ACCION SAN DIEGO

FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

Leaf & Cole, LLP
Certified Public Accountants

ACCION SAN DIEGO
FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

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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, 2019 and 2018, 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. 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.

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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, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Leaf & Cole LLP

San Diego, California
June 26, 2020

ACCION SAN DIEGO
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2019 AND 2018

ASSETS

	2019	2018
Current Assets: (Notes 2, 4, 5, 6 and 7)		
Cash and cash equivalents	$ 2,962,619	$ 3,568,920
Receivables, net:		
Grants	37,769	60,400
Contributions	254,375	5,613
Other	592,603	95,624
Loan interest and fees	66,686	66,610
Current portion of loans receivable	2,568,428	1,951,622
Deposits and prepaid expenses	46,203	42,752
Total Current Assets	6,528,683	5,791,541
Noncurrent Assets: (Notes 2, 7 and 8)		
Loans receivable, net	5,374,341	5,233,192
Loan loss reserve	232,900	269,606
Property and equipment, net	22,212	33,549
Total Noncurrent Assets	5,629,453	5,536,347
TOTAL ASSETS	$ 12,158,136	$ 11,327,888

LIABILITIES AND NET ASSETS

	2019	2018
Current Liabilities: (Notes 2, 9 and 10)		
Accounts payable and accrued expenses	$ 378,696	$ 239,630
Deferred revenue	-	5,009
Current portion of notes payable	250,000	250,000
Total Current Liabilities	628,696	494,639
Noncurrent Liabilities: (Note 10)		
Notes payable	1,900,000	1,650,000
Less: Current portion	(250,000)	(250,000)
Total Noncurrent Liabilities	1,650,000	1,400,000
Total Liabilities	2,278,696	1,894,639
Commitments and Contingencies (Note 13)		
Net Assets: (Notes 2 and 11)		
Without donor restrictions:	9,879,440	9,433,249
Total Net Assets	9,879,440	9,433,249
TOTAL LIABILITIES AND NET ASSETS	$ 12,158,136	$ 11,327,888

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
Revenue and Support:			
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	3,256,194	-	3,256,194
Expenses:			
Program Services	2,685,519	-	2,685,519
Supporting Services:			
Management and general	94,686	-	94,686
Fundraising	29,798	-	29,798
Total Supporting Services	124,484	-	124,484
Total Expenses	2,810,003	-	2,810,003
Change in Net Assets	446,191	-	446,191
Net Assets at Beginning of Year	9,433,249	-	9,433,249
NET ASSETS AT END OF YEAR	$ 9,879,440	$ -	$ 9,879,440

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

ACCION SAN DIEGO
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Support:			
Loan interest and fees	$ 1,283,271	$ -	$ 1,283,271
Federal awards	919,679	-	919,679
Grants and contributions	768,202	29,500	797,702
In-kind contributions	102,556	-	102,556
Investment income	4,609	-	4,609
Net assets released from restrictions	29,500	(29,500)	-
Total Revenue and Support	3,107,817	-	3,107,817
Expenses:			
Program Services	2,362,289	-	2,362,289
Supporting Services:			
Management and general	130,189	-	130,189
Fundraising	21,422	-	21,422
Total Supporting Services	151,611	-	151,611
Total Expenses	2,513,900	-	2,513,900
Change in Net Assets	593,917	-	593,917
Net Assets at Beginning of Year	8,839,332	-	8,839,332
NET ASSETS AT END OF YEAR	$ 9,433,249	$ -	$ 9,433,249

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

	Program Services	Supporting Services: Management and General	Supporting Services: Fundraising	Supporting Services: Total Supporting Services	Total
Salaries and Related Expenses:					
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
Nonsalary Related Expenses:					
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 PROGRAM AND SUPPORTING SERVICES 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
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2018

	Program Services	Supporting Services: Management and General	Supporting Services: Fundraising	Supporting Services: Total Supporting Services	Total
Salaries and Related Expenses:					
Staff salaries	$ 1,279,581	$ 92,139	$ 13,813	$ 105,952	$ 1,385,533
Payroll taxes and employee benefits	257,597	13,702	2,740	16,442	274,039
Total Salaries and Related Expenses	1,537,178	105,841	16,553	122,394	1,659,572
Nonsalary Related Expenses:					
Accounting and legal	48,601	2,585	517	3,102	51,703
Bank fees	11,540	614	123	737	12,277
Dues and subscriptions	22,904	1,218	244	1,462	24,366
Equipment rental	6,973	371	74	445	7,418
Insurance	18,355	976	195	1,171	19,526
Interest expense	90,521	-	-	-	90,521
Lending expense	128,792	-	-	-	128,792
Meetings and conferences	5,476	291	58	349	5,825
Mileage, parking and transport	28,604	1,521	304	1,825	30,429
Miscellaneous expenses	5,787	308	62	370	6,157
Occupancy	120,221	6,395	1,279	7,674	127,895
Postage and shipping	6,354	338	68	406	6,760
Printing and copying	2,855	152	30	182	3,037
Provision for loan losses	148,048	-	-	-	148,048
Public relations and marketing	38,001	2,021	404	2,425	40,426
Small equipment	10,330	549	110	659	10,989
Software expense	40,693	2,165	433	2,598	43,291
Supplies	9,033	481	96	577	9,610
Taxes and licenses	1,564	83	17	100	1,664
Telephone	23,165	1,232	246	1,478	24,643
Training	20,912	1,112	222	1,334	22,246
Travel, meals and accommodations	26,912	1,432	286	1,718	28,630
Total Nonsalary Related Expenses	815,641	23,844	4,768	28,612	844,253
Total Expenses Before Depreciation	2,352,819	129,685	21,321	151,006	2,503,825
Depreciation	9,470	504	101	605	10,075
TOTAL PROGRAM AND SUPPORTING SERVICES EXPENSES	$ 2,362,289	$ 130,189	$ 21,422	$ 151,611	$ 2,513,900

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

ACCION SAN DIEGO
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
Cash Flows From Operating Activities:		
Change in net assets	$ 446,191	$ 593,917
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	15,788	10,075
Provision for loan losses	89,685	148,048
(Increase) Decrease in:		
Grants receivable	22,631	93,839
Contributions receivable	(248,762)	(5,613)
Other receivables	(496,979)	50,596
Loan interest and fees receivable	(76)	(12,606)
Deposits and prepaid expenses	(3,451)	(15,200)
Increase (Decrease) in:		
Accounts payable and accrued expenses	139,066	(21,913)
Deferred revenue	(5,009)	(18,990)
Net Cash (Used in) Provided by Operating Activities	(40,916)	822,153
Cash Flows From Investing Activities:		
Funding of loans receivable	(4,735,091)	(4,723,867)
Repayment of loans receivable	3,887,451	3,447,187
Purchase of property and equipment	(4,451)	(12,688)
Net Cash Used in Investing Activities	(852,091)	(1,289,368)
Cash Flows From Financing Activities:		
Proceeds from notes payable	500,000	200,000
Payments on notes payable	(250,000)	-
Net Cash Provided by Financing Activities	250,000	200,000
Net Decrease in Cash and Restricted Cash and Cash Equivalents	(643,007)	(267,215)
Cash and Restricted Cash and Cash Equivalents at Beginning of Year	3,600,314	3,867,529
CASH AND RESTRICTED CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 2,957,307	$ 3,600,314
Supplemental Disclosure of Cash Flow Information:		
Cash paid for interest	$ 16,763	$ 20,000

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

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 County, Riverside and San Bernardino Counties in California.

Through business loans (of $300 to $100,000) and support services, the Organization strengthens emerging entrepreneurs and helps them to thrive in their communities, creating social and economic change by providing business support and small business loans. 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.

Accion San Diego is licensed by Accion International and collaborates with four individually governed and managed not-for-profit Accion branded offices that each serve specified geographies and collectively serve thousands of clients nationwide. Each office accounts for its own costs related to these collaborative offices, except for certain instances where cost synergies are deemed beneficial collectively.

Accion San Diego's current license from Accion International has an expiration date of December 31, 2020 (unless extended) and the organization is in strategic discussions regarding collaborations with existing Accion entities and rebranding.

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.

Note 2 - Significant Accounting Policies: (Continued)

Financial Statement Presentation (Continued)

- 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.

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, 2019 and 2018.

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, 2019 and 2018.

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 24 and 31 loans on nonaccrual status at December 31, 2019 and 2018, 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, loan loss guarantee program coverage in place and standards set by the Accion Network. 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 $89,685 and $148,048 for the years ended December 31, 2019 and 2018, 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.

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 $77,394 and $89,079 at December 31, 2019 and 2018, 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 $25,438 and $9,597 related to TDR's at December 31, 2019 and 2018, respectively.

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 $232,900 and $269,606 at December 31, 2019 and 2018, 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. Property and equipment are depreciated using the straight-line method over the estimated useful asset lives as follows:

Note 2 - Significant Accounting Policies: (Continued)

Capitalization and Depreciation (Continued)

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

Depreciation totaled $15,788 and $10,075 for the years ended December 31, 2019 and 2018, 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 $94,013 and $86,051 at December 31, 2019 and 2018, respectively, is accrued when incurred and included in incentive and PTO payable as a component of accounts payable and accrued expenses.

Deferred Lease

Rent expense is recognized on a straight-line basis over the term of the operating lease. The deferred lease represents discounted rent received in excess of the rent expense recognized. The deferred lease totaled $-0- and $8,553 at December 31, 2019 and 2018, respectively, and is included as an accrued expense in 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.

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 $132,387 and $102,556 for the years ended December 31, 2019 and 2018, respectively, and have been reported as in-kind contributions and expenses.

	2019	2018
Donated legal services	$ 64,277	$ 18,696
Below market interest on notes payable	58,103	71,500
Donated workshop presenter services	7,207	10,229
Donated other services	2,150	-
Gift certificates	650	-
Donated rent	-	2,131
Total In-Kind Contributions	$ 132,387	$ 102,556

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, 2019 and 2018, 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

Accion San Diego 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. Accion San Diego is not a private foundation.

Accion San Diego's Return of Organization Exempt from Income Tax for the years ended December 31, 2019, 2018, 2017 and 2016 are subject to examination by the Internal Revenue Service and State taxing authorities, generally three to four years after the returns were filed.

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 statement 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 Organization occasionally maintains cash on deposit at a bank in excess of the Federal Deposit Insurance Corporation limit. The Organization has not experienced any losses in such accounts. The following is a reconciliation of cash and restricted cash reported within the statement of financial position that sum to the total in the statements of cash flows at December 31, 2019.

	2019	2018
Cash and money market funds	$ 2,455,504	$ 3,068,742
Certificates of deposit	507,115	500,178
Loan loss reserve	232,900	269,606
Total Cash and Restricted Cash and Cash Equivalents	$ 3,195,519	$ 3,838,526

Certificates of deposit bear interest at rates ranging from 2.30% to 2.40% and mature through August 2020.

Accounting Pronouncements Adopted

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606). ASU 2014-09 outlines a single, comprehensive model for companies to use in accounting for revenue arising from contracts with customers. The core principle of the revenue model is that revenue is recognized when a customer obtains control of a good or service. The change in accounting principle was adopted on the retrospective basis which resulted in no change to revenue previously reported and also had no effect on the revenue reported for the year ended December 31, 2019.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows.* ASU 2016-18 requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. The adoption of ASU 2016-18 for the year ended December 31, 2019 did not require any restatement of cash and cash equivalents for December 31, 2019 and 2018.

Note 2 - Significant Accounting Policies: (Continued)

Accounting Pronouncements Adopted (Continued)

In June 2018, the FASB issued ASU 2018-08, Not-for-Profit Entities (Topic 958), Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made. The ASU clarifies and improves guidance for contributions received and contributions made and provides guidance to organizations on how to account for certain exchange transactions. This change is preferable in that it clarifies whether to account for transactions as contributions or as exchange transactions. In addition, it clarifies whether a contribution is conditional. As a result, it enhances comparability of financial information among not-for-profit entities. The change in accounting principle was adopted on a modified prospective basis in 2019. As a result, there was no cumulative-effect adjustment to opening net assets without donor restrictions or opening net assets with donor restrictions as of January 1, 2019. There was no effect of adopting the new accounting principles in contributions in 2019.

Subsequent Events

The Organization has evaluated subsequent events through June 26, 2020, 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.

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 balance sheet date, comprise the following:

	2019	2018
Financial assets at year-end:		
Cash and cash equivalents	$ 2,962,619	$ 3,568,920
Receivables, net - current	3,519,861	2,179,869
Financial assets available to meet cash needs for general expenditures within one year	$ 6,482,480	$ 5,748,789

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:

	2019	2018
City of San Diego - Community Development Block Grant	$ 34,230	$ 50,286
City of San Diego - Small Business Enhancement Program	3,539	1,170
Accion U.S. Network	-	8,944
Total Grants Receivable	$ 37,769	$ 60,400

Note 5 - Contributions Receivable:

Contributions receivable consists of the following at December 31:

	2019	2018
Due in less than one year	$ 254,375	$ 5,613

Note 6 - Other Receivables:

Other receivables consist of the loan loss recoveries requested but not received and totaled $592,603 and $95,624 at December 31, 2019 and 2018, respectively.

Note 7 - Loans Receivable:

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

Funding Source	Interest Rates	2019	2018
Accion San Diego	1.00% - 18.00%	$ 5,252,754	$ 3,429,421
Comerica Bank	9.5% - 18.00%	813,663	849,954
Community Development Financial Institution	10.00% - 18.00%	793,673	1,635,691
Wells Fargo Bank	7.5% - 16.00%	744,818	957,454
Civic San Diego	10.00% - 18.00%	370,992	384,084
Pacific Western Bank	10.00% - 18.00%	237,757	238,725
Private sources	10.00% - 18.00%	45,771	48,177
Torrey Pines Bank	13.5% - 18.00%	41,704	38,660
Jacobs Foundation	12.00% - 18.00%	40,180	53,545
California Bank and Trust	15.5% - 18.00%	9,914	9,626
Total Loans Receivable		8,351,226	7,645,337
Less: Allowance for loan losses		(408,457)	(460,523)
Loans receivable, net		7,942,769	7,184,814
Less: Current portion of loans receivable		(2,568,428)	(1,951,622)
Loans Receivable, Noncurrent		$ 5,374,341	$ 5,233,192

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

	2019	2018
Balance at Beginning of Year	$ 460,523	$ 394,288
Recoveries	625,125	370,217
Provision charged to expense	89,685	148,048
Loan loss reserve (used) funded by lender	(7,563)	(10,203)
Loans charged off	(759,313)	(441,827)
Balance at End of Year	$ 408,457	$ 460,523

Note 7 - Loans Receivable: (Continued)

The Organization has secured debt agreements that limit its risk of loan loss on certain loans. Of the loans charged off reflected in the table above, $625,125 and $370,217 for the years ended December 31, 2019 and 2018, respectively, were covered by these agreements (Note 10).

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

2019							
		Past Due				Total	
Current	1-30 Days	31-60 Days	61-90 Days	91-120 Days	>120 Days	Past Due	Balance
$ 7,855,338	$ 232,565	$ 76,604	$ 48,898	$ 27,889	$ 109,932	$ 263,323	$ 8,351,226

2018							
		Past Due				Total	
Current	1-30 Days	31-60 Days	61-90 Days	91-120 Days	>120 Days	Past Due	Balance
$ 6,996,006	$ 292,338	$ 114,473	$ 47,382	$ 80,521	$ 114,617	$ 356,993	$ 7,645,337

2019			2018		
	Status of Interest Accruals			Status of Interest Accruals	
Total Loans Receivable	Total Loans Receivable on Nonaccrual Status	Loans Receivable Past Due > 120 Days and Still Accruing Interest	Total Loans Receivable	Total Loans Receivable on Nonaccrual Status	Loans Receivable Past Due > 120 Days and Still Accruing Interest
$ 8,351,226	$ 114,532	$ -	$ 7,645,337	$ 289,149	$ -

The Organization sold 17 and 18 loans to Pacific Mercantile Bank in 2019 and 2018, 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, 2019, the principal balance of the sold loans totaled $86,883.

Note 8 - Property and Equipment:

Property and equipment consist of the following at December 31:

	2019	2018
Leasehold improvements	$ 70,421	$ 70,421
Computer software	43,484	43,484
Computer equipment	17,139	12,688
Furniture and equipment	7,092	7,092
Subtotal	138,136	133,685
Less: Accumulated depreciation	(115,924)	(100,136)
Property and Equipment, Net	$ 22,212	$ 33,549

Note 9 - Deferred Revenue:

The Organization was a field partner of Kiva Microfunds (Kiva), which connected local lenders that provide loans to individuals. Field partners use lender funds to replenish loans already made and collect payments from the borrowers which were remitted to the lenders through Kiva. This program ended on December 31, 2016.

Deferred revenue consists of the following at December 31:

	2019	2018
Kiva	$ -	$ 4,759
Others	-	250
Total Deferred Revenue	$ -	$ 5,009

Note 10 - Notes Payable:

Notes payable consist of the following at December 31:

	2019	2018
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	-
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 quarterly. All outstanding principal and any accrued but unpaid interest will be due at maturity, September 29, 2020.	250,000	250,000

Note 10 - Notes Payable: (Continued)

	2019	2018
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, February 18, 2019. The note terms can be extended two additional years at a modified interest rate.	$ -	$ 250,000
Total Notes Payable	$ 1,900,000	$ 1,650,000

As of December 31, 2019 and 2018, accrued interest on notes payable totaled $1,250 and $1,556, respectively and is included in accounts payable and accrued expenses.

Future principal payments on notes payable are as follows:

Years Ended December 31	
2020	$ 250,000
2021	-
2022	400,000
2023	-
2024	-
Thereafter	1,250,000
	$ 1,900,000

Note 11 - Net Assets With Donor Restrictions:

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:

	2019	2018
Purpose Restriction Accomplished:		
Loan participation	$ 67,833	$ 29,500

Note 12 - Loan Guarantee and Reserve Programs:

The Organization participates in the Nor-Cal Financial Development Corporation (FDC), the California Southern FDC and the California CAP loan loss reserve program. These programs provide loan loss recoveries between 50% 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

Accion San Diego 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:

	2019	2018
Number of Loans	164	134
Loan Balance	$ 3,822,818	$ 3,861,253
Loan Guarantee	$ 3,052,743	$ 3,082,896

California Southern FDC

Accion San Diego participates in California Southern FDC's loss guarantee program which guarantees 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 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 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:

	2019	2018
Number of Loans	73	34
Loan Balance	$ 2,068,180	$ 788,086
Loan Guarantee	$ 1,654,544	$ 630,185

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

California Southern FDC (Continued)

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 Capital Access Program (CalCAP)

Accion San Diego 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, Accion San Diego 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, Accion San Diego 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:

	2019	2018
Number of Loans	284	342
Loan Balance	$ 1,956,353	$ 2,472,007
Loan Loss Reserve	$ 267,005	$ 334,909

Note 13 - Commitments and Contingencies:

Lease Obligations

The Organization leases office space under an operating lease that expires January 31, 2020. In January 2018, the lease was amended to modify the terms of the agreement to include additional square footage. The new rate of $7,892 per month with annual increase of 3% is effective February 2017 until the end of lease, January 31, 2020. In addition, the tenant share of property expenses of 1.65% is deleted as the pro rata share is included in the new based rate per the amended lease agreement. Subsequent to year end a new agreement was entered with similar terms which extended the lease term until January 31, 2023. Occupancy expense, including common area maintenance charges, totaled $114,005 and $127,895 for the years ended December 31, 2019 and 2018, 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 $8,238 and $7,418 for the years ended December 31, 2019 and 2018, respectively, and are included under equipment rental.

Note 13 - Commitments and Contingencies: (Continued)

Lease Obligations (Continued)

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

Years Ended December 31	Office Space	Equipment	Total
2020	$ 87,692	$ 5,077	$ 92,769
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
Thereafter	-	1,805	1,805
Total	$ 295,688	$ 24,214	$ 319,902

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 $36,242 and $32,861 to the Plan for the years ended December 31, 2019 and 2018 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, 2019 and 2018.

Note 14 - Subsequent Events:

Coronavirus Pandemic

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.

Note 14 - Subsequent Events: (Continued)

Coronavirus Pandemic (Continued)

As a result of the COVID-19 pandemic, there has been a significant decrease in request for new loans. There has also been a significant increase of business loan borrowers in the portfolio, requesting loan accommodations which may have a negative impact on the Organization's Loan Portfolio future performance. Changes to the operating environment may also have an impact on operating costs. It is anticipated that these impacts will continue for some time, but with unknown duration. As a result, the Organization is unable to determine or predict the overall impact that these events will ultimately have on operations, liquidity and capital resources.

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. 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 intends to use the proceeds for purposes consistent with the PPP. The Organization currently believes that its use of the loan proceeds will meet the conditions for forgiveness of the loan, however we cannot guarantee that actions will not be taken that could cause some or part of the loan to be ineligible for forgiveness.

Small Business Loan Program

Accion San Diego entered into a loan agreement on May 18, 2020 with The San Diego Foundation to administer the Small Business Loan Program for the County of San Diego for businesses located in the unincorporated areas of San Diego County. The $5 million note will carry a 0% interest rate and will be due by December 31, 2025, with 5% of the note ($250,000) forgivable if uncollected. Accion San Diego will fund small businesses during this time at 1% interest rate with loans ranging from $5,500 to $50,000 which will be guaranteed at 95% by the State of California FDC program.

Community Development Financial Institutions Fund (CDFI) Assistance Agreement

On November 19, 2019, Accion San Diego was notified that it was the recipient of a Financial Assistance award of $714,000. The CDFI Assistance Agreement was fully executed on February 26, 2020. Subsequent to the announcement date (Period of Performance), the organization was authorized to expend funds. However, no funds were expended for the year ended December 31, 2019.