



*Report of Independent Auditors and
Financial Statements*

Working Solutions CDFI

Years Ended September 30, 2019 and 2018

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Report of Independent Auditors

Board of Directors
Working Solutions CDFI

Report on the Financial Statements

We have audited the accompanying financial statements of Working Solutions CDFI (Working Solutions), which comprise the statements of financial position as of September 30, 2019 and 2018, 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.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 Working Solutions CDFI as of September 30, 2019 and 2018, 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.

Mass Adams LLP

San Francisco, California
January 24, 2020

Financial Statements

Working Solutions CDFI
Statements of Financial Position
As of September 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Assets		
Current assets		
Cash and cash equivalents	\$ 2,191,528	\$ 1,364,512
Restricted cash and cash equivalents	2,525,168	2,561,001
Contributions receivable	149,284	93,939
Interest receivable	47,147	40,618
Loans receivable due within one year (net of loan loss reserve)	1,692,835	1,561,926
Prepaid expenses	<u>37,340</u>	<u>19,995</u>
Total current assets	6,643,302	5,641,991
Property and equipment, net	32,221	47,639
Loans receivable, net of amounts due within one year	5,360,135	4,989,368
Cash and cash equivalents restricted for loan loss reserve	534,233	371,604
Lease deposit	<u>21,604</u>	<u>18,628</u>
Total assets	<u><u>\$ 12,591,495</u></u>	<u><u>\$ 11,069,230</u></u>
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued expenses	\$ 143,013	\$ 103,121
Deferred revenue	-	292,542
Loans payable due within one year	<u>584,196</u>	<u>718,733</u>
Total current liabilities	727,209	1,114,396
Agency funds	8,000	43,616
Deferred rent	2,086	6,002
San Francisco Revolving Loan Fund payable	458,657	458,657
Loans payable, net of amounts due within one year	<u>6,822,971</u>	<u>4,945,793</u>
Total liabilities	8,018,923	6,568,464
Net assets		
Without donor restrictions		
Undesignated	2,849,819	3,352,915
Board designated	<u>1,241,102</u>	<u>779,827</u>
Total without donor restrictions	<u>4,090,921</u>	<u>4,132,742</u>
With donor restrictions	<u>481,651</u>	<u>368,024</u>
Total net assets	<u>4,572,572</u>	<u>4,500,766</u>
Total liabilities and net assets	<u><u>\$ 12,591,495</u></u>	<u><u>\$ 11,069,230</u></u>

Working Solutions CDFI
Statements of Activities and Changes in Net Assets
Years Ended September 30, 2019 and 2018

	2019			2018		
	Without donor restrictions	With donor restrictions	Totals	Without donor restrictions	With donor restrictions	Totals
Contributions and grants						
Contributions	\$ 492,053	\$ 1,072,500	\$ 1,564,553	\$ 775,956	\$ 235,400	\$ 1,011,356
Contributed goods and services	190,989	-	190,989	559,498	-	559,498
Government grants and contracts	84,664	-	84,664	38,724	-	38,724
Special events, net	1,744	-	1,744	20,074	-	20,074
Net assets released from restrictions	958,873	(958,873)	-	418,786	(418,786)	-
Total contributions and grants	1,728,323	113,627	1,841,950	1,813,038	(183,386)	1,629,652
Earned revenue						
Administration fees	289,724	-	289,724	438,012	-	438,012
Consulting services	3,900	-	3,900	11,528	-	11,528
Client fees	181,290	-	181,290	147,507	-	147,507
Interest income on loans	614,323	-	614,323	569,028	-	569,028
Interest income on bank deposits	12,824	-	12,824	2,087	-	2,087
Total earned revenue	1,102,061	-	1,102,061	1,168,162	-	1,168,162
Total contributions, grants, and earned revenue	2,830,384	113,627	2,944,011	2,981,200	(183,386)	2,797,814
Expenses						
Program services	1,924,207	-	1,924,207	1,933,187	-	1,933,187
Management and general	640,037	-	640,037	531,283	-	531,283
Fundraising	307,961	-	307,961	238,365	-	238,365
Total expenses	2,872,205	-	2,872,205	2,702,835	-	2,702,835
Change in net assets	(41,821)	113,627	71,806	278,365	(183,386)	94,979
Net assets, beginning of year	4,132,742	368,024	4,500,766	3,854,377	551,410	4,405,787
Net assets, end of year	\$ 4,090,921	\$ 481,651	\$ 4,572,572	\$ 4,132,742	\$ 368,024	\$ 4,500,766

See accompanying notes.

Working Solutions CDFI
Statements of Functional Expenses
Years Ended September 30, 2019 and 2018

	2019				2018			
	Program Services	Management and General	Fundraising	Totals	Program Services	Management and General	Fundraising	Totals
Personnel costs								
Salaries	\$ 787,883	\$ 322,004	\$ 165,952	\$ 1,275,839	\$ 748,945	\$ 280,194	\$ 120,089	\$ 1,149,228
Payroll taxes	61,904	24,153	12,096	98,153	62,494	22,877	10,503	95,874
Employee benefits	114,849	35,527	36,580	186,956	110,440	37,684	20,066	168,190
Total personnel costs	964,636	381,684	214,628	1,560,948	921,879	340,755	150,658	1,413,292
Contributed goods and services	147,279	38,334	5,376	190,989	470,350	68,668	20,480	559,498
Consulting and other professional fees	61,242	116,869	20,233	198,344	57,601	52,175	20,272	130,048
Direct client costs								
Loan servicing and client expenses	37,112	-	-	37,112	49,517	-	-	49,517
Provision for loan losses	422,370	-	-	422,370	176,800	-	-	176,800
Total direct client costs	459,482	-	-	459,482	226,317	-	-	226,317
Other operating expenses								
Occupancy	61,448	28,243	25,626	115,317	77,123	22,406	19,768	119,297
Interest	119,588	-	-	119,588	61,365	-	-	61,365
Insurance	3,339	5,342	1,404	10,085	11,659	3,811	894	16,364
Office supplies and equipment maintenance	25,484	15,750	8,637	49,871	17,113	14,875	4,016	36,004
Travel and transportation	8,188	9,667	3,441	21,296	8,290	1,791	1,451	11,532
Technology expenses	33,402	20,838	12,335	66,575	33,667	11,674	8,406	53,747
Telephone	9,051	4,998	1,775	15,824	9,634	3,374	1,357	14,365
Marketing	4,578	1,456	5,716	11,750	6,616	1,588	3,191	11,395
Membership dues and licenses	10,662	5,839	583	17,084	8,825	1,366	307	10,498
Conferences and meetings	3,277	5,625	3,482	12,384	3,362	3,420	2,812	9,594
Depreciation and amortization	12,551	5,392	4,725	22,668	19,386	5,380	4,753	29,519
Total other operating expenses	291,568	103,150	67,724	462,442	257,040	69,685	46,955	373,680
Total expenses	<u>\$ 1,924,207</u>	<u>\$ 640,037</u>	<u>\$ 307,961</u>	<u>\$ 2,872,205</u>	<u>\$ 1,933,187</u>	<u>\$ 531,283</u>	<u>\$ 238,365</u>	<u>\$ 2,702,835</u>

See accompanying notes.

Working Solutions CDFI
Statements of Cash Flows
Years Ended September 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities		
Change in net assets	\$ 71,806	\$ 94,979
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	22,668	29,519
Loss on disposal of asset	-	634
Provision for loan losses	422,370	176,800
Changes in operating assets and liabilities		
Contributions receivable	(55,345)	473,023
Interest receivable	(6,529)	(9,328)
Prepaid expenses	(17,345)	(10,490)
Lease deposits	(2,976)	1,500
Accounts payable and accrued liabilities	39,892	(126,175)
Agency funds	(35,616)	43,616
Deferred revenue	(292,542)	292,542
Deferred rent	(3,916)	(10,376)
	<u>142,467</u>	<u>956,244</u>
Net cash provided by operating activities	142,467	956,244
Cash flows from investing activities		
Purchases of property and equipment	(7,250)	-
Issuance of loans receivable	(3,723,710)	(3,166,900)
Collections of loans receivable	2,799,664	2,504,843
	<u>(931,296)</u>	<u>(662,057)</u>
Net cash used in investing activities	(931,296)	(662,057)
Cash flows from financing activities		
Borrowings under loans payable	2,230,000	1,868,000
Principal payments of loans payable	(487,359)	(169,170)
	<u>1,742,641</u>	<u>1,698,830</u>
Net cash provided by financing activities	1,742,641	1,698,830
Net increase in cash, cash equivalents, and restricted cash	953,812	1,993,017
Cash, cash equivalents, restricted cash, beginning of the year	<u>4,297,117</u>	<u>2,304,100</u>
Cash, cash equivalents, restricted cash, end of the year	<u>\$ 5,250,929</u>	<u>\$ 4,297,117</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 the San Francisco Bay Area. Working Solutions supports microenterprise growth to strengthen the local economy, create jobs, and build strong communities. Working Solutions provides the following services:

- Micro-loans from \$5,000 to \$50,000
- 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 real estate services
- Referrals to free or low-cost service providers (CPAs, lawyers, industry experts, etc.).

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.

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.

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

Working Solutions CDFI Notes to Financial Statements

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, 2019 and 2018, 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 micro-lending and is presented in the financial statements as restricted cash in current assets. Funds restricted for long-term purposes are classified as noncurrent in the financial statements.

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>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 2,191,528	\$ 1,364,512
Restricted cash and cash equivalents	2,517,168	2,517,385
Cash held for others	8,000	43,616
Cash and cash equivalents restricted for loan loss reserve	<u>534,233</u>	<u>371,604</u>
Total cash, cash equivalents, and restricted cash shown in the statement of cash flows	<u>\$ 5,250,929</u>	<u>\$ 4,297,117</u>

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

As of September 30, 2019 and 2018, Working Solutions has \$2,517,168 and \$2,517,385, respectively, in cash restricted for future loans. This is Working Solutions' revolving loan fund. The following table shows the amount of restricted cash per banking institution:

<u>Banking Institution</u>	<u>2019</u>	<u>2018</u>
Bank of San Francisco	\$ 190,249	\$ 242,329
Bridge Bank	64,068	145,526
Wells Fargo Bank	1,752,476	1,216,707
California Bank & Trust	387,629	578,113
First Bank	35,403	33,454
Presidio Bank	30,003	72,791
Bank of Commerce	<u>57,340</u>	<u>228,465</u>
Total	<u>\$ 2,517,168</u>	<u>\$ 2,517,385</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 micro-loan program are classified as restricted cash. The following table shows the amount of restricted cash:

	2019	2018
Loan guaranty programs through the California Capital Access Program	\$ 181,644	\$ 127,775
Small Business Administration	81,447	86,668
Other loan losses	271,142	157,161
Total	\$ 534,233	\$ 371,604

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 the unrelated not for profit organizations. Cash is recorded on the statement of financial position; a corresponding liability for the same amount is also recorded as agency funds on the accompanying statements of financial position.

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, 2019 and 2018, Working Solutions determined that no allowance for doubtful accounts was required.

As of September 30, 2019 and 2018, 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, 2019 and 2018.

Loans receivable – Working Solutions, in the normal course of its business, makes micro-loans of up to \$50,000 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.

Loans are not held for sale and management has the intent and ability to hold them for the foreseeable future or until maturity or payoff. Loans are reported at cost equal to the outstanding principal balance adjusted for any charge-offs, the allowance for loan losses, and any deferred fees or costs.

Management, with the oversight of the loan committee, 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

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, 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 work with them to modify their loan to more affordable 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 in the interest rate to a rate that is below market on the loan, payment extensions, forgiveness of principal, forbearance, and other actions designed to maximize collections.

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, 2019 and 2018.

Deferred revenue – Advanced payments from grants are classified as deferred revenue and recognized as revenue once earned.

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 substantially met. As of September 30, 2019 and 2018, 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, 2019 and 2018, 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, 2019 and 2018, Working Solutions received legal, accounting and consulting services of \$190,989 and \$559,498, respectively. Donated services have reduced year over year as the Organization has moved from volunteer services to paid services for speed of business to better support scale. Donated services have been reflected in the accompanying financial statements as contributions, with an equivalent amount included in program costs or supporting services as an in-kind expense.

Government grants and contracts – Government grants and contracts consists of grants from the federal government, financial institutions, and other not for profit organizations. Grants are utilized to support Working Solutions' micro-loan program. Grant funding received is recognized as unearned income until revenue is earned.

Special events – Special events revenue, net of direct donor benefit costs, is recognized when the fundraising event takes place.

Fee revenue – Fee revenue consists of administration, consulting, and client fees. Fee revenue is recognized as revenue once earned.

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.

Working Solutions CDFI Notes to Financial Statements

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 Internal Revenue Service.

Working Solutions’ evaluation on September 30, 2019 and 2018, 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.

Reclassifications – Certain prior year amounts have been reclassified to conform with the current year presentation. These reclassifications had no effect on net assets or changes in net assets.

NOTE 3 – CONTRIBUTIONS RECEIVABLE

As of September 30, 2019 and 2018, contributions receivable consisted of the following:

	2019	2018
California Capital Access Program (CalCAP)	\$ 67,849	\$ -
SBA	59,797	18,130
Other	10,756	2,500
TMC Financing	6,250	25,000
Sonoma County Economic Development Board	4,632	-
City and County of San Francisco	-	48,309
	<hr/>	<hr/>
Total	<u>\$ 149,284</u>	<u>\$ 93,939</u>

NOTE 4 – LOANS RECEIVABLE

Working Solutions, in the ordinary course of its business, makes micro-loans of \$5,000 to \$50,000. All loans are considered to be microloans to small businesses. 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. Loans are fully amortizing and payments are due monthly. Interest rates are fixed and they range from four to eleven percent.

Working Solutions CDFI Notes to Financial Statements

The following table discloses the outstanding loan receivable balance as of September 30, 2019 and 2018:

	2019	2018
Loans receivable, due within one year	\$ 1,986,709	\$ 1,834,896
Loans receivable, net of amounts due within one year	5,360,135	4,989,368
Total loans receivable	7,346,844	6,824,264
Allowance for loan loss	(293,874)	(272,970)
Total loans receivable, net	\$ 7,052,970	\$ 6,551,294

Risk analysis – On a routine basis, loans are assessed for credit quality by various measures. Based on the credit quality of the borrower, a loan is risked in tiers – Pass I, Pass II, Pass III, and Pass IV, with Pass IV being the highest risk position. Historically, loans that are considered Pass IV have been enrolled in CalCap and are fully reserved for. Beginning in 2019, all new loans are enrolled in CalCap, and are fully reserved for. Loans that are considered Pass I through III are considered to be pass or watch loans. These loans are generally considered to have sufficient sources of repayment in order to repay the loan in full in accordance with all terms and conditions. These borrowers may have some credit risk that requires monitoring, but full repayment is expected.

The activity in the allowance for loan losses, for the years ended September 30, 2019 and 2018, is as follows:

Balance, September 30, 2017	\$	252,752
Additions		176,800
Recoveries of previously charged off loans		16,846
Direct write-offs		(173,428)
Balance, September 30, 2018		272,970
Additions		422,370
Recoveries of previously charged off loans		43,820
Direct write-offs		(445,286)
Balance, September 30, 2019	\$	293,874

Loans are enrolled in the CalCap program, (Note 5).

Additionally, some loans are guaranteed by the Northern California Small Business Financial Development Corporation, a public benefit corporation chartered and regulated by the California Business, Transportation and Housing Agency ("Nor-Cal FDC").

As of September 30, 2019 and 2018, loans guaranteed by Nor-Cal FDC or enrolled in CalCap, total \$3,859,718 and \$2,074,255, respectively.

Working Solutions CDFI Notes to Financial Statements

The following table shows the ending balance of current and past due loan as of September 30, 2019 and 2018:

	September 30, 2019		September 30, 2018	
	Number of loans	Amount	Number of loans	Amount
Greater than				
30 days	6	\$ 102,414	9	\$ 175,148
60 days	-	-	1	34,960
> 90 days	4	40,627	9	164,919
Total past due	10	143,041	19	375,027
Current	385	7,203,803	308	6,449,237
Total outstanding loans	395	\$ 7,346,844	327	\$ 6,824,264

The following table presents loans modified as troubled debt restructurings as of September 30, 2019 and 2018:

	September 30, 2019		September 30, 2018	
	Number of loans	Amount	Number of loans	Amount
Microloans for small business	5	\$ 110,694	13	\$ 235,212

The modifications of loan terms during the years ended September 30, 2019 and 2018, included lowering principal and interest payments and payment deferrals.

There were no troubled debt restructurings for which there was a payment default within twelve months following the modification during the years ended September 30, 2019 and 2018.

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. Beginning in 2019, all new loans are enrolled in the program. As of September 30, 2019 and 2018, approximately 52% 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, 2019 and 2018:

	2019	2018
Working Solutions contributions to CalCap reserve	\$ 181,644	\$ 127,775
State contributions to CalCap reserve	143,879	79,415
Total CalCap reserve	\$ 325,523	\$ 207,190

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 as of September 30, 2019 and 2018, consist of the following:

Lending Institution	September 30, 2019			September 30, 2018		
	Current	Long-term	Total	Current	Long-term	Total
Wells Fargo Community Investment Holdings (EQ2 loan #3)	\$ -	\$ 1,000,000	\$ 1,000,000	\$ -	\$ 1,000,000	\$ 1,000,000
Western Alliance Bank	-	1,000,000	1,000,000	-	1,000,000	1,000,000
Bank of the West (EQ2)	-	1,000,000	1,000,000	-	-	-
First Republic Bank	-	750,000	750,000	250,000	-	250,000
US Bank	-	500,000	500,000	-	500,000	500,000
U.S. Small Business Administration (loan #3)	55,720	430,648	486,368	17,909	482,091	500,000
California Bank of Commerce (LOC #2)	99,287	328,601	427,888	17,203	162,797	180,000
Capital One	-	413,000	413,000	-	253,000	253,000
Parnassus Bank	300,000	-	300,000	300,000	-	300,000
Wells Fargo Community Investment Holdings (EQ2 loan #2)	-	250,000	250,000	-	250,000	250,000
Mechanics Bank	-	250,000	250,000	-	250,000	250,000
U.S. Small Business Administration (loan #2)	33,544	160,394	193,938	33,476	206,175	239,651
Redwood Credit Union Sustainable Fund	-	150,000	150,000	-	150,000	150,000
Opus Bank	-	100,000	100,000	-	100,000	100,000
Presidio Bank	-	100,000	100,000	-	100,000	100,000
Luther Burbank	-	100,000	100,000	-	100,000	100,000
Summit State Bank	-	100,000	100,000	-	100,000	100,000
Poppy Bank	-	100,000	100,000	-	100,000	100,000
California Bank of Commerce (LOC #1)	61,849	328	62,177	51,053	61,823	112,876
Exchange Bank	-	60,000	60,000	-	60,000	60,000
U.S. Small Business Administration (loan #1)	33,796	-	33,796	34,801	32,703	67,504
First Bank	-	30,000	30,000	-	30,000	30,000
City and County of San Francisco Southeast Sector EQ2	-	-	-	14,291	7,204	21,495
Total loans payable	\$ 584,196	\$ 6,822,971	\$ 7,407,167	\$ 718,733	\$ 4,945,793	\$ 5,664,526

The proceeds from the loans are used for financial assistance for micro-loans.

The Wells Fargo Community Investment Holdings (WFCIH) loan (EQ2 loan #3) dated February 12, 2016, bears a fixed interest rate of 2% per annum for the first ten years, payable quarterly. The principal and any outstanding interest is due on February 23, 2026 (maturity date). Unless Working Solutions delivers to WFCIH within thirty days prior to the maturity date a written request not to extend, the maturity date shall be automatically extended for two additional years, provided that Working Solutions continues to satisfactorily perform all its obligations under the loan agreement. Under the new extended maturity date, the loan will be subject to the following terms: (a) the outstanding principal balance of the loan shall bear interest at a fixed interest rate of 2% per annum; (b) Working Solutions shall continue to make interest payments quarterly; (c) Working Solutions shall make quarterly principal payments in eight equal installments of \$125,000, commencing three months after the extension; and (d) Working Solutions shall continue to comply with all of the other provisions of the loan.

Working Solutions CDFI Notes to Financial Statements

This debt is subordinated to all other creditors, except that this debt shall be on par with any other equity equivalent investments and program related investments structured as loans that are made on concessionary below-market terms. The total interest paid on this loan was \$20,000 for both the years ended September 30, 2019 and 2018.

The Wells Fargo Community Investment Holdings (WFCIH) loan (EQ2 loan #2) dated November 7, 2011, bears a fixed interest rate of 2% per annum for the first ten years, payable quarterly. The principal and any outstanding interest is due on December 21, 2021 (maturity date). Unless Working Solutions delivers to WFCIH within thirty days prior to the maturity date a written request not to extend, the maturity date shall be automatically extended for two additional years, provided that Working Solutions continues to satisfactorily perform all its obligations under the loan agreement. Under the new extended maturity date, the loan will be subject to the following terms: (a) the outstanding principal balance of the loan shall bear interest at a fixed interest rate of 2% per annum; (b) Working Solutions shall continue to make interest payments quarterly; (c) Working Solutions shall make quarterly principal payments in eight equal installments of \$31,250, commencing three months after the extension; and (d) Working Solutions shall continue to comply with all of the other provisions of the loan.

This debt is subordinated to all other creditors, except that this debt shall be on par with any other equity equivalent investments and program related investments structured as loans that are made on concessionary below-market terms. The total interest paid on this loan was \$5,000 and \$5,069, respectively, for the years ended September 30, 2019 and 2018.

The Western Alliance Bank (WAB) loan dated July 1, 2017, bears a fixed interest rate of 2.5% per annum for the first five years, payable quarterly. The principal and any outstanding interest is due on July 1, 2022 (maturity date), unless Working Solutions delivers to WAB within thirty days prior to the maturity date a written request not to extend, the maturity date shall be automatically extended for five additional years, provided that Working Solutions continues to satisfactorily perform all its obligations under the loan agreement.

This debt is subordinated to all other creditors, except that this debt shall be on par with any other equity equivalent investments and program related investments structured as loans that are made on concessionary below-market terms. The total interest paid on this loan was \$25,000 for both the years ended September 30, 2019 and 2018.

The Bank of the West loan dated February 21, 2019, bears a fixed interest rate of 2.5% per annum, payable annually. The principal and any outstanding interest is due on February 21, 2029 (maturity date). The total interest paid on this loan was \$10,417 and \$0, respectively for the years ended September 30, 2019 and 2018.

The First Republic Bank loan dated June 20, 2019, bears a fixed interest rate of 2% per annum, payable monthly. The principal and any outstanding interest is due on April 24, 2022 (maturity date). The total interest paid on this loan was \$4,000 and \$0, respectively, for the years ended September 30, 2019 and 2018.

The First Republic Bank loan dated April 24, 2017, bears a fixed interest rate of 2% per annum, payable monthly. The principal and outstanding interest matured on April 24, 2019 (maturity date). The total interest paid on this loan was \$3,014 and \$5,210, respectively, for the years ended September 30, 2019 and 2018.

The US Bank loan dated September 20, 2018, bears a fixed interest rate of 3% per annum, paid quarterly. The principal and any outstanding interest is due on September 20, 2021 (maturity date). The maturity date shall be automatically extended for an additional year, provided that Working Solutions continues to satisfactorily perform all its obligations under the loan agreement. Total interest paid on this loan was \$15,438 and \$0, respectively for the years ended September 30, 2019 and 2018.

The U.S. Small Business Administration (SBA) loan (# 1) dated September 21, 2010, bears a fixed interest rate of 1.625% per annum. Interest will be reduced as follows: (i) during the first through the twelfth month, interest will be brought down by 2 percentage points so that interest will accrue on the outstanding balance of the loan at a rate of 0.00% per annum, (ii) during the thirteenth through the twenty-fourth month, if the average size of the micro-loans is equal to \$10,000 or less, interest will continue to accrue at a rate of 0.00% per annum. If the average size of the micro-loans exceeds \$10,000, interest will be calculated at a base rate of 1.625% minus a buy down of 1.25% for an accrual rate of 0.375%. This rate will be retroactively applied to the first year through the 23rd month of the note; and (iii) recalculation of interest will take place on the 24th month and annually thereafter. The loan is payable as follows: (i) no payment of principal or interest will be required during the first twelve months. Interest accrued during the first year will be divided into 108 equal installments and added to the monthly payments beginning on the thirteenth month of the note; and (ii) monthly payments on the note, based on the 2% buy down, will be \$2,720 beginning on the thirteenth month of the note. The total interest paid on this loan was \$127 and \$343, respectively, for the years ended September 30, 2019 and 2018.

The U.S. Small Business Administration (SBA) loan (# 2) dated November 25, 2015, bears a fixed interest rate of 1.625% per annum. Interest will be reduced as follows: (i) during the first through the twelfth month, interest will be brought down by 2 percentage points so that interest will accrue on the outstanding balance of the loan at a rate of 0.00% per annum, (ii) during the thirteenth through the twenty-fourth month, if the average size of the micro-loans is equal to \$10,000 or less, interest will continue to accrue at a rate of 0.00% per annum. If the average size of the micro-loans exceeds \$10,000, interest will be calculated at a base rate of 1.625% minus a buy down of 1.25% for an accrual rate of 0.375%. This rate will be retroactively applied to the first year through the twenty third month of the note; and (iii) recalculation of interest will take place on the twenty fourth month and annually thereafter. The loan is payable as follows: (i) no payment of principal or interest will be required during the first twelve months. Interest accrued during the first year will be divided into 108 equal installments and added to the monthly payments beginning on the thirteenth month of the note; and (ii) monthly payments on the note, based on the 2% buy down, will be \$2,778 beginning on the thirteenth month of the note. The total interest paid on this loan was \$775 and \$1,053, respectively, for the years ended September 30, 2019 and 2018.

The U.S. Small Business Administration (SBA) loan (# 3) dated June 20, 2018, bears a fixed interest rate of 2.625% per annum. Interest will be reduced as follows: (i) during the first through the twelfth month, interest will be brought down by 2 percentage points so that interest will accrue on the outstanding balance of the loan at a rate of 0.625% per annum, (ii) during the thirteenth through the twenty-fourth month, if the average size of the micro-loans is equal to \$10,000 or less, interest will continue to accrue at a rate of 0.625% per annum. If the average size of the micro-loans exceeds \$10,000, interest will be calculated at a base rate of 2.625% minus a buy down of 1.25% for an accrual rate of 1.375%. This rate will be retroactively applied to the first year through the twenty third month of the note; and (iii) recalculation of interest will take place on the twenty fourth month and annually thereafter. The loan is payable as follows: (i) no payment of principal or interest will be required during the first twelve months. Interest accrued during the first year will be divided into 108 equal installments and added to the monthly payments beginning on the thirteenth month of the note; and (ii) monthly payments on the note, based on the 2% buy down, will be \$4,762 beginning on the thirteenth month of the note. Total interest paid on this loan was \$3,040 and \$0, respectively for the years ended September 30, 2019 and 2018.

The SBA loans are secured by all loans made under the SBA micro-loan program totaling \$537,332 and all funds in six bank accounts totaling \$469,076.

Working Solutions CDFI Notes to Financial Statements

The California Bank of Commerce (LOC #1) loan dated December 23, 2014, is unsecured and bears a fixed interest rate of 2% per annum. Repayment is as follows: 4 quarterly consecutive interest payments, beginning March 15, 2015, and 20 quarterly consecutive principal and interest payments of \$13,177, beginning March 15, 2016. Total interest paid on this loan was \$1,489 and \$2,949, respectively, for years ended September 30, 2019 and 2018. California Bank of Commerce has committed to donating the interest paid on this loan back to Working Solutions on an annual basis, beginning January 2016. For the years ended September 30, 2019 and 2018, Working Solutions received \$1,498 and \$2,949, respectively, from California Bank of Commerce.

The California Bank of Commerce (LOC #2) loan dated February 5, 2018, is unsecured and bears a fixed interest rate of 2% per annum. Repayment is as follows: 4 quarterly consecutive interest payments, beginning April 20, 2018, and 19 quarterly consecutive principal and interest payments of \$26,351, beginning April 20, 2019. Total interest paid on this loan was \$8,558 and \$625, respectively for the years ended September 30, 2019 and 2018.

The Capital One loan dated March 23, 2018, is unsecured and bears a fixed interest rate of 1.5% per annum and is subject to interest only payments. The principal and any outstanding interest is due April 1, 2021 (maturity date). Total interest paid on this loan was \$4,984 and \$653, respectively for the years ended September 30, 2019 and 2018.

Working Solutions has three notes payable to Parnassus dated May 25, 2017, in the amount of \$100,000 each. The loans are unsecured, bear a fixed interest rate of 1% per annum, and are subject to quarterly interest only payments. The principal amounts are due May 25, 2020, and extensions of the due date is allowed. Total interest paid on these loans was \$3,000 and \$2,992, respectively for the years ended September 30, 2019 and 2018.

The Mechanics Bank loan dated May 9, 2018, is unsecured and bears a fixed interest rate of 3% per annum and is subject to interest only payments. The principal and any outstanding interest is due April 30, 2023 (maturity date). The maturity date shall be automatically extended for an additional two years, provided that Working Solutions continues to satisfactorily perform all its obligations under the loan agreement. Total interest paid on this loan was \$7,500 and \$2,958, respectively for the years ended September 30, 2019 and 2018.

Working Solutions has three notes payable to Redwood Credit Union Sustainable Fund dated June 19, 2014, July 29, 2015 and June 17, 2016, in the amount of \$50,000 each. The loans are unsecured and bear a fixed interest rate of 1% per annum and are subject to interest only payments. The principal amounts are due June 19, 2024, July 29, 2025, and June 17, 2026, and extensions of the due dates are allowed. Total interest paid on these loans were \$1,500 and \$1,500, respectively, for the years ended September 30, 2019 and 2018.

Working Solutions has two notes payable to Opus Bank dated June 19, 2014 and April 25, 2015, in the amount of \$50,000 each. The loans are unsecured and bear a fixed interest rate of 1% per annum and are subject to interest only payments. The principal amounts are due June 19, 2024 and April 25, 2025, and extensions of the due dates are allowed. Total interest paid on these loans was \$1,000 for both the years ended September 30, 2019 and 2018.

Working Solutions has four notes payable to Presidio Bank dated June 19, 2014, July 29, 2015, June 17, 2016, and February 1, 2018, in the amount of \$25,000 each. The loans are unsecured and bear a fixed interest rate of 1% per annum and are subject to interest only payments. The principal amounts are due June 19, 2024, July 29, 2025, June 17, 2026, and February 1, 2028, and extensions of the due dates are allowed. Total interest paid on these loans was \$1,000 and \$783, respectively for the years ended September 30, 2019 and 2018.

Working Solutions CDFI Notes to Financial Statements

Working Solutions has two notes payable to Luther Burbank dated June 17, 2016 and February 1, 2018, in the amount of \$50,000 each. The loans are unsecured and bear a fixed interest rate of 1% per annum and are subject to interest only payments. The principal amounts are due June 17, 2026 and February 1, 2018. Total interest paid on these loans was \$1,000 and \$667, respectively, for the years ended September 30, 2019 and 2018.

Working Solutions has two notes payable to Summit State Bank dated June 17, 2016 and February 1, 2018, in the amount of \$50,000 each. The loans are unsecured and bear a fixed interest rate of 1% per annum and are subject to interest only payments. The principal amounts are due June 17, 2026 and February 1, 2028, and extensions of the due dates are allowed. Total interest paid on this loan was \$1,000 and \$668, respectively, for the years ended September 30, 2019 and 2018.

Working Solutions has four notes payable to Poppy Bank dated June 19, 2014, July 29, 2015, June 17, 2016, and February 1, 2018, in the amount of \$25,000 each. The loans are unsecured, bear a fixed interest rate of 1% per annum, and are subject to quarterly interest only payments. The principal amounts are due June 19, 2024, July 29, 2025, June 17, 2026, and February 1, 2028, and extensions of the due dates are allowed. Total interest paid on these loans was \$1,000 and \$834, respectively, for the years ended September 30, 2019 and 2018.

Working Solutions has two notes payable to Exchange Bank dated June 17, 2016 and February 1, 2018, in the amounts of \$25,000 and \$35,000, respectively. The loans are unsecured and bear a fixed interest rate of 1% per annum and are subject to interest only payments. The principal amounts are due June 17, 2026 and February 1, 2028, and extension of the due dates are allowed. Total interest paid on these loans was \$600 and \$367, respectively, for the years ended September 30, 2019 and 2018.

Working Solutions has two notes payable to First Bank dated June 19, 2014 and July 29, 2015, in the amount of \$15,000 each. The loans are unsecured and bear a fixed interest rate of 1% per annum and are subject to interest only payments. The principal amounts are due June 19, 2024 and July 29, 2025, and extensions of the due dates are allowed. Total interest paid on these loans was \$300 for both the years ended September 30, 2019 and 2018.

The City and County of San Francisco (CCSF) Southeast Sector EQ2 loan dated October 12, 2012, bears a fixed interest rate of 2% per annum with interest only payments due quarterly. Additionally, Working Solutions is required to provide the CCSF Office of Economic and Workforce Development (OEWD) with a quarterly statement, which shows the total small business loan payments (relating to the OEWD loan) received by Working Solutions for the preceding quarter and shall pay to the OEWD any small business loan principal portion of payments received by the borrower. The loan was paid off in full during the year ended September 30, 2019. The total interest paid on this loan was \$0 and \$843, respectively, for the years ended September 30, 2019 and 2018.

Working Solutions has an unsecured revolving bank line of credit in the amount of \$500,000 with a financial institution. The interest rate on the line is the bank's prime rate plus 1%. No funds were borrowed under this agreement during the fiscal year ended September 30, 2019 and 2018.

Working Solutions CDFI Notes to Financial Statements

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

For the Fiscal Years Ending,

2020	\$	584,196
2021		1,035,721
2022		2,123,559
2023		374,744
2024		290,641
Thereafter		<u>2,998,306</u>
	\$	<u><u>7,407,167</u></u>

NOTE 7 – BOARD DESIGNATED NET ASSETS

Board designated appropriations at September 30, 2019 and 2018, are as follows:

	<u>2019</u>	<u>2018</u>
Operating reserve	<u>\$ 1,241,102</u>	<u>\$ 779,827</u>
Total	<u><u>\$ 1,241,102</u></u>	<u><u>\$ 779,827</u></u>

At September 30, 2019 and 2018, respectively, the operating reserve represents 5.6 and 4.8 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, 2019 and 2018, consist of the following:

Grantor/Donor Name	<u>2018</u>	<u>Additions</u>	<u>Releases</u>	<u>2019</u>
JP Morgan Chase & Co.	\$ 183,024	\$ 195,000	\$ (358,873)	\$ 19,151
Capital One Services, LLC	10,000	-	(10,000)	-
The Sobrato Foundation	175,000	175,000	(175,000)	175,000
Wells Fargo Bank	-	450,000	(225,000)	225,000
Bank of the West	-	250,000	(187,500)	62,500
Manufacturers Bank	-	2,500	(2,500)	-
Total	<u><u>\$ 368,024</u></u>	<u><u>\$ 1,072,500</u></u>	<u><u>\$ (958,873)</u></u>	<u><u>\$ 481,651</u></u>

**Working Solutions CDFI
Notes to Financial Statements**

	<u>2017</u>	<u>Additions</u>	<u>Releases</u>	<u>2018</u>
Grantor/Donor Name				
JP Morgan Chase & Co.	\$ 500,000	\$ 25,400	\$ (342,376)	\$ 183,024
Bank of America	41,410	-	(41,410)	-
Capital One Services, LLC	10,000	10,000	(10,000)	10,000
Wells Fargo Bank	-	25,000	(25,000)	-
The Sobrato Foundation	-	175,000	-	175,000
Total	<u>\$ 551,410</u>	<u>\$ 235,400</u>	<u>\$ (418,786)</u>	<u>\$ 368,024</u>

Net assets with donor restrictions and net assets released from restrictions during the years ended September 30, 2019 and 2018, by purpose and time, consist of the following:

	<u>2018</u>	<u>Additions</u>	<u>Releases</u>	<u>2019</u>
Purpose				
Micro Lending	\$ 157,624	\$ 895,000	\$ (745,973)	\$ 306,651
Loan Loss Reserve	25,400	2,500	(2,500)	25,400
	183,024	897,500	(748,473)	332,051
Geographic Restriction	175,000	175,000	(200,400)	149,600
Time	10,000	-	(10,000)	-
Total	<u>\$ 368,024</u>	<u>\$ 1,072,500</u>	<u>\$ (958,873)</u>	<u>\$ 481,651</u>

	<u>2017</u>	<u>Additions</u>	<u>Releases</u>	<u>2018</u>
Purpose				
Micro Lending	\$ 450,000	\$ -	\$ (292,376)	\$ 157,624
Loan Loss Reserve	41,410	25,400	(41,410)	25,400
	491,410	25,400	(333,786)	183,024
Geographic Restriction	-	200,000	(25,000)	175,000
Time	60,000	10,000	(60,000)	10,000
Total	<u>\$ 551,410</u>	<u>\$ 235,400</u>	<u>\$ (418,786)</u>	<u>\$ 368,024</u>

All net assets with donor restrictions are expected to be released from restriction by September 30, 2020.

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, 2019 and 2018, 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 non-liquid assets are donor restricted assets for specific expenditures, contractual reserve requirements, or governing board designations.

	<u>2019</u>	<u>2018</u>
Financial assets		
Cash and cash equivalents	\$ 2,191,528	\$ 1,364,512
Restricted cash and cash equivalents	2,525,168	2,561,001
Cash and cash equivalents restricted for loan loss reserve	534,233	371,604
Contributions receivable	149,284	93,939
Interest receivable	47,147	40,618
Loans receivable, net	<u>7,052,970</u>	<u>6,551,294</u>
Financial assets	<u>\$ 12,500,330</u>	<u>\$ 10,982,968</u>

Less those unavailable for general expenditures within one year, due to:

Restricted cash and cash equivalents	2,517,168	2,517,385
Loans receivable, net of amounts due within one year	5,360,135	4,989,368
Cash held for others	8,000	43,616
Cash and cash equivalents restricted for loan loss reserve	534,233	371,604
Donor restricted net assets	481,651	368,024
Board designated assets, operating reserve	<u>1,241,102</u>	<u>779,827</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 2,358,041</u>	<u>\$ 1,913,144</u>

The Organization's Board has a net assets-reserves policy, (Note 7). As of September 30, 2019 and 2018, \$1,241,102 and \$779,827, respectively, in Board Designated assets support the Board's requirement to hold liquid assets equivalent to four 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 March 23, 2018, Working Solutions has an unsecured revolving bank line of credit in the amount of \$500,000. The interest rate on the line is the bank's prime rate plus 1%. No Funds were borrowed under this agreement during the fiscal years ended September 30, 2019 and 2018.

NOTE 10 – SPECIAL EVENTS

Special events net revenue for the years ended September 30, consist of the following:

	2019	2018
Annual breakfast		
Support and revenue	\$ 77,220	\$ 81,620
Direct donor benefit costs	(75,476)	(61,546)
Net annual breakfast revenue	\$ 1,744	\$ 20,074

NOTE 11 – TRANSACTIONS WITH AFFILIATES

The Mortgage Capital Development Corporation ("TMC") is an affiliated organization that assists small businesses and individuals to acquire Small Business Administration (SBA) 504 loans and then to monitor those loans on behalf of the SBA.

In the past the two organizations have had common board members. As of September 30, 2018, all board members in common resigned. TMC does not have a controlling financial interest or an economic interest in Working Solutions, or vice versa.

NOTE 12 – VALUATION OF FINANCIAL INSTRUMENTS

For certain Working Solutions' financial instruments, including cash and cash equivalents, contributions receivable, accounts payable and other current liabilities, the carrying amounts approximate their fair value due to the relatively short maturity of these items. Loans receivable are valued at net realizable value, and long-term debt is valued at present value of future interest and principal cash flows. As of September 30, 2019 and 2018, Working Solutions had no assets or liabilities recorded at fair value on a recurring or nonrecurring basis.

NOTE 13 – 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 makes micro-loans in the normal course of business. A selection of the portfolio is guaranteed by the Northern California Small Business Financial Development Corporation (Nor-Cal FDC). Additionally, the Organization participates in the California Capital Access Program (CalCap), which matches loan loss reserve allocations for specified enrolled loans. Management performs ongoing credit evaluations and maintains adequate reserves for loss.

During the year ended September 30, 2019, Working Solutions recognized \$450,000 of revenue from one donor, which represents approximately 15% of total contributions, grants, and earned revenue. During the year ended September 30, 2018, Working Solutions recognized \$453,000 of revenue from one donor, which represents approximately 16% of total contributions, grants, and earned revenue.

Working Solutions CDFI Notes to Financial Statements

As of September 30, 2019, Working Solutions had outstanding payable balances from three commercial banks of \$3,000,000, which represented 41% of total loans payable. As of September 30, 2018, Working Solutions had outstanding payable balances from two commercial banks of \$2,250,000, which represented 40% of total loans payable.

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 questioned lending.

NOTE 14 – OPERATING LEASES

Beginning May 15, 2016, Working Solutions began leasing office space in San Francisco under a noncancelable operating lease that expired May 15, 2019, with a two-year renewal option which Working Solutions exercised. The lease calls for monthly rent of approximately \$10,000 with annual increases.

For leases that contain rent escalations, Working Solutions records the total rent payable on a straight-line basis over the term of the lease. The difference between rent payments and straight-line rent expense is recorded as deferred rent.

Required minimum lease payments are as follows:

For the Year Ending September 30,

2020	\$	118,645
2021		<u>80,464</u>
	\$	<u><u>199,109</u></u>

For the years ended September 30, 2019 and 2018, rent expense totaled \$115,317 and \$104,232, respectively.

NOTE 15 – 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, 2019 and 2018, totaling \$17,230 and \$12,926, respectively.

NOTE 16 – 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 Solution's 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.

Working Solutions has evaluated subsequent events through January 24, 2020, the date, which is the date the financial statements were available to be issued.

