



*Report of Independent Auditors and  
Financial Statements*

**Working Solutions CDFI**

*Years Ended September 30, 2022 and 2021*



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## **Report of Independent Auditors**

Board of Directors  
Working Solutions CDFI

### **Report on the Audit of the Financial Statements**

#### ***Opinion***

We have audited the financial statements of Working Solutions CDFI, which comprise the statements of financial position as of September 30, 2022 and 2021, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Working Solutions CDFI as of September 30, 2022 and 2021, 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.

#### ***Basis for Opinion***

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Working Solutions CDFI and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### ***Responsibilities of Management for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Working Solution CDFI's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

## ***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Working Solution CDFI's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Working Solution CDFI's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.



San Francisco, California  
January 27, 2023

## **Financial Statements**

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**Working Solutions CDFI**  
**Statements of Financial Position**  
**As of September 30, 2022 and 2021**

	<u>2022</u>	<u>2021</u>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 4,640,653	\$ 6,526,301
Restricted cash and cash equivalents	1,523,556	2,560,042
Cash and cash equivalents restricted for loan loss reserve	73,964	159,735
Contributions receivable	514,399	599,967
Interest receivable	45,335	34,033
Loans receivable due within one year (net of loan loss reserve)	2,018,694	1,605,443
Prepaid expenses	45,537	20,257
Total current assets	<u>8,862,138</u>	<u>11,505,778</u>
Property and equipment, net	14,258	4,110
Loans receivable, net of amounts due within one year	7,037,289	4,915,490
Operating lease asset	356,779	441,939
Lease deposit	25,251	21,604
Total assets	<u>\$ 16,295,715</u>	<u>\$ 16,888,921</u>
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 127,677	\$ 278,651
Operating lease liability, current portion	120,696	85,290
Loans payable due within one year	213,400	2,087,616
Total current liabilities	<u>461,773</u>	<u>2,451,557</u>
Agency funds	448,000	8,000
Deferred revenue	40,500	-
Operating lease liability, net of current portion	286,333	377,795
San Francisco Revolving Loan Fund payable	458,657	458,657
Loans payable, net of amounts due within one year	7,313,351	5,058,027
Total liabilities	<u>9,008,614</u>	<u>8,354,036</u>
<b>Net assets</b>		
Without donor restrictions:		
Undesignated	4,448,777	3,327,953
Board designated	1,934,040	1,580,595
Total without donor restrictions	<u>6,382,817</u>	<u>4,908,548</u>
With donor restrictions	<u>904,284</u>	<u>3,626,337</u>
Total net assets	<u>7,287,101</u>	<u>8,534,885</u>
Total liabilities and net assets	<u>\$ 16,295,715</u>	<u>\$ 16,888,921</u>

**Working Solutions CDFI**  
**Statements of Activities and Changes in Net Assets**  
**For the Years Ended September 30, 2022 and 2021**

	2022			2021		
	Without donor restrictions	With donor restrictions	Totals	Without donor restrictions	With donor restrictions	Totals
Contributions and grants						
Contributions	\$ 498,395	\$ 230,000	\$ 728,395	\$ 988,857	\$ 4,358,765	\$ 5,347,622
Contributed goods and services	137,074	-	137,074	133,719	-	133,719
Government grants and contracts	732,970	-	732,970	-	-	-
Net assets released from restrictions	2,952,053	(2,952,053)	-	1,351,178	(1,351,178)	-
Total contributions and grants	<u>4,320,492</u>	<u>(2,722,053)</u>	<u>1,598,439</u>	<u>2,473,754</u>	<u>3,007,587</u>	<u>5,481,341</u>
Earned revenue						
Administration fees	395,719	-	395,719	1,084,871	-	1,084,871
Special events, net	-	-	-	1,000	-	1,000
Client fees	273,996	-	273,996	152,057	-	152,057
Interest income on loans	539,123	-	539,123	561,305	-	561,305
Interest income on bank deposits	613	-	613	11,601	-	11,601
Total earned revenue	<u>1,209,451</u>	<u>-</u>	<u>1,209,451</u>	<u>1,810,834</u>	<u>-</u>	<u>1,810,834</u>
Total contributions, grants, and earned revenue	5,529,943	(2,722,053)	2,807,890	4,284,588	3,007,587	7,292,175
Expenses						
Program services	3,353,606	-	3,353,606	2,446,289	-	2,446,289
Management and general	453,462	-	453,462	863,219	-	863,219
Fundraising	248,606	-	248,606	360,071	-	360,071
Total expenses	<u>4,055,674</u>	<u>-</u>	<u>4,055,674</u>	<u>3,669,579</u>	<u>-</u>	<u>3,669,579</u>
Nonoperating income						
Extinguishment of loan payable	-	-	-	229,120	-	229,120
Change in net assets	1,474,269	(2,722,053)	(1,247,784)	844,129	3,007,587	3,851,716
Net assets, beginning of year	<u>4,908,548</u>	<u>3,626,337</u>	<u>8,534,885</u>	<u>4,064,419</u>	<u>618,750</u>	<u>4,683,169</u>
Net assets, end of year	<u>\$ 6,382,817</u>	<u>\$ 904,284</u>	<u>\$ 7,287,101</u>	<u>\$ 4,908,548</u>	<u>\$ 3,626,337</u>	<u>\$ 8,534,885</u>

See accompanying notes.

**Working Solutions CDFI**  
**Statements of Functional Expenses**  
**Years Ended September 30, 2022 and 2021**

	2022				2021			
	Program Services	Management and General	Fundraising	Totals	Program Services	Management and General	Fundraising	Totals
Personnel costs								
Salaries	\$ 1,523,210	\$ 277,875	\$ 166,141	\$ 1,967,226	\$ 994,488	\$ 511,300	\$ 239,819	\$ 1,745,607
Payroll taxes	127,082	21,367	11,812	160,261	78,616	25,425	17,965	122,006
Employee benefits	227,597	40,595	22,486	290,678	169,487	105,127	54,395	329,009
Total personnel costs	1,877,889	339,837	200,439	2,418,165	1,242,591	641,852	312,179	2,196,622
Contributed goods and services	109,751	27,323	-	137,074	87,395	46,324	-	133,719
Consulting and other professional fees	328,644	17,201	23,262	369,107	260,272	85,595	10,114	355,981
Direct client costs								
Loan servicing and client expenses	325,413	-	-	325,413	190,083	4,064	-	194,147
Provision for loan losses	231,275	-	-	231,275	223,652	-	-	223,652
Total direct client costs	556,688	-	-	556,688	413,735	4,064	-	417,799
Other operating expenses								
Occupancy	104,892	15,455	8,551	128,898	89,715	27,520	11,676	128,911
Interest	147,291	-	-	147,291	153,642	151	-	153,793
Insurance	10,166	1,352	823	12,341	6,825	1,488	819	9,132
Office supplies and equipment maintenance	13,100	4,312	968	18,380	9,739	5,108	1,194	16,041
Travel and transportation	6,018	8,935	425	15,378	75	170	-	245
Technology expenses	153,193	22,844	10,304	186,341	151,091	44,352	16,967	212,410
Telephone	12,696	3,850	994	17,540	4,644	1,644	503	6,791
Marketing	18,580	361	1,091	20,032	3,905	413	4,595	8,913
Membership dues and licenses	10,232	1,290	729	12,251	11,468	2,188	289	13,945
Conferences and meetings	1,190	10,266	755	12,211	2,379	173	504	3,056
Depreciation and amortization	3,276	436	265	3,977	8,813	2,177	1,231	12,221
Total other operating expenses	480,634	69,101	24,905	574,640	442,296	85,384	37,778	565,458
Total expenses	\$ 3,353,606	\$ 453,462	\$ 248,606	\$ 4,055,674	\$ 2,446,289	\$ 863,219	\$ 360,071	\$ 3,669,579

See accompanying notes.



**Working Solutions CDFI**  
**Statements of Cash Flows**  
**Years Ended September 30, 2022 and 2021**

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities		
Changes in net assets	\$ (1,247,784)	\$ 3,851,716
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation and amortization	3,977	12,221
Change in discount of operating lease liability	27,251	(65,671)
Provision for loan losses	231,275	223,652
Loans receivable transferred	(408,000)	-
Extinguishment of loan payable	-	(229,120)
Changes in operating assets and liabilities:		
Contributions receivable	85,568	285,386
Interest receivable	(11,302)	58,267
Prepaid expenses	(25,280)	(10,975)
Operating lease asset	85,160	(441,939)
Lease deposit	(3,647)	-
Accounts payable and accrued liabilities	(150,974)	131,564
Agency funds	440,000	(175)
Deferred revenue	40,500	-
Deferred rent	-	(2,672)
Operating lease liability	(83,307)	528,756
Net cash (used in) provided by operating activities	<u>(1,016,563)</u>	<u>4,341,010</u>
Cash flows from investing activities		
Purchases of property and equipment	(14,125)	-
Issuance of loans receivable	(3,797,836)	(2,840,213)
Collections of loans receivable	1,439,511	2,879,784
Net cash (used in) provided by investing activities	<u>(2,372,450)</u>	<u>39,571</u>
Cash flows from financing activities		
Borrowings under loans payable	500,000	1,375,000
Principal payments of loans payable	(118,892)	(1,456,231)
Net cash provided by (used in) financing activities	<u>381,108</u>	<u>(81,231)</u>
Net changes in cash, cash equivalents, and restricted cash	(3,007,905)	4,299,350
Cash, cash equivalents, restricted cash, beginning of the year	<u>9,246,078</u>	<u>4,946,728</u>
Cash, cash equivalents, restricted cash, end of the year	<u>\$ 6,238,173</u>	<u>\$ 9,246,078</u>
Supplemental cash-flow disclosures		
Cash paid for interest	<u>\$ 147,291</u>	<u>\$ 153,793</u>
Non-cash loans receivable transferred	<u>\$ 408,000</u>	<u>\$ -</u>

**NOTE 1 – DESCRIPTION OF ORGANIZATION**

Working Solutions CDFI (Working Solutions or the Organization), formerly known as TMC Development Working Solutions, is a California nonprofit corporation and a certified Community Development Financial Institution (CDFI). Working Solutions is the *First to Believe* in start-up and early-stage businesses by providing affordable capital, customized business consulting, and community connections to diverse entrepreneurs – with a focus on low-income individuals, entrepreneurs of color, and women – to increase economic opportunity in northern California. Working Solutions supports microenterprise growth to strengthen the local economy, create jobs, and build strong communities. Working Solutions provides the following services:

- Business loans from \$5,000 to \$100,000.
- Small business grants.
- Free, one-on-one business consulting to help entrepreneurs navigate the challenges of owning a small business with a specific focus on financial management and risk mitigation.
- Referrals to free or low-cost industry experts for legal, accounting, marketing, and other types of specialized support.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of accounting** – The accompanying financial statements of Working Solutions have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States (U.S. GAAP). Under the accrual basis of accounting, contributions are recognized when promised, revenues are recognized when earned and expenses are recognized when incurred.

Working Solutions is required to report information regarding its financial position and activities according to the following classes of net assets:

***Without donor restrictions*** include resources for which there are no donor restrictions. Such amounts are available to support Working Solutions' operations and programs. A portion of these net assets may be designated by the Board of Directors for specific purposes. Board designated net assets were \$1,934,040 and \$1,580,595 as of September 30, 2022 and 2021, respectively, in accordance with Board required six month reserve policy.

***With donor restrictions*** is defined as that portion of net assets that consist of a restriction on the specific use or the occurrence of a certain future event. Donor-imposed restricted contributions whose restrictions are met in the same reporting period, are reported as with donor-imposed restricted revenue on the statements of activities and changes in net assets. Once the restriction is met, contributions are reported as net assets released from restriction on the statements of activities and changes in net assets.

**Use of estimates** – Working Solutions prepares its financial statements in accordance with U.S. GAAP. The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Although management bases these estimates on its knowledge of current events and actions it may undertake in the future, actual results could differ from those estimated.

## Working Solutions CDFI Notes to Financial Statements

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The most significant estimate relates to an allowance for loan losses. This estimate may be adjusted as more current information becomes available and any adjustment could be significant.

**Cash and cash equivalents** – Working Solutions considers all highly liquid instruments purchased with an original maturity of three months or less to be cash equivalents. Working Solutions places its cash and restricted cash only with high credit quality institutions.

As of September 30, 2022 and 2021, cash and cash equivalents consisted of funds held in checking, savings, and money market accounts. Working Solutions considers money market accounts to be cash and cash equivalents as there are no limitations on withdrawals associated with these accounts that would have a material effect on their liquidation value.

Working Solutions holds funds received from certain commercial banks in separate accounts as required by the grant and the loan agreements. Cash in these accounts is designated for lending and loan losses and is presented in the financial statements as restricted cash and cash equivalents in current assets.

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the statements of financial position that sum to the total of the same such amounts shown in the statements of cash flows.

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 4,640,653	\$ 6,526,301
Restricted cash and cash equivalents	1,523,556	2,560,042
Cash and cash equivalents restricted for loan loss reserve	<u>73,964</u>	<u>159,735</u>
 Total cash, cash equivalents, and restricted cash shown in the statement of cash flows	 <u>\$ 6,238,173</u>	 <u>\$ 9,246,078</u>

**Restricted cash and cash equivalents** – Cash and cash equivalents received with lender-imposed restrictions for funding the loan program are classified as restricted cash and cash equivalents for loan loss reserves or lending.

As of September 30, 2022 and 2021, Working Solutions' restricted cash was comprised of the following:

	<u>2022</u>	<u>2021</u>
Cash restricted for future loans	\$ 1,075,556	\$ 2,552,042
Cash held for others	<u>448,000</u>	<u>8,000</u>
 Total	 <u>\$ 1,523,556</u>	 <u>\$ 2,560,042</u>

## Working Solutions CDFI Notes to Financial Statements

From time to time, cash and cash equivalents received with imposed restrictions for loan loss reserves associated with the loan program are classified as restricted cash and cash equivalents. The following table shows the amount of restricted cash:

	2022	2021
Loan guaranty programs through the California Capital Access Program	\$ -	\$ 85,756
Small Business Administration	73,964	73,979
Total	\$ 73,964	\$ 159,735

Working Solutions and the State of California’s Capital Access Program (CalCap) (Note 5) jointly own a cash account held at a commercial bank. Each entity owns its contribution made to the program when enrolling eligible loans. Not included in the financial statements are CalCap’s cash reserves controlled by the State of California (Note 5).

**Cash held for others and agency funds** – From time to time, Working Solutions will hold cash received in an agency capacity. These assets represent cash received from financial institutions, government agencies, or not for profit organizations Working Solutions is acting as an agent for. The cash received is for the ultimate benefit of unrelated organizations who participate in programs which Working Solutions helps administer funds for. Cash is recorded on the statements of financial position; a corresponding liability for the same amount is also recorded as agency funds on the accompanying statements of financial position. As of September 30, 2022 and 2021, agency funds totaled \$448,000 and \$8,000, respectively.

**Contributions receivable** – Contributions receivable consist of the amounts due from donors or grantors on their promises to give. Contributions receivable are stated at the amounts Working Solutions expects to collect. Working Solutions records an allowance for estimated uncollectible contributions in an amount approximating anticipated losses. The provision for uncollectible amounts is computed based upon historical averages and management’s consideration of current economic factors that could affect collections. Individual uncollected promises to give are written off against the allowance when collection of the individual account appears doubtful. As of September 30, 2022 and 2021, Working Solutions determined that no allowance for doubtful accounts was required.

As of September 30, 2022 and 2021, contributions receivable are expected to be collected within one year.

**Interest receivable** – Interest receivable consisted of interest income earned on loans receivable outstanding as of September 30, 2022 and 2021.

**Loans receivable** – Working Solutions, in the normal course of its business, makes small business loans of up to \$100,000 to new and existing businesses that do not qualify for such loans through conventional channels. The loans can be unsecured, partially secured or fully secured.

Management has the ability to hold loans until maturity or payoff, or to sell loans prior to maturity or payoff. Unsold loans, or portions thereof, are reported at cost equal to the outstanding retained principal balance adjusted for any charge-offs, the allowance for loan losses, and any deferred fees or costs.

Management, with the oversight of the Board, follows specific policies and procedures that guide its practices for screening applicants, underwriting, and managing the loans. These policies are reviewed annually.

## Working Solutions CDFI Notes to Financial Statements

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**Allowance for loan losses** – Allowance for loan losses reflects management’s best estimate of losses inherent in the loan portfolio. The allowance is increased by provisions for loan losses charged against earnings and reduced by charge-offs, net of recoveries.

Management has established a process to determine the adequacy of the allowance for loan losses that assesses the risks and losses inherent in their portfolio, including adverse situations that may affect the borrower’s ability to repay, the estimated value of any underlying collateral, and historical loss experience. Management also considers economic uncertainties and other subjective factors, including industry trends.

Management has an experienced team that works with borrowers to help them through financial challenges that could affect their ability to make loan payments. If the financial position of certain borrowers improves over time, it may be possible to recover part of the allowance for loan losses and take the recovered amount back into income.

*Impaired loans* – Impairment is considered to exist when it is probable that not all amounts due will be collected under the terms of the loan receivable. Factors considered by Management in determining whether a loan is impaired include payment status, and ability of collecting scheduled principal and interest payments when due.

Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower’s prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

If management determines that the value of the impaired loan is less than the recorded investment in the loan, Working Solutions includes the impairment in the calculation of the overall allowance for loan losses.

Loans receivable are considered delinquent when an account has been outstanding for more than 30 days. Loans receivable are determined to be uncollectible when all repayment efforts have been exhausted and repayment appears unlikely. Based on Working Solutions historically incurred losses, loans are deemed uncollectible and charged off generally after 120 days.

*Troubled Debt Restructuring (“TDR”)* – Management strives to identify borrowers in financial difficulty early and works with them to amend their loan terms before it is charged off. A restructuring of a debt constitutes a TDR if the creditor for economic or legal reasons related to the debtor’s financial difficulties grants a concession to the debtor that it would not otherwise consider. Concessions could include a reduction of the original interest rate to a rate or forgiveness of principal, formally amended.

**Property and equipment** – Property and equipment are recorded at cost when purchased or at estimated fair value at the date of receipt, if donated. Working Solutions capitalizes property and equipment with an original cost or estimated fair value exceeding \$1,000. Property and equipment are depreciated by using the straight-line method over the assets’ estimated useful lives. No property was donated during the years ended September 30, 2022 and 2021.

**Leases** – Working Solutions recognizes assets and liabilities arising from leases with terms longer than 12 months on the statements of financial position. Leases are classified as either operating or finance, with classification affecting the pattern of expense recognition in the statements of activities and changes in net assets.

Working Solutions recognized operating lease assets of \$356,779 and \$441,939 as of September 30, 2022 and 2021, respectively. Working Solutions recognized operating lease liabilities of \$407,029 and \$463,085 as of September 30, 2022 and 2021, respectively.

**New accounting pronouncement** – In September 2020, the FASB issued Accounting Standards Update (“ASU”) 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets* (“ASU 2020-07”), which increases the transparency of contributed nonfinancial assets for not-for-profit organizations through enhancements to presentation and disclosure. The update addresses certain stakeholders’ concerns about the lack of transparency about the measurement of contributed nonfinancial assets recognized by not-for-profit organizations, as well as the amount of those contributions used in a not-for-profit organization’s programs and other activities. Working Solutions adopted ASU 2020-07 for the year ending September 30, 2022 using a retrospective transition for all periods presented in the financial statements. The adoption of this ASU did not have a material effect on Working Solutions’ financial statements.

**Contributions** – Contributions consist primarily of amounts received from financial institutions.

Working Solutions recognizes all contributions when they are received or unconditionally promised, regardless of compliance with restrictions. Contributions without donor-imposed restrictions are reported as net assets without donor restrictions. Contributions with donor-imposed restrictions are reported as net assets with donor restrictions.

When the time or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported as net assets released from restrictions.

Conditional contributions and promises to give are not recognized until they become unconditional; that is when the conditions on which they depend are met. As of September 30, 2022 and 2021, there were no conditional contributions.

Contributions to be received after one year are discounted at an appropriate rate commensurate with the anticipated cash flow and risks involved. Amortization of the discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. As of September 30, 2022 and 2021, Working Solutions did not have contributions to be received after one year.

**Contributed goods and services** – Donated services are reflected in the financial statements at the fair value of the services received only if the services received (a) create or enhance nonfinancial assets or (b) require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation.

During the years ended September 30, 2022 and 2021, Working Solutions received legal, accounting and consulting services of \$137,074 and \$133,719, respectively. Donated services have been reflected in the accompanying financial statements as contributed goods and services, with an equivalent amount included in program costs or supporting services as an in-kind expense. The fair value of contributed goods and services is determined by management based on the invoices received from those providing the goods and services.

**Government grants and contracts** – Government grants and contracts consists of grants from the federal government, financial institutions, and other not for profit organizations. Government grants and contracts are considered conditional until the conditions in which they depend upon have been met. Grants are utilized to support Working Solutions’ loan program. Grant funding received is recognized as unearned income until revenue is earned.

## Working Solutions CDFI Notes to Financial Statements

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During the year ended September 30, 2022, Working Solutions received a conditional sub-grant from the City of Berkeley, with funding originally received from the Economic Development Administration. Under the sub-grant, Working Solutions received \$408,000 of loans receivable, originated an addition \$162,000 loans and earned reimbursable expenses of \$162,970. Total revenue recognized for the year ended September 30, 2022 was \$732,970. Another \$40,500 of funding was received but not earned as of September 30, 2022 and is recorded as deferred revenue on the accompanying statement of financial position.

Working Solutions records certain revenue from contracts with customers in accordance with Accounting Standards Codification ("ASC") Topic 606, *"Revenue from Contracts with Customers"* ("*Topic 606*"). Under Topic 606, Working Solutions must identify the contract with a customer, identify the performance obligations in the contract, determine the transaction price, allocate the transaction price to the performance obligations in the contract, and recognize revenue when (or as) Working Solutions satisfies a performance obligation.

Working Solutions accounts for a contract with a customer through the issuance of a participation agreement and when it has a legally enforceable contract with a customer, the arrangement identifies the rights of the parties, the contract has commercial substance, and Working Solutions determines it probable that it will collect the contract consideration. Working Solutions recognizes revenue when control of the promised goods or services transfers to customers, in an amount that reflects the consideration Working Solutions expects to be entitled to in exchange for those goods or services.

Certain sources of revenue are derived from interest and dividends earned on loans that are not within the scope of Topic 606. All revenue from contracts with customers in the scope of Topic 606 is recognized in noninterest income. Sources of revenue from contracts with customers that are in the scope of Topic 606 include the following:

**Special events** – Special events revenue, net of direct donor benefit costs, is recognized when the event takes place. There are no contract assets or contract liabilities related to this revenue stream.

**Fee revenue** – Fee revenue consists of administration, consulting, and client fees related to government grants and contracts. Fee revenue is recognized as revenue once the services have been provided.

**Interest income** – Interest income consists of interest earned on loans and interest earned on certificates of deposits and money market accounts. Interest income is recognized in the period earned.

**Functional expenses** – The costs of Working Solutions' various activities have been summarized on a functional basis in the accompanying statements of functional expenses. Expenses are allocated to program and supporting services based upon employees' time for each function, purpose of each expenditure and service provided for each program.

**Income taxes** – Working Solutions is exempt from Federal and California income tax under Section 501(c)(3) of the Internal Revenue Code and Section 23701d of the State Revenue and Taxation Code. Working Solutions has been classified as a publicly supported organization as described in Section 509(a)(1) of the Internal Revenue Code. Accordingly, donors are entitled to the maximum charitable contribution allowed by law. The management of Working Solutions believes that no activities of Working Solutions jeopardized its exemption from income taxes, its classification as a "public charity" or subjected Working Solutions to taxes on unrelated business income.

U.S. GAAP requires Working Solutions management to evaluate tax positions taken by Working Solutions and recognize a tax liability (or asset), if Working Solutions has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service.

## Working Solutions CDFI Notes to Financial Statements

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Working Solutions' evaluation on September 30, 2022 and 2021, revealed no tax positions that would have a material impact on the financial statements. The tax returns of Working Solutions are subject to examination by federal and state taxing authorities. However, there are currently no examinations in progress or pending.

**Subsequent events** – Subsequent events are events or transactions that occur after the statement of financial position date but before the financial statements are available to be issued. Working Solutions recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the statement of financial position, including the estimates inherent in the process of preparing the financial statements. Working Solutions' financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the statement of financial position but arose after the statement of financial position date and before the financial statements are available to be issued.

In December 2022, Working Solutions sold \$2,000,033 in participations in its loan portfolio, at face value. The purpose of these sales is to raise additional lending capital, and Working Solutions retains servicing of the sold loans for a monthly fee.

Working Solutions has evaluated subsequent events through January 27, 2023, which is the date the financial statements were available to be issued.

### NOTE 3 – CONTRIBUTIONS RECEIVABLE

As of September 30, 2022 and 2021, contributions receivable consisted of the following:

	2022	2021
Sonoma County Economic Development Board	\$ 181,750	\$ -
Opportunity Finance Network	100,000	-
City of San Francisco	99,063	50,672
Wells Fargo Foundation	75,000	-
California Capital Access Program (CalCAP)	48,205	-
Other	10,081	10,000
Small Business Administration	300	89,295
The Sobrato Family Foundation	-	200,000
Bank of America Charitable Foundation	-	100,000
Lendistry	-	150,000
	\$ 514,399	\$ 599,967
Total		

### NOTE 4 – LOANS RECEIVABLE

Working Solutions, in the ordinary course of its business, makes small business loans of \$5,000 to \$100,000. The loans are for a three or five-year period, and can be unsecured, partially secured, or fully secured by business inventory and other assets and personal guarantees. Working Solutions filed UCC-1 statements for all collateral. Most loans are fully amortizing, and payments are due monthly. Interest rates are fixed, and they range from 0% to 11%.



## Working Solutions CDFI Notes to Financial Statements

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The following table discloses the outstanding loan receivable balance as of September 30, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Loans receivable, due within one year	\$ 2,480,923	\$ 1,912,712
Loans receivable, net of amounts due within one year	<u>7,037,289</u>	<u>4,915,490</u>
Total loans receivable	9,518,212	6,828,202
Allowance for loan loss	<u>(462,229)</u>	<u>(307,269)</u>
Total loans receivable, net	<u><u>\$ 9,055,983</u></u>	<u><u>\$ 6,520,933</u></u>

**Risk analysis** – All loans at origination are assessed for credit quality by various measures. Based on the credit quality of the borrower, a loan is given an initial risk rating within the following tiers – Excellent, Good, Acceptable, and Close Follow being the highest risk position. Performing loans that have not been modified are re-rated on their two-year anniversary, and every year thereafter. Loans that are delinquent more than 60 days, loans that have requested modification or undergone modification or restructure, or loans otherwise on the portfolio watch list are re-rated at the time of the triggering event. Existing loans may be risk rated within the initial risk rating tiers, as well as two additional tiers, Substandard and Doubtful. Depending on the tier of the risk rating of each loan, an allowance for loan loss between 1% and 100% is reserved for each loan, noted in the risk rating tiers, offset by any enrolled guarantees for each loan. As a portfolio-wide floor, the allowance for loan loss is no less than 4.5% at any given time.

As of September 30, 2022 and 2021, loans guaranteed by CA Southern FDC or enrolled in CalCap total \$6,026,914 and \$2,026,447, respectively.

The activity in the allowance for loan losses, for the years ended September 30, 2022 and 2021, is as follows:

Balance, September 30, 2020	\$ 356,914
Additions	223,652
Recoveries of previously charged off loans	(47,938)
Direct write-offs	<u>(225,359)</u>
Balance, September 30, 2021	307,269
Additions	231,275
Recoveries of previously charged off loans	103,857
Direct write-offs	<u>(180,172)</u>
Balance, September 30, 2022	<u><u>\$ 462,229</u></u>

**Working Solutions CDFI  
Notes to Financial Statements**

The following table shows the ending balance of current and past due loans as of September 30, 2022 and 2021:

	September 30, 2022		September 30, 2021	
	Number of loans	Amount	Number of loans	Amount
<u>Greater than</u>				
30 days	8	\$ 165,444	-	\$ -
60 days	3	69,801	2	27,312
> 90 days	2	11,055	-	-
	13	246,300	2	27,312
Total past due				
Current	433	9,271,912	384	6,800,890
Total outstanding loans	446	\$ 9,518,212	386	\$ 6,828,202

The following table presents loans amended as troubled debt restructurings as of September 30, 2022 and 2021:

	September 30, 2022		September 30, 2021	
	Number of loans	Amount	Number of loans	Amount
Microloans for small business	4	\$ 48,903	4	\$ 83,405

The modifications of loan terms during the years ended September 30, 2022 and 2021, included lowering principal and interest payments and payment deferrals.

There were no troubled debt restructurings for which there was a payment default within 12 months following the modification during the years ended September 30, 2022 and 2021.

**NOTE 5 – CALCAP LOAN LOSS RESERVE**

The Organization participates in the State’s CalCap program that has been funded in part with Small Business Credit Initiative (SSBCI). SSBCI is a federal program that provides funding to States to expand access to credit for small businesses. Through this program, the State of California provides cash reserves that protect Working Solutions against potential credit losses. When an enrolled loan is charged off Working Solutions can claim 100% of the loss to CalCap. This protection is limited to the amount of cash in those reserves. Historically, loans with a risk rating of Pass IV are enrolled in the program. As of September 30, 2022 and 2021, approximately 15% and 30%, respectively, of loans outstanding are enrolled in this program.

## Working Solutions CDFI Notes to Financial Statements

The following table discloses the loan loss reserve available from CalCap as of September 30, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Working Solutions contributions to CalCap reserve	\$ -	\$ 85,756
State contributions to CalCap reserve	<u>26,918</u>	<u>42,878</u>
Total CalCap reserve	<u>\$ 26,918</u>	<u>\$ 128,634</u>

The State contributions to CalCap reserve are for small business loans. This portion of the reserve is not included in Working Solutions' statements of financial position. Each entity owns its own contributions made to the program when enrolling eligible loans.

### NOTE 6 – LOANS PAYABLE

Loans payable, with the exception of the U.S. Small Business Administration (SBA) Micro Lending Program, represent full recourse unsecured obligations of Working Solutions to repay borrowed money. As of September 30, 2022 and 2021, Working Solutions had outstanding debt of \$7,526,751 and \$7,145,643, respectively.

Additionally, on April 30, 2020, Working Solutions was granted a loan under the Paycheck Protection Program offer through Self Help Credit Union under the Coronavirus Aid, Relief, and Economic Security Act ("CARES ACT"), for \$229,120, with a maturity date of April 30, 2022. This loan was subject to partial or full forgiveness if Working Solutions complies with CARES ACT rules, regulations, and guidance. On January 11, 2021, the principal amount of \$229,120 and the accrued interest of the loan were approved for forgiveness by the bank and the SBA had remitted the forgiven loan amount to the bank. The outstanding balance has been derecognized as long-term debt and recognized as a gain on debt extinguishment in the statements of activities and changes in net assets for the year ended September 30, 2021.

As of September 30, 2022 and 2021, loans payable consisted of the following:

	Maturities	Interest Rates	September 30, 2022			September 30, 2021		
			Current	Long-term	Total	Current	Long-term	Total
Financial institutions	2023-2029	1.00% - 3.00%	\$ 125,000	\$ 5,093,750	\$ 5,218,750	\$ 2,000,000	\$ 2,416,341	\$ 4,416,341
Public agencies	2023-2028	1.00% - 2.63%	88,400	344,601	433,001	87,616	891,686	979,302
Nonprofit and other institutions	2025-2029	0.00%-3.00%	-	1,875,000	1,875,000	-	1,750,000	1,750,000
Total loans payable			<u>\$ 213,400</u>	<u>\$ 7,313,351</u>	<u>\$ 7,526,751</u>	<u>\$ 2,087,616</u>	<u>\$ 5,058,027</u>	<u>\$ 7,145,643</u>

**Working Solutions CDFI**  
**Notes to Financial Statements**

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Scheduled principal payments under the loans payable for the years ending September 30, are as follows:

For the Fiscal Years Ending,

2023	\$ 213,400
2024	683,094
2025	1,590,215
2026	2,187,914
2027	1,307,147
Thereafter	<u>1,544,981</u>
	<u>\$ 7,526,751</u>

As of September 30, 2022 and 2021, Working Solutions had \$1,500,000 of available undrawn sources of funding with maturities ranging from 2023 to 2026.

## Working Solutions CDFI Notes to Financial Statements

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### (a) Subordinate Debt

As of September 30, 2022 and 2021, Working Solutions had subordinated debt totaling \$4,500,000 from six financial institutions. Most of these subordinate loans have extension options at maturity, provided that Working Solutions continues to satisfactorily perform all its obligations under the loan agreements. Management expects to extend these maturities, but no decision has been made yet.

	<u>Amount</u>	<u>Maturity</u>	<u>Extension</u>
Bank of the West	\$ 1,000,000	5/2/2029	N/A
Mechanics Bank	250,000	4/30/2023	2 year extension option
Opportunity Finance Network	500,000	9/30/2029	N/A
U.S. Bank National Association	500,000	9/20/2024	1 year extension option
Wells Fargo	250,000	12/21/2023	2 year extension option exercised
Wells Fargo	1,000,000	2/23/2026	2 year extension option
Western Alliance Bank	<u>1,000,000</u>	7/1/2027	*
Total	<u>\$ 4,500,000</u>		

\* Original maturity date was 7/1/2022, but was automatically extended to 7/1/2027. No automatic extension after 7/1/2027.

### (b) Secured Debt

Working Solutions has certain assets as collateral to secure recourse indebtedness under loans borrowed from the U.S. Small Business Administration (SBA). As of September 30, 2022 and 2021, this collateral included all loans made under the SBA microloan program totaling \$17,000 and \$53,000, and all funds in the four bank accounts totaling \$253,872 and \$168,723, respectively.

### (c) Lines of Credit

As of September 30, 2022 and 2021, Working Solutions had available bank lines of credit of \$1,500,000 with outstanding balances of \$0, and undrawn and available amount of \$1,500,000.

For the years ended September 30, 2022 and 2021, the undrawn balances were on two facilities, one of which is an unsecured, full recourse line of credit from Capital One, which bears an interest rate of 2.3%. The facility had an original maturity date of April 1, 2021 and was extended to July 1, 2024. As of September 30, 2022 and 2021, the facility had available and undrawn funds of \$750,000.

Working Solutions also had a fully undrawn, unsecured revolving line of credit from HSBC Bank in the amount of \$750,000. This line bears an interest rate of 2.5% and matures on March 31, 2026. No funds were borrowed under this agreement during the fiscal year ended September 30, 2022 and 2021.

### Covenants

In accordance with the terms of the loan agreements with several Working Solutions lenders, Working Solutions is required to meet certain financial covenants. Working Solutions was in compliance with its financial covenants as of September 30, 2022 and 2021.

**Working Solutions CDFI**  
**Notes to Financial Statements**

**NOTE 7 – BOARD DESIGNATED NET ASSETS**

Board designated appropriations at September 30, 2022 and 2021, are as follows:

	<u>2022</u>	<u>2021</u>
Operating reserve	\$ 1,934,040	\$ 1,580,595
Total	<u>\$ 1,934,040</u>	<u>\$ 1,580,595</u>

At September 30, 2022 and 2021, the operating reserve represents 6 months of operating expense excluding depreciation, loan loss reserve, and pro-bono services.

**NOTE 8 – WITH DONOR-IMPOSED RESTRICTIONS**

Net assets with donor restrictions and net assets released from restrictions (by grantor/donor) during the years ended September 30, 2022 and 2021, consist of the following:

Grantor/Donor Name	<u>2021</u>	<u>Additions</u>	<u>Releases</u>	<u>2022</u>
Wells Fargo Bank	\$ 1,153,275	\$ -	\$ (642,924)	\$ 510,351
Community Development Financial Institutions Fund	1,826,265	-	(1,662,332)	163,933
Opportunity Finance Network Google	-	100,000	-	100,000
U.S. Bank National Association	40,000	50,000	(40,000)	50,000
Comerica	-	50,000	-	50,000
Capital One Services, LLC	20,000	20,000	(20,000)	20,000
HSBC	17,857	10,000	(17,857)	10,000
The San Francisco Foundation	300,000	-	(300,000)	-
The Sobrato Family Foundation	200,000	-	(200,000)	-
Bank of the West	27,273	-	(27,273)	-
Walter & Elise Haas Foundation	41,667	-	(41,667)	-
Total	<u>\$ 3,626,337</u>	<u>\$ 230,000</u>	<u>\$ (2,952,053)</u>	<u>\$ 904,284</u>

## Working Solutions CDFI Notes to Financial Statements

Grantor/Donor Name	2020	Additions	Releases	2021
Community Development				
Financial Institutions Fund	\$ -	\$ 2,346,265	\$ (520,000)	\$ 1,826,265
Wells Fargo Bank	-	1,500,000	(346,725)	1,153,275
The San Francisco Foundation	-	300,000	-	300,000
The Sobrato Family Foundation	400,000	-	(200,000)	200,000
Walter & Elise Haas Foundation	17,500	50,000	(25,833)	41,667
U.S. Bank National Association	-	40,000	-	40,000
Bank of the West	25,000	100,000	(97,727)	27,273
Capital One Services, LLC	20,000	20,000	(20,000)	20,000
HSBC	83,333	-	(65,476)	17,857
JPMorgan Chase & Co.	6,250	-	(6,250)	-
Citi Foundation	29,167	-	(29,167)	-
Federal Home Loan Bank of SF	37,500	-	(37,500)	-
Manufacturers Bank	-	2,500	(2,500)	-
<b>Total</b>	<b>\$ 618,750</b>	<b>\$ 4,358,765</b>	<b>\$ (1,351,178)</b>	<b>\$ 3,626,337</b>

Net assets with donor restrictions and net assets released from restrictions during the years ended September 30, 2022 and 2021, by purpose and time, consist of the following:

Purpose	2021	Additions	Releases	2022
Lending/Operations	\$ 3,110,390	\$ 100,000	\$ (2,505,256)	\$ 705,134
Geographic Restriction	449,567	20,000	(380,417)	89,150
Time	66,380	110,000	(66,380)	110,000
<b>Total</b>	<b>\$ 3,626,337</b>	<b>\$ 230,000</b>	<b>\$ (2,952,053)</b>	<b>\$ 904,284</b>

  

Purpose	2020	Additions	Releases	2021
Lending/Operations	\$ 25,850	\$ 3,846,265	\$ (761,725)	\$ 3,110,390
Geographic Restriction	454,567	22,500	(27,500)	449,567
Time	138,333	490,000	(561,953)	66,380
<b>Total</b>	<b>\$ 618,750</b>	<b>\$ 4,358,765</b>	<b>\$ (1,351,178)</b>	<b>\$ 3,626,337</b>

All net assets with donor restrictions are expected to be released from restriction by September 30, 2023.

**Working Solutions CDFI**  
**Notes to Financial Statements**

**NOTE 9 – LIQUIDITY AND FUNDS AVAILABLE**

The following table reflects Working Solutions’ financial assets as of September 30, 2022 and 2021, reduced by amounts not available for general expenditures within one year. Financial assets are considered unavailable when illiquid or not convertible to cash within one year. Other considerations of nonliquid assets are donor restricted assets for specific expenditures, contractual reserve requirements, or governing board designations.

	2022	2021
Financial assets		
Cash and cash equivalents	\$ 4,640,653	\$ 6,526,301
Restricted cash and cash equivalents	1,523,556	2,560,042
Cash and cash equivalents restricted for loan loss reserve	73,964	159,735
Contributions receivable	514,399	599,967
Interest receivable	45,335	34,033
Loans receivable, net	9,055,983	6,520,933
Financial assets	15,853,890	16,401,011
Less those unavailable for general expenditures within one year, due to:		
Restricted cash and cash equivalents	1,523,556	2,560,042
Loans receivable, net of amounts due within one year	7,037,289	4,915,490
Cash and cash equivalents restricted for loan loss reserve	73,964	159,735
Board designated assets, operating reserve	1,934,040	1,580,595
Financial assets available to meet cash needs for general expenditures within one year	\$ 5,285,041	\$ 7,185,149

Working Solutions’ Board has a net assets-reserves policy (Note 7). As of September 30, 2022 and 2021, \$1,934,040 and \$1,580,595, respectively, in Board Designated assets support the Board’s requirement to hold liquid assets equivalent to six months of operating cash expenses less depreciation, loan loss reserve, and pro-bono services. At time of liquidity needs, through board approval, Board Designated assets can be used for general expenditures.

As of September 30, 2022 and 2021, Working Solutions had undrawn bank lines of credit totaling \$1,500,000, respectively, which could be used for general expenditure if needed.

**NOTE 10 – CONCENTRATIONS, RISKS, AND UNCERTAINTIES**

Working Solutions has cash on deposit with federally insured banks. Periodically, such deposits may be in excess of federally insured limits.



## **Working Solutions CDFI Notes to Financial Statements**

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Working Solutions makes small business loans in the normal course of business. A selection of the portfolio is guaranteed through one of the various programs within the California iBank Small Business Loan Guarantee Program (SBLGP). As of September 30, 2022, approximately 48% or \$4,619,634 in outstanding loans were enrolled in one of the programs within SBLGP with guarantees between 80% and 95%. Additionally, the Organization participates in CalCap, which matches loan loss reserve allocations for specified enrolled loans. Management performs ongoing credit evaluations and maintains adequate reserves for loss, taking into consideration these off-balance sheet guarantees.

During the year ended September 30, 2022, Working Solutions recognized \$932,970 of revenue from two donors, which represents approximately 58% of total contributions and grants. During the year ended September 30, 2021, Working Solutions recognized \$4,346,265 of revenue from three donors, which represents approximately 79% of total contributions and grants.

Contingencies contained within grants awarded to Working Solutions are subject to the donor's established criteria under which loans may be funded from the related grants. Should the loans funded not comply with the established criteria, Working Solutions could be held responsible for the repayments to the funding source for any disallowed loans. Management is not aware of any material noncompliance with its lending policies that would lead to disallowed loans and the related risk is considered by management to be minimal.

The World Health Organization declared the novel coronavirus outbreak a public health emergency. Working Solutions' operations are concentrated in California which has restricted gatherings and implemented shelter in place restrictions. Working Solutions implemented a responsive, phased strategy to meet the evolving needs of the organization and its small business clients in the face of combined health, economic, social, and environmental crises during year. This included pivoting to virtual operations for the entire staff team, offering payment deferrals and debt relief for loan fund clients, providing emergency relief grants to small businesses to offer liquidity and to cover immediate losses, and launching a recovery loan product. Working Solutions has not observed any material decline in portfolio quality that warrants additional provisioning for loan loss at this time. Working Solutions continues to monitor the situation closely, but given the ongoing uncertainty, management can't estimate the impact to the financial statements.

### **NOTE 11 – OPERATING LEASES**

In May 2021, Working Solutions renewed its lease, leasing office space in San Francisco under a noncancelable operating lease that will expire in May 2024, with an option to extend through May 2026. The lease terms were negotiated for a discounted \$5,000 rate, which returned to the standard rate of \$10,671 after 12 months.

Working Solutions records the present value of future minimum lease payments as an operating asset and liability on the statements of financial position. As of September 30, 2022, the present value discount rate was 8%. As of September 30, 2022, the operating lease asset and operating lease liability were \$356,779 and \$407,029, respectively.

**Working Solutions CDFI**  
**Notes to Financial Statements**

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Required minimum lease payments are as follows:

For the Year Ending September 30,

2023	\$	120,696
2024		122,205
2025		125,870
2026		74,694
		<hr/>
Total lease payments		443,465
Less: present value discount		<hr/> (36,436)
		<hr/>
Operating lease liability	\$	<u><u>407,029</u></u>

Lease Term and Discount Rate

Weighted average remaining lease term	3.5 years
Weighted average discount rate	8%

For the years ended September 30, 2022 and 2021, rent expense totaled \$128,898 and \$128,911, respectively.

**NOTE 12 – EMPLOYEE BENEFIT PLAN**

Working Solutions offers a 401(k) plan (Plan) for the benefit of its employees. The Plan covers all employees who have completed 3 months of service and have attained age 21. Contributions to the Plan may not exceed the IRS annual contribution limits. The Plan provides for discretionary matching contributions equal to a uniform percentage of the employee's contribution. The Plan also provides for a discretionary contribution. The employer contributions are vested at 20% after 2 years of employment, 40% after 3 years, 60% after 4 years, 80% after 5 years and 100% after 6 years of employment. Working Solutions incurred employer contributions expenses during the years ended September 30, 2022 and 2021, totaling \$44,348 and \$42,337, respectively.

