

ACCION SAN DIEGO
FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019



Leaf & Cole, LLP
Certified Public Accountants

**ACCION SAN DIEGO
FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

TABLE OF CONTENTS

| | <u>Page</u> |
|---|-------------|
| Independent Auditor’s Report | 1 - 2 |
| Statements of Financial Position | 3 |
| Statement of Activities - 2020 | 4 |
| Statement of Activities - 2019 | 5 |
| Statement of Functional Expenses - 2020 | 6 |
| Statement of Functional Expenses - 2019 | 7 |
| Statements of Cash Flows | 8 |
| Notes to Financial Statements | 9 - 25 |
| Schedule of Expenditures of Federal Awards | 26 - 27 |
| Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i> | 28 - 29 |
| Independent Auditor’s Report on Compliance for the Major Program and on Internal Control Over Compliance Required by the Uniform Guidance | 30 - 31 |
| Schedule of Findings and Questioned Costs | 32 |



Leaf & Cole, LLP
Certified Public Accountants
A Partnership of Professional Corporations

Independent Auditor's Report

To the Board of Directors
Accion San Diego

Report on the Financial Statements

We have audited the accompanying financial statements of Accion San Diego, which comprise the statements of financial position as of December 31, 2020 and 2019, and the related statements of activities, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 Accion San Diego as of December 31, 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.

Other Matters

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 29, 2021, on our consideration of Accion San Diego's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Accion San Diego's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Accion San Diego's internal control over financial reporting and compliance.

Leaf & Cole LLP

San Diego, California
June 29, 2021

ACCION SAN DIEGO
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2020 AND 2019

| ASSETS | <u>2020</u> | <u>2019</u> |
|---|----------------------|----------------------|
| <u>Current Assets:</u> (Notes 2, 3, 4, 5, 6, 7 and 12) | | |
| Cash and cash equivalents | \$ 7,378,008 | \$ 2,962,619 |
| Receivables, net: | | |
| Grants | 148,023 | 37,769 |
| Contributions | 3,412 | 254,375 |
| Other | 165,518 | 592,603 |
| Loan interest and fees | 85,303 | 66,686 |
| Current portion of loans receivable | 3,018,633 | 2,568,428 |
| Deposits and prepaid expenses | 48,782 | 46,203 |
| Total Current Assets | <u>10,847,679</u> | <u>6,528,683</u> |
| <u>Noncurrent Assets:</u> (Notes 2, 3, 7, 8 and 12) | | |
| Loans receivable, net | 9,678,663 | 5,374,341 |
| Loan loss reserve | 18,388 | 232,900 |
| Property and equipment, net | 11,315 | 22,212 |
| Total Noncurrent Assets | <u>9,708,366</u> | <u>5,629,453</u> |
| TOTAL ASSETS | <u>\$ 20,556,045</u> | <u>\$ 12,158,136</u> |
| LIABILITIES AND NET ASSETS | | |
| <u>Current Liabilities:</u> (Notes 2, 9 and 10) | | |
| Accounts payable and accrued expenses | \$ 545,210 | \$ 378,696 |
| Deferred revenue | 416,046 | - |
| Current portion of notes payable | 1,146,106 | 250,000 |
| Total Current Liabilities | <u>2,107,362</u> | <u>628,696</u> |
| <u>Noncurrent Liabilities:</u> (Note 10) | | |
| Notes payable | 6,650,000 | 1,900,000 |
| Less: Current portion | (1,146,106) | (250,000) |
| Total Noncurrent Liabilities | <u>5,503,894</u> | <u>1,650,000</u> |
| Total Liabilities | <u>7,611,256</u> | <u>2,278,696</u> |
| <u>Commitments and Contingencies</u> (Notes 12 and 13) | | |
| <u>Net Assets:</u> (Notes 2 and 11) | | |
| Without donor restrictions | 11,749,989 | 9,879,440 |
| With donor restrictions: | 1,194,800 | - |
| Total Net Assets | <u>12,944,789</u> | <u>9,879,440</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 20,556,045</u> | <u>\$ 12,158,136</u> |

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

**ACCION SAN DIEGO
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2020**

| | Without Donor <u>Restrictions</u> | With Donor <u>Restrictions</u> | <u>Total</u> |
|------------------------------------|--------------------------------------|-----------------------------------|-----------------------------|
| <u>Revenue and Support:</u> | | | |
| Grants and contributions | \$ 3,055,557 | \$ 1,194,800 | \$ 4,250,357 |
| Loan interest and fees | 1,216,984 | - | 1,216,984 |
| Federal awards | 845,770 | - | 845,770 |
| In-kind contributions | 72,137 | - | 72,137 |
| Investment income | 10,082 | - | 10,082 |
| Total Revenue and Support | <u>5,200,530</u> | <u>1,194,800</u> | <u>6,395,330</u> |
| <u>Expenses:</u> | | | |
| Program Services | <u>3,193,088</u> | <u>-</u> | <u>3,193,088</u> |
| Supporting Services: | | | |
| Management and general | 109,514 | - | 109,514 |
| Fundraising | <u>27,379</u> | <u>-</u> | <u>27,379</u> |
| Total Supporting Services | <u>136,893</u> | <u>-</u> | <u>136,893</u> |
| Total Expenses | <u>3,329,981</u> | <u>-</u> | <u>3,329,981</u> |
| Change in Net Assets | 1,870,549 | 1,194,800 | 3,065,349 |
| Net Assets at Beginning of Year | <u>9,879,440</u> | <u>-</u> | <u>9,879,440</u> |
| NET ASSETS AT END OF YEAR | <u><u>\$ 11,749,989</u></u> | <u><u>\$ 1,194,800</u></u> | <u><u>\$ 12,944,789</u></u> |

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

**ACCION SAN DIEGO
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2019**

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---------------------------------------|-------------------------------|----------------------------|----------------------------|
| <u>Revenue and Support:</u> | | | |
| Grants and contributions | \$ 1,510,872 | \$ 67,833 | \$ 1,578,705 |
| Loan interest and fees | 1,337,027 | - | 1,337,027 |
| Federal awards | 184,334 | - | 184,334 |
| In-kind contributions | 132,387 | - | 132,387 |
| Investment income | 23,741 | - | 23,741 |
| Net assets released from restrictions | 67,833 | (67,833) | - |
| Total Revenue and Support | <u>3,256,194</u> | <u>-</u> | <u>3,256,194</u> |
| <u>Expenses:</u> | | | |
| Program Services | <u>2,685,519</u> | <u>-</u> | <u>2,685,519</u> |
| <u>Supporting Services:</u> | | | |
| Management and general | 94,686 | - | 94,686 |
| Fundraising | 29,798 | - | 29,798 |
| Total Supporting Services | <u>124,484</u> | <u>-</u> | <u>124,484</u> |
| Total Expenses | <u>2,810,003</u> | <u>-</u> | <u>2,810,003</u> |
| Change in Net Assets | 446,191 | - | 446,191 |
| Net Assets at Beginning of Year | <u>9,433,249</u> | <u>-</u> | <u>9,433,249</u> |
| NET ASSETS AT END OF YEAR | <u><u>\$ 9,879,440</u></u> | <u><u>\$ -</u></u> | <u><u>\$ 9,879,440</u></u> |

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

ACCION SAN DIEGO
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2020

| | Supporting Services | | | | <u>Total</u> |
|--|-----------------------------------|---|--------------------|--|---------------------|
| | <u>Program</u> <u>Services</u> | <u>Management</u> <u>and General</u> | <u>Fundraising</u> | <u>Total</u> <u>Supporting</u> <u>Services</u> | |
| <u>Salaries and Related Expenses:</u> | | | | | |
| Staff salaries | \$ 1,821,110 | \$ 76,818 | \$ 19,205 | \$ 96,023 | \$ 1,917,133 |
| Payroll taxes and employee benefits | 331,473 | 14,000 | 3,500 | 17,500 | 348,973 |
| Total Salaries and Related Expenses | 2,152,583 | 90,818 | 22,705 | 113,523 | 2,266,106 |
| <u>Nonsalary Related Expenses:</u> | | | | | |
| Accounting and legal | 54,157 | 2,226 | 556 | 2,782 | 56,939 |
| Bank fees | 17,248 | 724 | 181 | 905 | 18,153 |
| Dues and subscriptions | 3,450 | 145 | 36 | 181 | 3,631 |
| Equipment rental | 4,609 | 194 | 49 | 243 | 4,852 |
| Insurance | 25,208 | 1,072 | 268 | 1,340 | 26,548 |
| Interest expense | 85,916 | - | - | - | 85,916 |
| Lending expense | 218,856 | - | - | - | 218,856 |
| Meetings and conferences | 2,824 | 119 | 30 | 149 | 2,973 |
| Mileage, parking and transport | 5,136 | 216 | 54 | 270 | 5,406 |
| Miscellaneous expenses | 5,602 | 236 | 59 | 295 | 5,897 |
| Occupancy | 106,737 | 4,494 | 1,124 | 5,618 | 112,355 |
| Postage and shipping | 4,299 | 181 | 45 | 226 | 4,525 |
| Printing and copying | 2,936 | 124 | 31 | 155 | 3,091 |
| Provision for loan losses | 291,211 | - | - | - | 291,211 |
| Public relations and marketing | 40,019 | 1,685 | 421 | 2,106 | 42,125 |
| Small equipment | 16,637 | 701 | 175 | 876 | 17,513 |
| Software expense | 93,902 | 3,960 | 990 | 4,950 | 98,852 |
| Supplies | 5,839 | 246 | 61 | 307 | 6,146 |
| Taxes and licenses | 1,192 | 50 | 13 | 63 | 1,255 |
| Telephone | 32,557 | 1,371 | 343 | 1,714 | 34,271 |
| Training | 4,038 | 188 | 47 | 235 | 4,273 |
| Travel, meals and accommodations | 7,780 | 328 | 82 | 410 | 8,190 |
| Total Nonsalary Related Expenses | 1,030,153 | 18,260 | 4,565 | 22,825 | 1,052,978 |
| Total Expenses Before Depreciation | 3,182,736 | 109,078 | 27,270 | 136,348 | 3,319,084 |
| Depreciation | 10,352 | 436 | 109 | 545 | 10,897 |
| TOTAL EXPENSES | \$ 3,193,088 | \$ 109,514 | \$ 27,379 | \$ 136,893 | \$ 3,329,981 |

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

ACCION SAN DIEGO
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2019

| | Supporting Services | | | | <u>Total</u> |
|--|-----------------------------------|---|--------------------|--|---------------------|
| | <u>Program</u> <u>Services</u> | <u>Management</u> <u>and General</u> | <u>Fundraising</u> | <u>Total</u> <u>Supporting</u> <u>Services</u> | |
| <u>Salaries and Related Expenses:</u> | | | | | |
| Staff salaries | \$ 1,533,839 | \$ 59,009 | \$ 20,880 | \$ 79,889 | \$ 1,613,728 |
| Payroll taxes and employee benefits | 288,885 | 12,164 | 3,041 | 15,205 | 304,090 |
| Total Salaries and Related Expenses | 1,822,724 | 71,173 | 23,921 | 95,094 | 1,917,818 |
| <u>Nonsalary Related Expenses:</u> | | | | | |
| Accounting and legal | 135,236 | 5,694 | 1,424 | 7,118 | 142,354 |
| Bank fees | 19,213 | 809 | 202 | 1,011 | 20,224 |
| Dues and subscriptions | 25,262 | 1,064 | 266 | 1,330 | 26,592 |
| Equipment rental | 7,826 | 330 | 82 | 412 | 8,238 |
| Insurance | 25,934 | 1,092 | 273 | 1,365 | 27,299 |
| Interest expense | 74,561 | - | - | - | 74,561 |
| Lending expense | 140,154 | - | - | - | 140,154 |
| Meetings and conferences | 3,527 | 149 | 37 | 186 | 3,713 |
| Mileage, parking and transport | 24,490 | 1,031 | 258 | 1,289 | 25,779 |
| Miscellaneous expenses | 5,864 | 247 | 62 | 309 | 6,173 |
| Occupancy | 108,305 | 4,560 | 1,140 | 5,700 | 114,005 |
| Postage and shipping | 5,537 | 233 | 58 | 291 | 5,828 |
| Printing and copying | 4,611 | 194 | 49 | 243 | 4,854 |
| Provision for loan losses | 89,685 | - | - | - | 89,685 |
| Public relations and marketing | 42,252 | 1,779 | 445 | 2,224 | 44,476 |
| Small equipment | 16,624 | 700 | 175 | 875 | 17,499 |
| Software expense | 47,050 | 1,981 | 495 | 2,476 | 49,526 |
| Supplies | 7,973 | 336 | 84 | 420 | 8,393 |
| Taxes and licenses | 1,214 | 51 | 13 | 64 | 1,278 |
| Telephone | 24,975 | 1,052 | 262 | 1,314 | 26,289 |
| Training | 11,835 | 498 | 125 | 623 | 12,458 |
| Travel, meals and accommodations | 25,668 | 1,081 | 270 | 1,351 | 27,019 |
| Total Nonsalary Related Expenses | 847,796 | 22,881 | 5,720 | 28,601 | 876,397 |
| Total Expenses Before Depreciation | 2,670,520 | 94,054 | 29,641 | 123,695 | 2,794,215 |
| Depreciation | 14,999 | 632 | 157 | 789 | 15,788 |
| TOTAL EXPENSES | \$ 2,685,519 | \$ 94,686 | \$ 29,798 | \$ 124,484 | \$ 2,810,003 |

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

ACCION SAN DIEGO
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

| | <u>2020</u> | <u>2019</u> |
|--|---------------------|---------------------|
| <u>Cash Flows From Operating Activities:</u> | | |
| Change in net assets | \$ 3,065,349 | \$ 446,191 |
| Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities: | | |
| Depreciation | 10,897 | 15,788 |
| Provision for loan losses | 291,211 | 89,685 |
| (Increase) Decrease in: | | |
| Grants receivable | (110,254) | 22,631 |
| Contributions receivable | 250,963 | (248,762) |
| Other receivables | 427,085 | (496,979) |
| Loan interest and fees receivable | (18,617) | (76) |
| Deposits and prepaid expenses | (2,579) | (3,451) |
| Increase (Decrease) in: | | |
| Accounts payable and accrued expenses | 166,514 | 139,066 |
| Deferred revenue | 416,046 | (5,009) |
| Net Cash Provided by (Used in) Operating Activities | <u>4,496,615</u> | <u>(40,916)</u> |
| <u>Cash Flows From Investing Activities:</u> | | |
| Funding of loans receivable | (8,554,400) | (4,735,091) |
| Repayment of loans receivable | 3,439,194 | 3,887,451 |
| Loan loss reserve funded by lender, net | 69,468 | - |
| Purchase of property and equipment | - | (4,451) |
| Net Cash Used in Investing Activities | <u>(5,045,738)</u> | <u>(852,091)</u> |
| <u>Cash Flows From Financing Activities:</u> | | |
| Proceeds from notes payable | 5,000,000 | 500,000 |
| Payments on notes payable | (250,000) | (250,000) |
| Net Cash Provided by Financing Activities | <u>4,750,000</u> | <u>250,000</u> |
| Net Increase (Decrease) in Cash and Restricted Cash and Cash Equivalents | 4,200,877 | (643,007) |
| Cash and Restricted Cash and Cash Equivalents at Beginning of Year | <u>3,195,519</u> | <u>3,838,526</u> |
| CASH AND RESTRICTED CASH AND CASH EQUIVALENTS AT END OF YEAR | <u>\$ 7,396,396</u> | <u>\$ 3,195,519</u> |
| <u>Supplemental Disclosure of Cash Flow Information:</u> | | |
| Cash paid for interest | <u>\$ 24,889</u> | <u>\$ 16,763</u> |
| <u>Supplemental Disclosure of Noncash Cash Flow Information:</u> | | |
| Noncash in-kind interest | <u>\$ 61,027</u> | <u>\$ 58,103</u> |

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

ACCION SAN DIEGO
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

Note 1 - Organization:

Accion San Diego, (the “Organization”) is a not-for-profit corporation, incorporated in the State of California on May 31, 1994, and was organized for the primary purpose of creating economic opportunity for low -to-moderate income business owners who lack access to traditional sources of credit in San Diego County, California. The Organization has since expanded service to include Imperial, Riverside and San Bernardino Counties in California.

Through business loans (of \$300 to \$100,000) and support services, the Organization’s mission is to open doors of financial opportunity to those historically with less access to capital and business support: entrepreneurs of color, women, immigrant, and low-to-moderate income entrepreneurs, so they can build a prosperous business and livelihood for themselves and their families, while also strengthening our communities. The Organization is primarily funded by contributions from banks, foundations, corporations, government entities, and individuals. The Organization also earns interest and fees on its loan portfolio.

As of December 31, 2020, the Organization was licensed by Accion International alongside other individually governed and managed not-for-profit Accion branded offices that each served specified geographies and collectively serve thousands of clients nationwide. Each office accounted for its own costs related to these collaborative offices, except for certain instances where cost synergies are deemed beneficial collectively.

Note 2 - Significant Accounting Policies:

Accounting Method

The financial statements of the Organization have been prepared on the accrual basis of accounting which is in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) and, accordingly, reflect all significant receivables, payables, and other liabilities.

Financial Statement Presentation

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes thereon are classified and reported as follows:

- Net Assets Without Donor Restrictions - Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.
- Net Assets With Donor Restrictions - Net assets subject to donor (or certain grantor) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

ACCION SAN DIEGO
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

Note 2 - Significant Accounting Policies: (Continued)

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Risks and Uncertainties

The Organization may invest in various types of investment securities which are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and such changes could materially affect the amounts reported in the statements of financial position.

Fair Value Measurements

Fair value accounting standards define fair value, establish a framework for measuring fair value, outline a fair value hierarchy based on inputs used to measure fair value and enhance disclosure requirements for fair value measurements. The fair value hierarchy distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Level 1 or 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy). The Organization had no financial instruments measured at fair value at December 31, 2020 and 2019.

Allowance for Doubtful Accounts

Bad debts are recognized on the allowance method based on historical experience and management's evaluation of outstanding receivables. Management believes that all contributions, grants, and other receivables were fully collectible; therefore, no allowance for doubtful accounts receivable was recorded at December 31, 2020 and 2019.

ACCION SAN DIEGO
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

Note 2 - Significant Accounting Policies: (Continued)

Loans Receivable

Loans receivable are recorded at unpaid principal balances, less an allowance for loan losses. Interest on loans may range from 1% to 18% and is recognized as income based on the daily principal amount outstanding. A loan is considered delinquent when a payment is not made on or before the scheduled due date and is placed on nonaccrual status after 90 days. There were 16 and 24 loans on nonaccrual status at December 31, 2020 and 2019, respectively. When interest accrual is discontinued, all unpaid accrued interest is reversed. Interest income is subsequently recognized only to the extent cash payments are received. An allowance for loan losses is maintained to absorb potential losses inherent in the loan portfolio. When all or a portion of a loan balance reaches 180 days delinquent, it is deemed uncollectible, and the remaining loan balance is charged off to the allowance for loan losses. Recoveries of loans previously charged off are credited to the allowance for loan losses. The provision for loan losses charged to expense is determined monthly based on past delinquency, write-off trends and loan loss guarantee program coverage in place. Collateral is secured based on the particular loan profile. Generally, collateral on loans will cover a portion of the loan balance only. Impaired loans are recorded at unpaid principal balances, net of an allowance for uncollectible balances, which approximate the present value of the expected future cash flows. For loans that are considered impaired, the provision for loan losses charged to expense is determined monthly based on past delinquency and write-off trends. The interest income on an impaired loan is recognized in the same manner as noted above.

Management evaluates loans for credit quality monthly, but more frequently if certain circumstances occur, such as material new information which becomes available and indicates a potential change in credit risk. Credit quality is based on the aging status of the loan and by payment activity.

The allowance for loan losses is increased by charges to income and decreased by charge-offs, net of recoveries. Loan losses are charged against the allowance (charge-offs) when management believes the uncollectibility of a loan balance is confirmed. Repossessed collateral is reported at net realizable value on or soon after acquisition based on an evaluation completed on the collateral. Management's periodic evaluation of the adequacy of the allowance is based on the Organization's past and current loan-loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay and current economic conditions.

The provision for loan losses in the statements of activities totaling \$291,211 and \$89,685 for the years ended December 31, 2020 and 2019, respectively, results from the combination of an estimate by management of loan losses that occurred during the current period and the ongoing adjustment of prior estimates of losses occurring in prior periods. Because of these factors, it is reasonably possible that the allowance for losses on loans may change materially in the near term. While management uses available information to recognize losses on loans, future additions to the allowances may be necessary based on changes in local economic conditions.

Accrual of interest on a loan is discontinued when management believes that the borrower's financial condition is such that collection of interest is doubtful. Uncollectible interest previously accrued is charged-off by means of a charge to interest income. Income is subsequently recognized only to the extent cash payments are received until, in management's judgment, the borrower's ability to make periodic interest and principal payments is back to normal, in which case the loan is returned to accrual status.

ACCION SAN DIEGO
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

Note 2 - Significant Accounting Policies: (Continued)

Loans Receivable (Continued)

Loans that have been modified and economic concessions that have been granted to borrowers who have experienced financial difficulties are considered a troubled debt restructuring (TDR). These concessions typically would result from the Organization's loss mitigation activities and may include suspension of interest, payment extensions, forgiveness of principal, forbearance, and other actions. Specifically, loans are considered TDR's when, in order to stay current on loan payments, a borrower has needed one payment extension of longer than three months duration, or two payment extensions of three months duration in the life of the loan. If these clients perform pursuant to the modified terms, the loans may be placed back on accrual status, but they will still be reported as TDR's. After a loan is restructured once, it may not be modified again. Total TDR's outstanding were \$3,628,830 and \$77,394 at December 31, 2020 and 2019, respectively. The specific valuation allowance for these TDR's has been calculated based on the reserve factor as calculated by management in the evaluation of the allowance for loan losses. Included within the allowance for loan losses was \$287,718 and \$25,438 related to TDR's at December 31, 2020 and 2019, respectively. Loan modifications of existing loans were made for loans with current payment status based on consideration of the potential macroenvironment impact on the businesses. These proactive modifications were unique and atypical.

When the Organization modifies loans in a TDR, it evaluates any possible impairment similar to other impaired loans based on the present value of expected future cash flows, discounted at the contractual interest rate of the original loan agreement. If the Organization determines that the value of the modified loan is less than the recorded investment in the loan (net of previous charge-offs, deferred loan fees or costs and unamortized premium or discount), impairment is recognized through an allowance estimate or a charge-off to the allowance. In periods subsequent to modification, the Organization evaluates TDR's, including those that have payment defaults, for possible impairment and recognizes impairment through the allowance.

Loan Loss Reserve

The Organization began participation in a program to establish a cash reserve to be used to cover loan losses for enrolled loans. Deposits to the reserve are received from the Organization and the State of California. The portion of deposits received from the State of California are refundable to California Capital Access Program (CalCAP) if the program is terminated and excess deposits remain in the reserve account. The Organization has recorded a loan loss reserve equal to the portion non-refundable to the State of California. The loan loss reserve totaled \$18,388 and \$232,900 at December 31, 2020 and 2019, respectively.

Capitalization and Depreciation

The Organization capitalizes all expenditures in excess of \$2,000 for property and equipment at cost, while donations of property and equipment are recorded at their estimated fair values. Such donations are reported as support without donor restrictions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as support with donor restrictions. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies net assets with donor restrictions to net assets without donor restrictions at that time.

ACCION SAN DIEGO
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

Note 2 - Significant Accounting Policies: (Continued)

Capitalization and Depreciation (Continued)

Property and equipment are depreciated using the straight-line method over the estimated useful asset lives as follows:

| | |
|-------------------------|----------|
| Leasehold improvements | 10 years |
| Computer software | 3 years |
| Computer equipment | 3 years |
| Furniture and equipment | 3 years |

Depreciation totaled \$10,897 and \$15,788 for the years ended December 31, 2020 and 2019, respectively.

Maintenance and repairs are charged to operations as incurred. Upon sale or disposition of property or equipment, the asset account is reduced by the cost and the accumulated depreciation account is reduced by the depreciation taken prior to the sale. Any resultant gain or loss is then recorded as income or expense.

Compensated Absences

Accumulated unpaid paid time off (PTO) totaling \$156,932 and \$94,013 at December 31, 2020 and 2019, respectively, is accrued when incurred and included in incentive and PTO payable as a component of accounts payable and accrued expenses.

Revenue Recognition

Contributions are recognized when the donor makes a promise to give to the Organization that is in substance, unconditional. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions are recorded as without donor restriction or with donor restriction depending on the existence or nature of any donor restrictions. All donor-restricted support is reported as an increase in net assets with donor restrictions. When the stipulated time restriction ends or purpose restriction is accomplished, donor restricted net assets are reclassified to net assets without donor restrictions. Contributions to be received in future periods are discounted at an appropriate discount rate. Amortization of discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions.

Federal grant awards are recognized in the period in which the related work is performed in accordance with the terms of the grant award. Grants receivable are recorded when revenue earned under a grant award exceeds the cash received. Deferred revenue is recorded when cash received under a grant award exceeds the revenue earned.

ACCION SAN DIEGO
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

Note 2 - Significant Accounting Policies: (Continued)

Donated Services, Facilities and Below Market Interest

The Organization has received donations for professional services, supplies and below market rent and interest. The professional services and supplies are recorded at their fair value. The Organization recorded in-kind contributions, as well as rent and interest expense using the difference between the actual rent or interest rate charged and the fair value of the rent or loan interest rate. Donated services, facilities, and below market interest totaled \$72,137 and \$132,387 for the years ended December 31, 2020 and 2019, respectively, and have been reported as in-kind contributions and expenses.

| | <u>2020</u> | <u>2019</u> |
|--|------------------|-------------------|
| Below market interest on notes payable | \$ 61,027 | \$ 58,103 |
| Donated other services | 5,671 | 2,150 |
| Donated legal services | 5,014 | 64,277 |
| Donated workshop presenter services | 425 | 7,207 |
| Gift certificates | - | 650 |
| Total In-Kind Contributions | <u>\$ 72,137</u> | <u>\$ 132,387</u> |

In addition, many individuals volunteer their time and perform a variety of tasks that assist the Organization with programs and various assignments. This contribution of services by the volunteers is not recognized in the financial statements unless the services received (a) create or enhance nonfinancial assets or (b) require specialized skills which are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. The donated services by volunteers for the years ended December 31, 2020 and 2019, did not meet the requirements above, therefore no amounts were recognized in the financial statements for volunteer time.

Functional Allocation of Expenses

The Organization allocates its expenses on a functional basis among its various programs and supporting services. Expenditures which can be identified with a specific program or support services are allocated directly, according to their natural expenditure classification. Costs that are common to several functions are allocated among the program and supporting services on the basis of time records, space utilized and estimates made by the Organization's management.

Income Taxes

The Organization is a public charity and is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code. The Organization believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements. The Organization is not a private foundation.

The Organization's Return of Organization Exempt from Income Tax for the years ended December 31, 2020, 2019, 2018 and 2017 are subject to examination by the Internal Revenue Service and State taxing authorities, generally three to four years after the returns were filed.

ACCION SAN DIEGO
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

Note 2 - Significant Accounting Policies: (Continued)

Concentrations

The Organization maintains its cash in bank deposit accounts and money market funds which, at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts. The Organization believes it is not exposed to any significant credit risk on cash and cash equivalents.

The Organization provides micro lending to qualifying small business entities in several counties in Southern California. The Organization considers this a geographic concentration potentially subject to risk. Additionally, financial instruments that potentially subject the Organization to credit risk are primarily loans receivable.

Cash and Restricted Cash and Cash Equivalents

For purposes of the statements of cash flows, the Organization considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents. Certificates of deposits that may be redeemed without a significant penalty are considered cash and cash equivalents regardless of the maturity. The following is a reconciliation of cash and restricted cash and cash equivalents reported within the statements of financial position that sum to the total in the statements of cash flows at December 31:

| | <u>2020</u> | <u>2019</u> |
|---|---------------------|---------------------|
| Cash and money market funds | \$ 6,862,650 | \$ 2,455,504 |
| Certificates of deposit | 515,358 | 507,115 |
| Loan loss reserve | 18,388 | 232,900 |
| Total Cash and Restricted Cash and Cash Equivalents | <u>\$ 7,396,396</u> | <u>\$ 3,195,519</u> |

The certificates of deposit bear interest at an annual rate of 0.45% and 1.5% and mature August 2021 and April 2021, respectively. Upon maturity, the certificates of deposit will be rolled to a money market account.

Subsequent Events

The Organization has evaluated subsequent events through June 29, 2021, which is the date the financial statements are available for issuance, and concluded that there were no events or transactions that needed to be disclosed, except as disclosed in Note 14.

ACCION SAN DIEGO
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

Note 3 - Liquidity and Availability:

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

| | <u>2020</u> | <u>2019</u> |
|--|---------------------|---------------------|
| Financial assets at year-end: | | |
| Cash and cash equivalents | \$ 7,378,008 | \$ 2,962,619 |
| Receivables, net - current | 3,420,889 | 3,519,861 |
| Less: Cash and cash equivalents held for donor - specified purposes | <u>(1,194,800)</u> | <u>-</u> |
| Financial assets available to meet cash needs for general expenditures within one year | <u>\$ 9,604,097</u> | <u>\$ 6,482,480</u> |

As part of the liquidity management plan of the Organization, cash in excess of daily requirements are invested in short-term certificates of deposit and money market funds.

Note 4 - Grants Receivable:

Grants receivable consist of the following at December 31:

| | <u>2020</u> | <u>2019</u> |
|--|-------------------|------------------|
| City of San Diego - Community Development Block Grant | \$ 98,023 | \$ 34,230 |
| Accion U.S. Network | 50,000 | - |
| City of San Diego - Small Business Enhancement Program | <u>-</u> | <u>3,539</u> |
| Total Grants Receivable | <u>\$ 148,023</u> | <u>\$ 37,769</u> |

Note 5 - Contributions Receivable:

Contributions receivable consists of the following at December 31:

| | <u>2020</u> | <u>2019</u> |
|---------------------------|-----------------|-------------------|
| Due in less than one year | <u>\$ 3,412</u> | <u>\$ 254,375</u> |

Note 6 - Other Receivables:

Other receivables consist of the loan loss recoveries requested but not received and totaled \$165,518 and \$592,603 at December 31, 2020 and 2019, respectively.

ACCION SAN DIEGO
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

Note 7 - Loans Receivable:

Loans receivable were funded from various sources and consist of the following at December 31:

| <u>Funding Source</u> | <u>Interest Rates</u> | <u>2020</u> | <u>2019</u> |
|---|-----------------------|---------------------|---------------------|
| Accion San Diego | 1.00% - 18.00% | \$ 4,672,611 | \$ 5,252,754 |
| San Diego County | 1.00% | 4,477,640 | - |
| Community Development Financial Institution | 3.99% - 18.00% | 1,097,958 | 793,673 |
| Wells Fargo Bank | 2.99% - 18.00% | 963,433 | 744,818 |
| Comerica Bank | 3.99% - 18.00% | 936,388 | 813,663 |
| Pacific Premier Bank | 3.99% - 16.00% | 491,234 | - |
| Civic San Diego | 3.99% - 18.00% | 361,642 | 370,992 |
| Private sources | 3.99% - 18.00% | 95,449 | 45,771 |
| Jacobs Foundation | 3.99% - 18.00% | 48,434 | 40,180 |
| Torrey Pines Bank | 3.99% - 18.00% | 31,677 | 41,704 |
| California Bank and Trust | 15.5% - 18.00% | 7,962 | 9,914 |
| Pacific Western Bank | 10.00% - 18.00% | - | 237,757 |
| Total Loans Receivable | | <u>13,184,428</u> | <u>8,351,226</u> |
| Less: Allowance for loan losses | | <u>(487,132)</u> | <u>(408,457)</u> |
| Loans receivable, net | | <u>12,697,296</u> | <u>7,942,769</u> |
| Less: Current portion of loans receivable | | <u>(3,018,633)</u> | <u>(2,568,428)</u> |
| Loans Receivable, Noncurrent | | <u>\$ 9,678,663</u> | <u>\$ 5,374,341</u> |

The activity in the allowance for loan losses consisted of the following for the years ended December 31:

| | <u>2020</u> | <u>2019</u> |
|---|-------------------|-------------------|
| Balance at Beginning of Year | \$ 408,457 | \$ 460,523 |
| Provision charged to expense | 291,211 | 89,685 |
| Recoveries | 125,874 | 625,125 |
| Loan loss reserve (used) funded by lender | 69,468 | (7,563) |
| Loans charged off | <u>(407,878)</u> | <u>(759,313)</u> |
| Balance at End of Year | <u>\$ 487,132</u> | <u>\$ 408,457</u> |

The Organization has secured guarantee agreements that limit its risk of loan loss on certain loans. Of the loans charged off reflected in the table above, \$223,112 and \$625,125 for the years ended December 31, 2020 and 2019, respectively, were covered by these agreements (Note 12).

The following tables present the aging for loans receivable and the status of interest accruals at December 31:

| | | <u>2020</u> | | | | | | |
|----------------------|-------------------|-------------------|-------------------|--------------------|---------------------|-----------------------|----------------------|--|
| | | <u>Past Due</u> | | | | | | |
| <u>Current</u> | <u>1-30 Days</u> | <u>31-60 Days</u> | <u>61-90 Days</u> | <u>91-120 Days</u> | <u>>120 Days</u> | <u>Total Past Due</u> | <u>Balance</u> | |
| \$ <u>12,817,478</u> | \$ <u>202,396</u> | \$ <u>40,745</u> | \$ <u>9,840</u> | \$ <u>59,355</u> | \$ <u>54,614</u> | \$ <u>164,554</u> | \$ <u>13,184,428</u> | |

ACCION SAN DIEGO
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

Note 7 - Loans Receivable: (Continued)

| | | 2019 | | | | | | |
|-------------------------------|--|--|-------------------|-------------------------------|--|--|----------------|--|
| <u>Current</u> | <u>1-30 Days</u> | <u>31-60 Days</u> | <u>61-90 Days</u> | <u>Past Due</u> | | <u>Total Past Due</u> | <u>Balance</u> | |
| | | | | <u>91-120 Days</u> | <u>>120 Days</u> | | | |
| \$ 7,855,338 | \$ 232,565 | \$ 76,604 | \$ 48,898 | \$ 27,889 | \$ 109,932 | \$ 263,323 | \$ 8,351,226 | |
| | | 2020 | | | 2019 | | | |
| | | <u>Status of Interest Accruals</u> | | | <u>Status of Interest Accruals</u> | | | |
| <u>Total Loans Receivable</u> | <u>Total Loans Receivable on Nonaccrual Status</u> | <u>Loans Receivable Past Due > 120 Days and Still Accruing Interest</u> | | <u>Total Loans Receivable</u> | <u>Total Loans Receivable on Nonaccrual Status</u> | <u>Loans Receivable Past Due > 120 Days and Still Accruing Interest</u> | | |
| \$ 13,184,428 | \$ 150,345 | \$ - | | \$ 8,351,226 | \$ 114,532 | \$ - | | |

The Organization sold -0- and 17 loans to Pacific Mercantile Bank in 2020 and 2019, respectively. The loans are excluded from the Organization's loan portfolio, but the Organization continues to service the borrowers and remits all principal and interest collections to the buyer. As of December 31, 2020 and 2019, the principal balance of the sold loans totaled \$26,093 and \$86,883, respectively.

Note 8 - Property and Equipment:

Property and equipment consist of the following at December 31:

| | <u>2020</u> | <u>2019</u> |
|--------------------------------|------------------|------------------|
| Leasehold improvements | \$ 70,421 | \$ 70,421 |
| Computer software | 43,484 | 43,484 |
| Computer equipment | 17,139 | 17,139 |
| Furniture and equipment | 7,092 | 7,092 |
| Subtotal | <u>138,136</u> | <u>138,136</u> |
| Less: Accumulated depreciation | <u>(126,821)</u> | <u>(115,924)</u> |
| Property and Equipment, Net | <u>\$ 11,315</u> | <u>\$ 22,212</u> |

Note 9 - Deferred Revenue:

The Organization has received a conditional award from the Community Development Financial Institution Program (CDFI) totaling \$714,000. This award is conditioned upon the Organization funding loans to specific target markets that are either lower income or lacking access to financial products. In addition, the Organization must meet certain lending benchmarks annually. The Organization recognizes revenue under the award when the conditions on which it depends have been met. The Organization recognized revenue from the award totaling \$649,950 for the year ended December 31, 2020 which is included in Federal awards.

ACCION SAN DIEGO
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

Note 9 - Deferred Revenue: (Continued)

In response to the pandemic, the Organization applied for and received a loan, at 1% interest, from the Small Business Administration in the amount of \$351,996 under the Paycheck Protection Program (PPP). The loan and accrued interest are forgivable after 24 weeks as long as the borrower uses the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities, and maintains its payroll levels. The amount of loan forgiveness will be reduced if the borrower terminates employees or reduces salaries during the 24-week period.

The unforgiven portion of the PPP loan is payable over five years at an interest rate of 1%, with a deferral of payments up to 10 months. The Organization expects to satisfy the terms and conditions of forgiveness of the PPP loan, and will recognize the amount received as revenue during the year ended December 31, 2021, when forgiveness has been granted by the lender.

Deferred revenue consists of the following at December 31:

| | <u>2020</u> | <u>2019</u> |
|---------------------------------|-------------|-------------|
| CDFI grant | \$ 64,050 | \$ - |
| Payroll protection program loan | 351,996 | - |
| Total Deferred Revenue | \$ 416,046 | \$ - |

Note 10 - Notes Payable:

Notes payable consist of the following at December 31:

| | <u>2020</u> | <u>2019</u> |
|--|--------------|-------------|
| Unsecured note payable to the San Diego Foundation. The note bears no interest, with quarterly payments equal to the total amount of collections on the business loans granted by the Organization using the proceeds from the note payable. The outstanding principal balance will be due at maturity, December 31, 2025. | \$ 5,000,000 | \$ - |
| Unsecured note payable to Wells Fargo Community Development Corporation. The note bears interest at a fixed rate of 2% of the outstanding balance annually, with interest only payments due quarterly. All outstanding principal and any accrued but unpaid interest will be due at maturity November 16, 2025. The note terms can be extended two additional years at a modified interest rate. | 750,000 | 750,000 |
| Unsecured note payable to Pacific Premier Bank. The note bears interest at a fixed rate of 2% of the outstanding balance annually, with interest payments due quarterly. All outstanding principal and any accrued but unpaid interest will be due at maturity, December 31, 2029. The note terms can be extended five additional years at a modified interest rate. | 500,000 | 500,000 |

ACCION SAN DIEGO
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

Note 10 - Notes Payable: (Continued)

| | <u>2020</u> | <u>2019</u> |
|--|---------------------|---------------------|
| Unsecured note payable to Civic San Diego. The note bears no interest. The outstanding principal balance will be due at maturity, January 10, 2022, and can be extended for another 5 years, upon submission of a written extension request. | \$ 400,000 | \$ 400,000 |
| Unsecured note payable to Pacific Western Bank (Bank). The note bears no interest, provided the Bank receives California Organized Investment Network (COIN) CDFI tax credits as defined in the California Revenue and Taxation Code. Interest will accrue at a rate of 4% of the outstanding balance if the tax credits are not approved. Interest only payments are due quarterly. All outstanding principal and any accrued but unpaid interest were due at maturity, September 29, 2020. | - | 250,000 |
| Total Notes Payable | <u>\$ 6,650,000</u> | <u>\$ 1,900,000</u> |

As of December 31, 2020 and 2019, accrued interest on notes payable totaled \$1,250 each year and is included in accounts payable and accrued expenses.

Future principal payments on notes payable are as follows:

| <u>Years Ended</u> <u>December 31</u> | |
|--|---------------------|
| 2021 | \$ - |
| 2022 | 1,146,106 |
| 2023 | - |
| 2024 | - |
| 2025 | 5,003,894 |
| Thereafter | 500,000 |
| | <u>\$ 6,650,000</u> |

Note 11 - Net Assets With Donor Restrictions:

Net assets with donor restrictions represent contributions received or receivable by the Organization, which are limited in their use by time or donor-imposed restrictions. Net assets with donor restrictions are available for the following purposes at December 31:

| | <u>2020</u> | <u>2019</u> |
|--|---------------------|-------------|
| Subject to Expenditure for Specified Purpose: | | |
| Loan participation | \$ <u>1,194,800</u> | \$ - |
| Total Net Assets With Donor Restrictions | <u>\$ 1,194,800</u> | <u>\$ -</u> |

ACCION SAN DIEGO
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

Note 11 - Net Assets With Donor Restrictions: (Continued)

Net assets released from donor restrictions by incurring expenses satisfying the restricted purpose or by the passage of time or other events specified by the donors are as follows for the years ended December 31:

| | <u>2020</u> | <u>2019</u> |
|---|-------------|-------------|
| Purpose Restriction Accomplished: | | |
| Loan participation | \$ - | \$ 67,833 |
| Total Net Assets Released From Restrictions | \$ - | \$ 67,833 |

Note 12 - Loan Guarantee and Reserve Programs:

The Organization participates in the Nor-Cal Financial Development Corporation (FDC), the California Southern FDC, the California Southern FDC Disaster loss guarantee program and the California CAP loan loss reserve program. These programs provide loan loss recoveries between 80% and 100% on enrolled loans depending on the characteristics of the loan and the program. The following summarizes, by program, the loan balances and the related loan loss guarantees or reserves:

Nor-Cal FDC

The Organization participates in the Nor-Cal FDC loan loss guarantee program which guarantees loans up to 80% of the loan balance at the time of the loss claim, with no minimum dollar exposure and a maximum dollar exposure of \$50 million, and a maximum term of seven years. A guarantee fee of 2.5% (\$300 minimum) is charged to the client in addition to a \$250 application fee. If a loan defaults, Accion San Diego can use the loan guarantee to recover the loss, up to the guarantee percentage of the loan loss, at the time of claim. Minimum loan amount to qualify for this program is \$25,000.

The following summarizes the number of loans, the loan balance and the related loan guarantee as of and for the years ended December 31:

| | <u>2020</u> | <u>2019</u> |
|-----------------|--------------|--------------|
| Number of Loans | 105 | 164 |
| Loan Balance | \$ 2,759,683 | \$ 3,822,818 |
| Loan Guarantee | \$ 2,167,746 | \$ 3,052,743 |

ACCION SAN DIEGO
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

Note 12 - Loan Guarantee and Reserve Programs: (Continued)

California Southern FDC

The Organization participates in California Southern FDC loan loss guarantee program which guarantees loans up to 80% of the loan balance at the time of the loss claim, with no minimum dollar exposure, a maximum dollar exposure of \$50 million and a maximum term of seven years. A guarantee fee of 2.5% (\$300 minimum) is charged to the client in addition to a \$250 application fee. If a loan defaults the Organization can use the loan guarantee to recover the loss up to the guarantee percentage of the loan loss at the time of the claim. Minimum loan amount to qualify for this program is \$25,000.

The following summarizes the number of loans, the loan balance and the related loan guarantee as of and for the years ended December 31:

| | <u>2020</u> | <u>2019</u> |
|-----------------|---------------------|---------------------|
| Number of Loans | <u>70</u> | <u>73</u> |
| Loan Balance | \$ <u>2,108,339</u> | \$ <u>2,068,180</u> |
| Loan Guarantee | \$ <u>1,667,346</u> | \$ <u>1,654,544</u> |

This is the minimum guaranteed amount of coverage. The actual guaranteed percent coverage varies by loan within the portfolio, and therefore the actual dollar amount covered by guarantee may exceed the minimum guaranteed amount.

California Southern FDC Disaster Loss Guarantee Program

In 2020, the Organization began participation in the California Southern FDC Disaster Loss Guarantee Program in response to COVID-19 which provided 95% guarantees on loans to businesses that had been negatively impacted as a result of the pandemic. If a loan defaults, the Organization can use the guarantee to recover the loss at 95% of the loan loss at the time of the claim.

The following summarizes the number of loans, the loan balance and the related loan guarantee as of and for the years ended December 31:

| | <u>2020</u> | <u>2019</u> |
|-----------------|---------------------|-------------|
| Number of Loans | <u>230</u> | <u>-</u> |
| Loan Balance | \$ <u>7,042,174</u> | \$ <u>-</u> |
| Loan Guarantee | \$ <u>6,690,065</u> | \$ <u>-</u> |

ACCION SAN DIEGO
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

Note 12 - Loan Guarantee and Reserve Programs: (Continued)

California Capital Access Program (CalCAP)

The Organization participates in the CalCAP loan loss reserve program which guarantees certain loan defaults up to 100% of the loan balance at the time of the loss. By participating in CalCAP's program, The Organization has mitigated the risk of losses to the portfolio. Premiums are paid into the portfolio loss reserve account (2% Accion San Diego, 2% CalCAP). CalCAP then adds 150% of premium (6%) to the reserve account until it reaches \$500,000 in secured loans (3% thereafter). If a covered loan defaults, the Organization has the option to draw funds from this reserve to cover the loss or the funds can remain in the reserve account for future needs. Minimum loan amount to qualify for this program is \$5,001.

The following summarizes the number of loans, the loan balance and the related loan loss reserve as of and for the years ended December 31:

| | <u>2020</u> | <u>2019</u> |
|-------------------|---------------------|---------------------|
| Number of Loans | <u>182</u> | <u>284</u> |
| Loan Balance | \$ <u>1,058,006</u> | \$ <u>1,956,353</u> |
| Loan Loss Reserve | \$ <u>24,167</u> | \$ <u>267,005</u> |

Note 13 - Commitments and Contingency:

Lease Obligations

The Organization leases office space under an operating lease that expires January 31, 2023. The monthly rental amount is \$7,972 with annual increase of 3% until the end of lease, January 31, 2023. Occupancy expense, including common area maintenance charges, totaled \$112,355 and \$114,005 for the years ended December 31, 2020 and 2019, respectively.

In addition, the Organization leases a digital copier under an operating lease agreement through June 2020. A new copier lease agreement was signed on May 27, 2020 extending the lease for another 5 years. Equipment rental, including maintenance charges, totaled \$4,852 and \$8,238 for the years ended December 31, 2020 and 2019, respectively, and are included under equipment rental.

ACCION SAN DIEGO
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

Note 13 - Commitments and Contingencies: (Continued)

Lease Obligations (Continued)

The following is a schedule of the future minimum lease payments under the leases:

| <u>Years Ended</u> <u>December 31</u> | <u>Office Space</u> | <u>Equipment</u> | <u>Total</u> |
|--|---------------------|------------------|-------------------|
| 2021 | \$ 98,295 | \$ 4,333 | \$ 102,628 |
| 2022 | 101,244 | 4,333 | 105,577 |
| 2023 | 8,457 | 4,333 | 12,790 |
| 2024 | - | 4,333 | 4,333 |
| 2025 | - | 1,805 | 1,805 |
| Total | <u>\$ 207,996</u> | <u>\$ 19,137</u> | <u>\$ 227,133</u> |

Retirement Plan

The Organization offers eligible employees the opportunity for participation in a 403(b) retirement plan. Employees may contribute to the Plan up to the maximum amount allowed by the Internal Revenue Code. The Organization contributes a matching contribution equal to 3% of compensation. The Organization contributed \$44,875 and \$36,242 to the Plan for the years ended December 31, 2020 and 2019 and is included in payroll taxes and employees benefits in the statements of functional expenses.

Grants

Expenditures under grant programs may be subject to program or compliance audits by the grantor which may result in disallowed program expenditures. The Organization is not aware of any such audits in progress at December 31, 2020 and 2019.

Coronavirus Pandemic Contingency

On March 11, 2020, the World Health Organization characterized COVID-19 as a pandemic. In addition, the state of California declared a state of emergency on March 3, 2020 and received federal Major Disaster Declaration on March 22, 2020. It is anticipated that these impacts will continue for some time. The potential impacts to the Organization include redeployment of staff to work remotely. Their ability to work remotely has allowed for the continuation of lending, servicing and other program services.

As a result of the COVID-19 pandemic, the Organization provided existing loan accommodations, the majority of those borrowers have since resumed payment. In addition, the Organization developed and deployed a significant amount of Covid Relief loans (230 units and \$7,042,174), described in Note 12, FDC Disaster Loss Guarantee Program, which has continued. It is anticipated that macroenvironment impacts could remain for some time with unknown duration and could affect future performance of the portfolio or the Organization's operating costs. As a result, the Organization is unable to determine or predict exact overall impact that these events will have on operations, liquidity, or capital resources.

ACCION SAN DIEGO
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

Note 14 - Subsequent Event:

As a result of strategic discussions, the Organization's license from Accion International was extended through to March 31, 2021, at which time the organization rebranded changing its legal name from Accion San Diego to Accessity. The Organization's independent 501(c)(3) status, Employer Identification Number (EIN), mission, staff and board leadership, as well as locations and phone numbers remain the same. The website was updated to www.accessity.org.

ACCION SAN DIEGO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2020

| Federal Grants/Pass-Through Grantor/Program or Cluster Title | Federal CFDA Number | Agency or Pass-Through Number | Pass Through to Subrecipient | Federal Expenditures | Total Federal Expenditures |
|---|---------------------------|----------------------------------|------------------------------------|-------------------------|----------------------------------|
| <u>U.S. Department of Housing and Urban Development:</u> | | | | | |
| Pass-Through Program From: | | | | | |
| CDBG - Entitlement Grants Cluster: | | | | | |
| City of San Diego: | | | | | |
| Community Development Block Grants/Entitlement Grants | 14.218 | 10012298 | \$ - | \$ 195,820 | \$ 195,820 |
| Total CDBG - Entitlement Grants Cluster | | | <u>-</u> | <u>195,820</u> | <u>195,820</u> |
| Total U.S. Department of Housing and Urban Development | | | <u>-</u> | <u>195,820</u> | <u>195,820</u> |
| <u>U.S. Department of the Treasury:</u> | | | | | |
| Direct Program: | | | | | |
| CDFI Cluster: | | | | | |
| Community Development Financial Institutions Program | 21.020 | 191FA051808 | - | 649,950 | 649,950 |
| Total CDFI Cluster | | | <u>-</u> | <u>649,950</u> | <u>649,950</u> |
| Total U.S. Department of the Treasury | | | <u>-</u> | <u>649,950</u> | <u>649,950</u> |
| Total Expenditures of Federal Awards | | | <u>\$ -</u> | <u>\$ 845,770</u> | <u>\$ 845,770</u> |

ACCION SAN DIEGO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2020

Note 1 - Basis of Presentation:

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Accion San Diego under programs of the federal government for the year ended December 31, 2020. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Accion San Diego, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Accion San Diego.

Note 2 - Summary of Significant Accounting Policies:

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Accion San Diego has elected not to use the 10-percent de minimis indirect cost rate as allowed under Uniform Guidance.



Leaf & Cole, LLP
Certified Public Accountants
A Partnership of Professional Corporations

**Independent Auditor’s Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in
Accordance With *Government Auditing Standards***

To the Board of Directors
Accion San Diego

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Accion San Diego, which comprise the statement of financial position as of December 31, 2020, and the related statements of activities, functional expenses and cash flows for the year then ended and the related notes to the financial statements, and have issued our report thereon dated June 29, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Accion San Diego’s internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Accion San Diego’s internal control. Accordingly, we do not express an opinion on the effectiveness of Accion San Diego’s internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Accion San Diego's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Accion San Diego's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Accion San Diego's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Leaf & Cole LLP

San Diego, California
June 29, 2021



Leaf & Cole, LLP
Certified Public Accountants
A Partnership of Professional Corporations

**Independent Auditor's Report on Compliance
for the Major Program and on Internal Control Over
Compliance Required by the Uniform Guidance**

To the Board of Directors
Accion San Diego

Report on Compliance for the Major Federal Program

We have audited Accion San Diego's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on Accion San Diego's major federal program for the year ended December 31, 2020. Accion San Diego's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal program.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for Accion San Diego's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Accion San Diego's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of Accion San Diego's compliance.

Opinion on the Major Federal Program

In our opinion, Accion San Diego complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2020.

Report on Internal Control over Compliance

Management of Accion San Diego is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Accion San Diego's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Accion San Diego's internal control over compliance.

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

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

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

Leafcote LLP

San Diego, California
June 29, 2021

**ACCION SAN DIEGO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2020**

Section I - Summary of Auditor's Results:

Financial Statements

Type of auditor's report issued on whether the financial statements audited were prepared in accordance with U.S. GAAP: Unmodified

Internal control over financial reporting:

| | | | | | |
|--------------------------------------|-------|-----|-------|---|----|
| Material weakness identified? | _____ | Yes | _____ | X | No |
| Significant deficiencies identified? | _____ | Yes | _____ | X | No |

Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Type of auditor's report issued on compliance For the major program: Unmodified

Internal control over major program:

| | | | | | |
|--------------------------------------|-------|-----|-------|---|----|
| Material weakness identified? | _____ | Yes | _____ | X | No |
| Significant deficiencies identified? | _____ | Yes | _____ | X | No |

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? _____ Yes X No

Identification of major program:

| | |
|---------------------|---|
| <u>C DFA Number</u> | <u>Name of Federal Program or Cluster</u> |
|---------------------|---|

| | |
|--------|--|
| | <u>C DFI Cluster</u> |
| 21.020 | Community Development Financial Institutions Program |

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee? _____ Yes X No

Section II - Financial Statement Findings:

None

Section III - Federal Award Findings and Questioned Costs:

None