D if any, or [2] the Company redeems or makes a principal repayment with respect to the Florida QEI prior to the seventh anniversary of the issuance of such Florida QEI.

Since the Florida NMTCs are subject to the Company's compliance with certain requirements, there can be no assurance that the aggregate amount of the Florida NMTCs will be realized and failure to meet all such requirements may result in generating a lesser amount of Florida NMTCs than the expected amount.

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7. New Markets Tax Credits (continued)

The Company's Managing Member has established an advisory board to provide insight and guidance for the Company's activities ("Advisory Board"). The Advisory Board also ensures that the Company maintains accountability to the residents of low-income communities in accordance with the Internal Revenue Code Section 45D(c)(1)(B). The Managing Member may also establish committees of the Advisory Board and the committees will establish procedures by which they will solicit feedback from the residents of the low-income communities that they represent as to the investment and training needs of those particular low-income communities and the success of the Company in addressing such needs. The Advisory Board and each committee shall organize such information for presentation to the Managing Member and use it to generate suggestions and guidance for use by the Company.