



*Report of Independent Auditors and
Financial Statements*

Working Solutions CDFI

Years Ended September 30, 2020 and 2019



Table of Contents

REPORT OF INDEPENDENT AUDITORS1

FINANCIAL STATEMENTS

Statements of Financial Position.....4

Statements of Activities and Changes in Net Assets.....5

Statements of Functional Expenses6

Statements of Cash Flows7

Notes to Financial Statements8

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, 2020 and 2019, 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, 2020 and 2019, 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 28, 2021

Financial Statements

Working Solutions CDFI
Statements of Financial Position
As of September 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Assets		
Current assets		
Cash and cash equivalents	\$ 2,407,464	\$ 2,191,528
Restricted cash and cash equivalents	1,981,585	2,525,168
Contributions receivable	885,353	149,284
Interest receivable	92,300	47,147
Loans receivable due within one year (net of loan loss reserve)	1,398,939	1,692,835
Prepaid expenses	<u>9,282</u>	<u>37,340</u>
Total current assets	6,774,923	6,643,302
Property and equipment, net	16,331	32,221
Loans receivable, net of amounts due within one year	5,385,217	5,360,135
Cash and cash equivalents restricted for loan loss reserve	557,679	534,233
Lease deposit	<u>21,604</u>	<u>21,604</u>
Total assets	<u>\$ 12,755,754</u>	<u>\$ 12,591,495</u>
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued expenses	\$ 147,087	\$ 143,013
Loans payable due within one year	<u>1,056,592</u>	<u>584,196</u>
Total current liabilities	1,203,679	727,209
Agency funds	8,175	8,000
Deferred rent	2,672	2,086
San Francisco Revolving Loan Fund payable	458,657	458,657
Loans payable, net of amounts due within one year	<u>6,399,402</u>	<u>6,822,971</u>
Total liabilities	8,072,585	8,018,923
Net assets		
Without donor restrictions		
Undesignated	2,615,902	2,849,819
Board designated	<u>1,448,517</u>	<u>1,241,102</u>
Total without donor restrictions	<u>4,064,419</u>	<u>4,090,921</u>
With donor restrictions	<u>618,750</u>	<u>481,651</u>
Total net assets	<u>4,683,169</u>	<u>4,572,572</u>
Total liabilities and net assets	<u>\$ 12,755,754</u>	<u>\$ 12,591,495</u>

Working Solutions CDFI
Statements of Activities and Changes in Net Assets
Years Ended September 30, 2020 and 2019

	2020			2019		
	Without donor restrictions	With donor restrictions	Totals	Without donor restrictions	With donor restrictions	Totals
Contributions and grants						
Contributions	\$ 1,179,712	\$ 883,000	\$ 2,062,712	\$ 492,053	\$ 1,072,500	\$ 1,564,553
Contributed goods and services	218,953	-	218,953	190,989	-	190,989
Government grants and contracts	82,932	-	82,932	84,664	-	84,664
Special events, net	-	-	-	1,744	-	1,744
Net assets released from restrictions	745,901	(745,901)	-	958,873	(958,873)	-
Total contributions and grants	<u>2,227,498</u>	<u>137,099</u>	<u>2,364,597</u>	<u>1,728,323</u>	<u>113,627</u>	<u>1,841,950</u>
Earned revenue						
Administration fees	554,777	-	554,777	289,724	-	289,724
Consulting services	-	-	-	3,900	-	3,900
Client fees	128,110	-	128,110	181,290	-	181,290
Interest income on loans	646,991	-	646,991	614,323	-	614,323
Interest income on bank deposits	18,573	-	18,573	12,824	-	12,824
Total earned revenue	<u>1,348,451</u>	<u>-</u>	<u>1,348,451</u>	<u>1,102,061</u>	<u>-</u>	<u>1,102,061</u>
Total contributions, grants, and earned revenue	3,575,949	137,099	3,713,048	2,830,384	113,627	2,944,011
Expenses						
Program services	2,387,253	-	2,387,253	1,924,207	-	1,924,207
Management and general	772,789	-	772,789	640,037	-	640,037
Fundraising	442,409	-	442,409	307,961	-	307,961
Total expenses	<u>3,602,451</u>	<u>-</u>	<u>3,602,451</u>	<u>2,872,205</u>	<u>-</u>	<u>2,872,205</u>
Change in net assets	(26,502)	137,099	110,597	(41,821)	113,627	71,806
Net assets, beginning of year	<u>4,090,921</u>	<u>481,651</u>	<u>4,572,572</u>	<u>4,132,742</u>	<u>368,024</u>	<u>4,500,766</u>
Net assets, end of year	<u>\$ 4,064,419</u>	<u>\$ 618,750</u>	<u>\$ 4,683,169</u>	<u>\$ 4,090,921</u>	<u>\$ 481,651</u>	<u>\$ 4,572,572</u>

See accompanying notes.

Working Solutions CDFI
Statements of Functional Expenses
Years Ended September 30, 2020 and 2019

	2020				2019			
	Program Services	Management and General	Fundraising	Totals	Program Services	Management and General	Fundraising	Totals
Personnel costs								
Salaries	\$ 1,032,443	\$ 323,666	\$ 255,688	\$ 1,611,797	\$ 787,883	\$ 322,004	\$ 165,952	\$ 1,275,839
Payroll taxes	80,808	1,044	20,821	102,673	61,904	24,153	12,096	98,153
Employee benefits	126,132	65,996	49,753	241,881	114,849	35,527	36,580	186,956
Total personnel costs	1,239,383	390,706	326,262	1,956,351	964,636	381,684	214,628	1,560,948
Contributed goods and services	210,108	8,845	-	218,953	147,279	38,334	5,376	190,989
Consulting and other professional fees	57,793	231,581	37,892	327,266	61,242	116,869	20,233	198,344
Direct client costs								
Loan servicing and client expenses	27,010	40	-	27,050	37,112	-	-	37,112
Provision for loan losses	470,704	-	-	470,704	422,370	-	-	422,370
Total direct client costs	497,714	40	-	497,754	459,482	-	-	459,482
Other operating expenses								
Occupancy	67,083	34,022	27,758	128,863	61,448	28,243	25,626	115,317
Interest	162,313	12,449	-	174,762	119,588	-	-	119,588
Insurance	3,671	8,176	1,519	13,366	3,339	5,342	1,404	10,085
Office supplies and equipment maintenance	16,982	12,068	4,063	33,113	25,484	15,750	8,637	49,871
Travel and transportation	4,781	735	244	5,760	8,188	9,667	3,441	21,296
Technology expenses	91,402	60,098	33,848	185,348	33,402	20,838	12,335	66,575
Telephone	5,653	2,255	1,423	9,331	9,051	4,998	1,775	15,824
Marketing	8,333	752	2,861	11,946	4,578	1,456	5,716	11,750
Membership dues and licenses	8,010	4,394	949	13,353	10,662	5,839	583	17,084
Conferences and meetings	5,493	2,843	2,059	10,395	3,277	5,625	3,482	12,384
Depreciation and amortization	8,534	3,825	3,531	15,890	12,551	5,392	4,725	22,668
Total other operating expenses	382,255	141,617	78,255	602,127	291,568	103,150	67,724	462,442
Total expenses	<u>\$ 2,387,253</u>	<u>\$ 772,789</u>	<u>\$ 442,409</u>	<u>\$ 3,602,451</u>	<u>\$ 1,924,207</u>	<u>\$ 640,037</u>	<u>\$ 307,961</u>	<u>\$ 2,872,205</u>

See accompanying notes.

Working Solutions CDFI
Statements of Cash Flows
Years Ended September 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities		
Change in net assets	\$ 110,597	\$ 71,806
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities		
Depreciation and amortization	15,890	22,668
Provision for loan losses	470,704	422,370
Changes in operating assets and liabilities		
Contributions receivable	(736,069)	(55,345)
Interest receivable	(45,153)	(6,529)
Prepaid expenses	28,058	(17,345)
Lease deposits	-	(2,976)
Accounts payable and accrued liabilities	4,074	39,892
Agency funds	175	(35,616)
Deferred revenue	-	(292,542)
Deferred rent	586	(3,916)
Net cash (used in) provided by operating activities	<u>(151,138)</u>	<u>142,467</u>
Cash flows from investing activities		
Purchases of property and equipment	-	(7,250)
Issuance of loans receivable	(2,799,335)	(3,723,710)
Collections of loans receivable	2,597,445	2,799,664
Net cash used in investing activities	<u>(201,890)</u>	<u>(931,296)</u>
Cash flows from financing activities		
Borrowings under loans payable	729,120	2,230,000
Principal payments of loans payable	(680,293)	(487,359)
Net cash provided by financing activities	<u>48,827</u>	<u>1,742,641</u>
Net change in cash, cash equivalents, and restricted cash	(304,201)	953,812
Cash, cash equivalents, restricted cash, beginning of the year	<u>5,250,929</u>	<u>4,297,117</u>
Cash, cash equivalents, restricted cash, end of the year	<u>\$ 4,946,728</u>	<u>\$ 5,250,929</u>
Supplemental cash flow disclosures		
Cash paid for interest	<u>\$ 174,762</u>	<u>\$ 119,588</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:

- Microloans 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 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 \$1,448,517 and \$1,241,102 as of September 30, 2020 and 2019, respectively, in accordance with Board required 6 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

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.

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, 2020 and 2019, 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 microlending and is presented in the financial statements as restricted cash in current assets. Funds restricted for long-term purposes are designated for the loan loss reserve and 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>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 2,407,464	\$ 2,191,528
Restricted cash and cash equivalents	1,973,410	2,517,168
Cash held for others	8,175	8,000
Cash and cash equivalents restricted for loan loss reserve	<u>557,679</u>	<u>534,233</u>
 Total cash, cash equivalents, and restricted cash shown in the statement of cash flows	 <u><u>\$ 4,946,728</u></u>	 <u><u>\$ 5,250,929</u></u>

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

Working Solutions CDFI Notes to Financial Statements

As of September 30, 2020 and 2019, Working Solutions has \$1,973,410 and \$2,517,168, 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:

Banking Institution	2020	2019
Bank of San Francisco	\$ 229,160	\$ 190,249
Bridge Bank	250,271	64,068
Wells Fargo Bank	620,272	1,752,476
California Bank & Trust	641,292	387,629
First Bank	30,813	35,403
Heritage Bank	20,774	30,003
California Bank of Commerce	180,828	57,340
Total	<u>\$ 1,973,410</u>	<u>\$ 2,517,168</u>

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

	2020	2019
Loan guaranty programs through the California Capital Access Program	\$ 207,838	\$ 181,644
Small Business Administration	81,489	81,447
Other loan losses	268,352	271,142
Total	<u>\$ 557,679</u>	<u>\$ 534,233</u>

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 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, 2020 and 2019, Working Solutions determined that no allowance for doubtful accounts was required.

As of September 30, 2020 and 2019, contributions receivable are expected to be collected within one year.

Working Solutions CDFI Notes to Financial Statements

Interest receivable – Interest receivable consisted of interest income earned on loans receivable outstanding as of September 30, 2020 and 2019.

Loans receivable – Working Solutions, in the normal course of its business, makes microloans 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 Board, follows specific policies and procedures that guide its practices for screening applicants, underwriting, and managing the loans. These policies are reviewed annually.

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, 2020 and 2019.

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, 2020 and 2019, 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, 2020 and 2019, 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, 2020 and 2019, Working Solutions received legal, accounting and consulting services of \$218,953 and \$190,989, 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.

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' microloan 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.

Working Solutions CDFI Notes to Financial Statements

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.

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, 2020 and 2019, 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.

Working Solutions has evaluated subsequent events through January 28, 2021, which is the date the financial statements were available to be issued.

New accounting pronouncement – During fiscal year ended September 30, 2020, the Working Solutions adopted Accounting Standards Update ASU No. 2018-08, *Not-for-Profit Entities (Topic 958) – Clarifying the Scope and the Accounting Guidance for Contributions Received and Made*. The adoption did not have a significant impact on the financial statements.

Reclassifications – Certain 2019 amounts previously reported have been reclassified to be consistent with the 2020 presentation. The reclassifications had no effect on the previously reported change in net assets or net assets.

NOTE 3 – CONTRIBUTIONS RECEIVABLE

As of September 30, 2020 and 2019, contributions receivable consisted of the following:

	2020	2019
The Sobrato Foundation	\$ 400,000	\$ -
Bank of America	200,000	-
California Capital Access Program (CalCAP)	130,848	67,849
Small Business Administration	96,555	59,797
Federal Home Loan Bank of San Francisco	37,500	-
Other	20,450	10,756
TMC Financing	-	6,250
Sonoma County Economic Development Board	-	4,632
	<u>\$ 885,353</u>	<u>\$ 149,284</u>
Total	<u>\$ 885,353</u>	<u>\$ 149,284</u>

NOTE 4 – LOANS RECEIVABLE

Working Solutions, in the ordinary course of its business, makes microloans 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. Most loans are fully amortizing, and payments are due monthly. Interest rates are fixed, and they range from five to eleven percent.

The following table discloses the outstanding loan receivable balance as of September 30, 2020 and 2019:

	2020	2019
Loans receivable, due within one year	\$ 1,755,853	\$ 1,986,709
Loans receivable, net of amounts due within one year	5,385,217	5,360,135
Total loans receivable	7,141,070	7,346,844
Allowance for loan loss	(356,914)	(293,874)
Total loans receivable, net	<u>\$ 6,784,156</u>	<u>\$ 7,052,970</u>

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 Pass 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.

Working Solutions CDFI Notes to Financial Statements

Additionally, some loans, originated in fiscal year 2019 and prior, are guaranteed by the Northern California Small Business Financial Development Corporation (“Nor-Cal FDC”), and for loans originated in fiscal year 2020, guaranteed by the California Southern Small Business Financial Development Corporation (“CA Southern FDC”), which are public benefit corporations chartered and regulated by the California Business, Transportation and Housing Agency.

As of September 30, 2020 and 2019, loans guaranteed by Nor-Cal FDC, CA Southern FDC or enrolled in CalCap, total \$4,674,911 and \$3,859,728, respectively.

The activity in the allowance for loan losses, for the years ended September 30, 2020 and 2019, is as follows:

Balance, September 30, 2018	\$ 272,970
Additions	422,370
Recoveries of previously charged off loans	43,820
Direct write-offs	<u>(445,286)</u>
Balance, September 30, 2019	293,874
Additions	470,704
Recoveries of previously charged off loans	(3,276)
Direct write-offs	<u>(404,388)</u>
Balance, September 30, 2020	<u><u>\$ 356,914</u></u>

The following table shows the ending balance of current and past due loan as of September 30, 2020 and 2019:

	September 30, 2020		September 30, 2019	
	Number of loans	Amount	Number of loans	Amount
<u>Greater than</u>				
30 days	2	\$ 16,975	6	\$ 102,414
60 days	4	25,925	-	-
> 90 days	<u>5</u>	<u>110,913</u>	<u>4</u>	<u>40,627</u>
Total past due	11	153,813	10	143,041
Current	<u>378</u>	<u>6,987,257</u>	<u>385</u>	<u>7,203,803</u>
Total outstanding loans	<u><u>389</u></u>	<u><u>\$ 7,141,070</u></u>	<u><u>395</u></u>	<u><u>\$ 7,346,844</u></u>

The following table presents loans modified as troubled debt restructurings as of September 30, 2020 and 2019:

	September 30, 2020		September 30, 2019	
	Number of loans	Amount	Number of loans	Amount
Microloans for small business	3	\$ 49,636	5	\$ 110,694

The modifications of loan terms during the years ended September 30, 2020 and 2019, 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, 2020 and 2019.

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, 2020 and 2019, approximately 65% and 52%, respectively, of loans outstanding are enrolled in this program.

The following table discloses the loan loss reserve available from CalCap as of September 30, 2020 and 2019:

	2020	2019
Working Solutions contributions to CalCap reserve	\$ 207,838	\$ 181,644
State contributions to CalCap reserve	122,814	143,879
Total CalCap reserve	\$ 330,652	\$ 325,523

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, 2020 and 2019, Working Solutions had outstanding debt of \$7,455,994 and \$7,407,167, respectively. For the years ended September 30, 2020 and 2019, Working Solutions drew \$729,120 and \$2,230,000, in new debt borrowings, made a total of \$680,293 and \$487,359 in principal payments, and made a total of \$174,762 and \$119,588 in interest payments, 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 is subject to partial or full forgiveness if Working Solutions complies with CARES ACT and rules, regulations, and guidance. Working Solutions is in compliance with CARES ACT guidelines and expects full forgiveness by September 30, 2021.

Working Solutions CDFI Notes to Financial Statements

As of September 30, 2020 and 2019, loans payable consisted of the following:

	Maturities	Interest Rates	September 30, 2020			September 30, 2019		
			Current	Long-term	Total	Current	Long-term	Total
Financial institutions	2021-2029	1.00% - 3.00%	\$ 956,600	\$ 5,141,662	\$ 6,098,262	\$ 461,136	\$ 6,231,929	\$ 6,693,065
Public agencies	2022-2028	1.00% - 2.63%	99,992	757,740	857,732	123,060	591,042	714,102
Nonprofit and other institutions	2029	3.00%	-	500,000	500,000	-	-	-
Total loans payable			<u>\$ 1,056,592</u>	<u>\$ 6,399,402</u>	<u>\$ 7,455,994</u>	<u>\$ 584,196</u>	<u>\$ 6,822,971</u>	<u>\$ 7,407,167</u>

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

For the Fiscal Years Ending,

2021	\$ 1,056,592
2022	2,422,450
2023	385,479
2024	255,220
2025	282,760
Thereafter	<u>3,053,493</u>
	<u>\$ 7,455,994</u>

As of September 30, 2020 and 2019, Working Solutions had \$837,000 and \$1,337,000, respectively, of available undrawn sources of funding with maturities ranging from 2020 to 2024.

(a) *Subordinate Debt*

As of September 30, 2020 and 2019, Working Solutions had subordinated debt totaling \$4,500,000 million 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	5/2/2019	N/A
Mechanics Bank	250,000	4/30/2023	2 year extension option
Opportunity Finance Network	500,000	9/30/2029	N/A
US Bank	500,000	9/10/2021	1 year extension option
Wells Fargo	250,000	11/7/2021	2 year extension option
Wells Fargo	1,000,000	2/23/2026	2 year extension option
Western Alliance Bank	<u>1,000,000</u>	7/1/2022	5 year extension option
Total	<u>\$ 4,500,000</u>		

(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, 2020 and 2019, this collateral included all loans made under the SBA microloan program totaling \$763,431 and \$537,332, and all funds in the six bank accounts totaling \$722,781 and \$469,076, respectively.

(c) Lines of Credit

As of September 30, 2020, Working Solutions had available bank lines of credit of \$1,545,262 and \$2,240,065, with outstanding balances of \$708,262 and \$903,065, and undrawn and available amount of \$837,000 and \$1,337,000, respectively.

For the years ended September 30, 2020 and 2019, 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 1.5%, matures on April 1, 2021, and as of September 30, 2020 and 2019, had available and undrawn funds of \$87,000.

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 28, 2024. No funds were borrowed under this agreement during the fiscal year ended September 30, 2020 and 2019.

As of September 20, 2019, Working Solutions had a third line of credit available from California Bank of Commerce. This unsecured revolving line of credit was in the amount of \$500,000, had an interest rate of the bank's prime rate plus 1%. No funds were borrowed under the agreement in the fiscal year ended September 30, 2019 and the facility expired in fiscal year 2020.

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, 2020 and 2019.

NOTE 7 – BOARD DESIGNATED NET ASSETS

Board designated appropriations at September 30, 2020 and 2019, are as follows:

	2020	2019
Operating reserve	\$ 1,448,517	\$ 1,241,102
Total	\$ 1,448,517	\$ 1,241,102

At September 30, 2020 and 2019, respectively, the operating reserve represents 6.0 and 5.6 months of operating expense excluding depreciation, loan loss reserve, and pro-bono services.

Working Solutions CDFI Notes to Financial Statements

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, 2020 and 2019, consist of the following:

	2019	Additions	Releases	2020
Grantor/Donor Name				
JPMorgan Chase & Co.	\$ 19,151	\$ 113,000	\$ (125,901)	\$ 6,250
The Sobrato Foundation	175,000	400,000	(175,000)	400,000
Wells Fargo Bank	225,000	-	(225,000)	-
Bank of the West	62,500	100,000	(137,500)	25,000
HSBC	-	100,000	(16,667)	83,333
Citi Foundation	-	50,000	(20,833)	29,167
Capital One Services, LLC	-	40,000	(20,000)	20,000
Federal Home Loan Bank of SF	-	37,500	-	37,500
Walter & Elise Haas Foundation	-	35,000	(17,500)	17,500
City National	-	5,000	(5,000)	-
Manufacturers Bank	-	2,500	(2,500)	-
Total	\$ 481,651	\$ 883,000	\$ (745,901)	\$ 618,750
	2018	Additions	Releases	2019
Grantor/Donor Name				
JPMorgan 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	\$ 368,024	\$ 1,072,500	\$ (958,873)	\$ 481,651

Working Solutions CDFI
Notes to Financial Statements

Net assets with donor restrictions and net assets released from restrictions during the years ended September 30, 2020 and 2019, by purpose and time, consist of the following:

	<u>2019</u>	<u>Additions</u>	<u>Releases</u>	<u>2020</u>
Purpose				
Micro Lending	\$ 306,651	\$ 213,000	\$ (493,801)	\$ 25,850
Loan Loss Reserve	-	5,000	(5,000)	-
	<u>306,651</u>	<u>218,000</u>	<u>(498,801)</u>	<u>25,850</u>
Geographic Restriction	175,000	490,000	(210,433)	454,567
Time	<u>-</u>	<u>175,000</u>	<u>(36,667)</u>	<u>138,333</u>
Total	<u>\$ 481,651</u>	<u>\$ 883,000</u>	<u>\$ (745,901)</u>	<u>\$ 618,750</u>
	<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	(27,900)	-
	<u>183,024</u>	<u>897,500</u>	<u>(773,873)</u>	<u>306,651</u>
Geographic Restriction	175,000	175,000	(175,000)	175,000
Time	<u>10,000</u>	<u>-</u>	<u>(10,000)</u>	<u>-</u>
Total	<u>\$ 368,024</u>	<u>\$ 1,072,500</u>	<u>\$ (958,873)</u>	<u>\$ 481,651</u>

All net assets with donor restrictions are expected to be released from restriction by December 31, 2021.

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, 2020 and 2019, 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>2020</u>	<u>2019</u>
Financial assets		
Cash and cash equivalents	\$ 2,407,464	\$ 2,191,528
Restricted cash and cash equivalents	1,981,585	2,525,168
Cash and cash equivalents restricted for loan loss reserve	557,679	534,233
Contributions receivable	885,353	149,284
Interest receivable	92,300	47,147
Loans receivable, net	<u>6,784,156</u>	<u>7,052,970</u>
Financial assets	<u>12,708,537</u>	<u>12,500,330</u>
Less those unavailable for general expenditures within one year, due to:		
Restricted cash and cash equivalents	1,973,410	2,517,168
Loans receivable, net of amounts due within one year	5,385,217	5,360,135
Cash held for others	8,175	8,000
Cash and cash equivalents restricted for loan loss reserve	557,679	534,233
Board designated assets, operating reserve	<u>1,448,517</u>	<u>1,241,102</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 3,335,539</u>	<u>\$ 2,839,692</u>

The Organization's Board has a net assets-reserves policy, (Note 7). As of September 30, 2020 and 2019, \$1,448,517 and \$1,241,102, 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, 2020 and 2019, Working Solutions had undrawn bank lines of credit totaling \$837,000 and \$1,337,000, respectively, which could be used for general expenditure if needed.

NOTE 10 – SPECIAL EVENTS

Special events net revenue for the years ended September 30, 2020 and 2019, consist of the following:

	2020	2019
Annual breakfast		
Support and revenue	\$ -	\$ 77,220
Direct donor benefit costs	-	(75,476)
	\$ -	\$ 1,744
Net annual breakfast revenue	\$ -	\$ 1,744

NOTE 11 – 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, 2020 and 2019, Working Solutions had no assets or liabilities recorded at fair value on a recurring or nonrecurring basis.

NOTE 12 – 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 microloans in the normal course of business. A selection of the portfolio, for loans originated in fiscal year 2019 and prior, is guaranteed by the Northern California Small Business Financial Development Corporation (Nor-Cal FDC), and for loans originated in 2020, guaranteed by the California Southern Small Business Financial Development Corporation (CA Southern FDC). Beginning in July 2020, in response to COVID-19, Working Solutions began participating in the State Guarantee program, enrolling all Recovery product loans made since onset of COVID-19 into a 90% State Guarantee program. As of September 30, 2020, approximately 7% or \$491,000 loans are enrolled in the program. Loans are guaranteed by CA Southern FDC. 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.

During the year ended September 30, 2020, Working Solutions recognized \$1,343,000 of revenue from four donors, which represents approximately 36% of total contributions, grants, and earned revenue. 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.

As of September 30, 2020, Working Solutions had outstanding payable balances from three commercial banks of \$3,000,000, which represented 40% of total loans payable. 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.

Working Solutions CDFI Notes to Financial Statements

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. To accommodate immediate and future impacts of the pandemic on the loan receivables portfolio, Working Solutions increased its base loan loss reserve to 5%, 50 basis points higher than its three-year charge-off rate. Working Solutions will continue to monitor the situation closely, but given the uncertainty about the situation, management can't estimate the impact to the financial statements.

NOTE 13 – OPERATING LEASES

Beginning May 15, 2016, Working Solutions began leasing office space in San Francisco under a noncancelable operating lease that will expire May 15, 2021. 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,

2021	\$	80,464
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For the years ended September 30, 2020 and 2019, rent expense totaled \$128,863 and \$115,317, respectively.

NOTE 14 – 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, 2020 and 2019, totaling \$35,249 and \$17,230, respectively.

