

ACCESSITY
FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022



Leaf & Cole, LLP
Certified Public Accountants

**ACCESSITY
FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022**

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

Independent Auditor's Report

To the Board of Directors
Accessity

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Accessity (a nonprofit organization), which comprise the statements of financial position as of December 31, 2023 and 2022, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Accessity as of December 31, 2023 and 2022, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our 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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Accessity and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Accessity's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Accessity's ability to continue as a going concern for a reasonable period of time.

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

Change in Accounting Principle

As described in Note 2 to the financial statements, Accessity adopted accounting standards changes related to accounting for and disclosing allowance for credit losses using the current expected credit loss model ("CECL"). Our opinion is not modified with respect to this matter.

Supplementary 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 28, 2024, on our consideration of Accessity'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 Accessity'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 Accessity's internal control over financial reporting and compliance.

Leaf & Cole LLP

San Diego, California
June 28, 2024

ACCESSITY
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2023 AND 2022

	ASSETS	
	<u>2023</u>	<u>2022</u>
<u>Current Assets:</u> (Notes 2, 3, 4, 5, 6, 7 and 12)		
Cash and cash equivalents	\$ 4,037,426	\$ 5,435,577
Receivables, net:		
Grants	47,586	50,624
Contributions	7,488	114,214
Other	530,594	125,794
Employee Retention Tax Credit	437,444	-
Loan interest and fees	144,126	102,515
Current portion of loans receivable	6,155,566	4,340,941
Deposits and prepaid expenses	68,359	65,979
Total Current Assets	<u>11,428,589</u>	<u>10,235,644</u>
<u>Noncurrent Assets:</u> (Notes 2, 7, 8, 12 and 13)		
Loans receivable, net	10,907,637	9,917,775
Loan loss reserve	32,942	16,640
Property and equipment, net	28,072	17,246
Operating lease right-of-use assets, net	114,832	218,089
Total Noncurrent Assets	<u>11,083,483</u>	<u>10,169,750</u>
TOTAL ASSETS	<u>\$ 22,512,072</u>	<u>\$ 20,405,394</u>
LIABILITIES AND NET ASSETS		
<u>Current Liabilities:</u> (Notes 2, 9, 10 and 13)		
Accounts payable and accrued expenses	\$ 972,013	\$ 591,944
Deferred revenue	1,940,500	280,097
Current portion of operating lease liabilities	108,898	104,698
Current portion of notes payable	817,855	970,479
Total Current Liabilities	<u>3,839,266</u>	<u>1,947,218</u>
<u>Noncurrent Liabilities:</u> (Notes 2, 10 and 13)		
Long-term portion of operating lease liabilities	10,668	119,565
Notes payable	2,864,894	4,025,246
Less: Current portion	(817,855)	(970,479)
Total Noncurrent Liabilities	<u>2,057,707</u>	<u>3,174,332</u>
Total Liabilities	<u>5,896,973</u>	<u>5,121,550</u>
<u>Commitments and Contingencies</u> (Notes 12 and 14)		
<u>Net Assets:</u> (Notes 2 and 11)		
Without donor restrictions	15,837,938	14,759,392
With donor restrictions	777,161	524,452
Total Net Assets	<u>16,615,099</u>	<u>15,283,844</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 22,512,072</u>	<u>\$ 20,405,394</u>

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

**ACCESSITY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2023**

	Without Donor <u>Restrictions</u>	With Donor <u>Restrictions</u>	<u>Total</u>
<u>Revenue and Support:</u>			
Grants and contributions	\$ 1,072,652	\$ 1,314,568	\$ 2,387,220
Loan interest and fees	1,968,342	-	1,968,342
Federal awards	110,702	1,178,883	1,289,585
Government grant - Employee Retention Tax Credit	437,444	-	437,444
In-kind contributions	81,372	-	81,372
Investment income	75,813	-	75,813
Net assets released from restrictions	2,240,742	(2,240,742)	-
Total Revenue and Support	<u>5,987,067</u>	<u>252,709</u>	<u>6,239,776</u>
<u>Expenses:</u>			
Program Services	<u>4,602,802</u>	<u>-</u>	<u>4,602,802</u>
Supporting Services:			
Management and general	278,579	-	278,579
Fundraising	27,140	-	27,140
Total Supporting Services	<u>305,719</u>	<u>-</u>	<u>305,719</u>
Total Expenses	<u>4,908,521</u>	<u>-</u>	<u>4,908,521</u>
Change in Net Assets	1,078,546	252,709	1,331,255
Net Assets at Beginning of Year	<u>14,759,392</u>	<u>524,452</u>	<u>15,283,844</u>
NET ASSETS AT END OF YEAR	<u>\$ 15,837,938</u>	<u>\$ 777,161</u>	<u>\$ 16,615,099</u>

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

ACCESSITY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
<u>Revenue and Support:</u>			
Federal awards	\$ 1,597,185	\$ 436,174	\$ 2,033,359
Loan interest and fees	1,635,295	-	1,635,295
Grants and contributions	356,759	1,257,065	1,613,824
In-kind contributions	59,563	-	59,563
Investment income	10,817	-	10,817
Debts forgiven	2,342	-	2,342
Net assets released from restrictions	1,168,787	(1,168,787)	-
Total Revenue and Support	<u>4,830,748</u>	<u>524,452</u>	<u>5,355,200</u>
<u>Expenses:</u>			
Program Services	<u>3,358,444</u>	<u>-</u>	<u>3,358,444</u>
Supporting Services:			
Management and general	369,481	-	369,481
Fundraising	22,872	-	22,872
Total Supporting Services	<u>392,353</u>	<u>-</u>	<u>392,353</u>
Total Expenses	<u>3,750,797</u>	<u>-</u>	<u>3,750,797</u>
Change in Net Assets	1,079,951	524,452	1,604,403
Net Assets at Beginning of Year	<u>13,679,441</u>	<u>-</u>	<u>13,679,441</u>
NET ASSETS AT END OF YEAR	<u><u>\$ 14,759,392</u></u>	<u><u>\$ 524,452</u></u>	<u><u>\$ 15,283,844</u></u>

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

ACCESSITY
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2023

	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	\$ 2,749,111	\$ 207,806	\$ 20,245	\$ 228,051	\$ 2,977,162
Payroll taxes and employee benefits	488,863	36,953	3,600	40,553	529,416
Total Salaries and Related Expenses	3,237,974	244,759	23,845	268,604	3,506,578
<u>Nonsalary Related Expenses:</u>					
Accounting and legal	130,473	-	-	-	130,473
Bank fees	29,087	2,199	214	2,413	31,500
Dues and subscriptions	9,726	735	72	807	10,533
Insurance	33,408	2,525	246	2,771	36,179
Interest expense	66,246	-	-	-	66,246
Lease expense	104,017	7,863	766	8,629	112,646
Lending expense	432,960	-	-	-	432,960
Meetings and conferences	4,402	333	32	365	4,767
Mileage, parking and transport	13,459	1,017	99	1,116	14,575
Miscellaneous expenses	9,637	728	71	799	10,436
Occupancy	13,211	999	97	1,096	14,307
Postage and shipping	4,980	376	37	413	5,393
Provision for credit losses	153,205	-	-	-	153,205
Public relations and marketing	134,521	-	-	-	134,521
Small equipment	10,140	766	75	841	10,981
Software expense	120,926	9,141	890	10,031	130,957
Supplies	1,611	122	12	134	1,745
Taxes and licenses	1,309	99	10	109	1,418
Telephone	37,083	2,803	273	3,076	40,159
Training	10,558	798	78	876	11,434
Travel, meals and accommodations	31,854	2,408	234	2,642	34,496
Total Nonsalary Related Expenses	1,352,813	32,912	3,206	36,118	1,388,931
Total Expenses Before Depreciation	4,590,787	277,671	27,051	304,722	4,895,509
Depreciation	12,015	908	89	997	13,012
TOTAL EXPENSES	\$ 4,602,802	\$ 278,579	\$ 27,140	\$ 305,719	\$ 4,908,521

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

ACCESSITY
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2022

	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	\$ 2,231,775	\$ 167,465	\$ 16,505	\$ 183,970	\$ 2,415,745
Payroll taxes and employee benefits	439,572	32,984	3,251	36,235	475,807
Total Salaries and Related Expenses	2,671,347	200,449	19,756	220,205	2,891,552
<u>Nonsalary Related Expenses:</u>					
Accounting and legal	-	69,089	-	69,089	69,089
Bank fees	21,314	1,599	158	1,757	23,071
Dues and subscriptions	4,807	361	35	396	5,203
Insurance	31,729	2,381	235	2,616	34,345
Interest expense	66,452	-	-	-	66,452
Lease expense	50,388	68,790	48	68,838	119,226
Lending expense	281,815	-	-	-	281,815
Meetings and conferences	6,989	524	52	576	7,565
Mileage, parking and transport	11,696	878	86	964	12,660
Miscellaneous expenses	8,207	616	57	673	8,880
Occupancy	14,492	1,087	108	1,195	15,687
Postage and shipping	4,000	300	30	330	4,330
Public relations and marketing	88,460	6,638	654	7,292	95,752
Recovery from credit losses	(126,731)	-	-	-	(126,731)
Small equipment	7,907	593	59	652	8,559
Software expense	134,111	10,063	992	11,055	145,166
Supplies	3,027	227	23	250	3,277
Taxes and licenses	1,442	108	11	119	1,561
Telephone	36,896	2,769	272	3,041	39,937
Training	12,095	908	89	997	13,092
Travel, meals and accommodations	24,299	1,823	180	2,003	26,302
Total Nonsalary Related Expenses	683,395	168,754	3,089	171,843	855,238
Total Expenses Before Depreciation	3,354,742	369,203	22,845	392,048	3,746,790
Depreciation	3,702	278	27	305	4,007
TOTAL EXPENSES	\$ 3,358,444	\$ 369,481	\$ 22,872	\$ 392,353	\$ 3,750,797

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

ACCESSITY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

	<u>2023</u>	<u>2022</u>
<u>Cash Flows From Operating Activities:</u>		
Change in net assets	\$ 1,331,255	\$ 1,604,403
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Provision for (recovery from) credit losses	153,205	(126,731)
Amortization of right-of-use assets under operating leases	103,257	101,888
Depreciation	13,012	4,007
Debts forgiven	-	(2,342)
(Increase) Decrease in:		
Grants receivable	3,038	1,108
Contributions receivable	106,726	(103,240)
Other receivables	(404,800)	(8,630)
Employee Retention Tax Credit receivable	(437,444)	-
Loan interest and fees receivable	(41,611)	(30,454)
Deposits and prepaid expenses	(2,380)	(11,575)
Operating lease right-of-use assets, net	-	(319,977)
Increase (Decrease) in:		
Accounts payable and accrued expenses	380,069	(14,477)
Deferred revenue	1,660,403	(335,802)
Operating lease liabilities	(104,697)	224,263
Net Cash Provided by Operating Activities	<u>2,760,033</u>	<u>982,441</u>
<u>Cash Flows From Investing Activities:</u>		
Funding of loans receivable	(11,091,312)	(9,141,881)
Repayment and sales of loans receivable	8,106,282	8,674,247
Increase (Decrease) in loan loss reserve funded by lender, net	27,338	(167,441)
Purchase of property and equipment	(23,838)	(17,577)
Net Cash Used in Investing Activities	<u>(2,981,530)</u>	<u>(652,652)</u>
<u>Cash Flows From Financing Activities:</u>		
Payments on notes payable	(1,160,352)	(1,925,820)
Net Cash Used in Financing Activities	<u>(1,160,352)</u>	<u>(1,925,820)</u>
Net Decrease in Cash and Restricted Cash and Cash Equivalents	(1,381,849)	(1,596,031)
Cash and Restricted Cash and Cash Equivalents at Beginning of Year	<u>5,452,217</u>	<u>7,048,248</u>
CASH AND RESTRICTED CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 4,070,368</u>	<u>\$ 5,452,217</u>
<u>Supplemental Disclosure of Cash Flow Information:</u>		
Cash paid for interest		
Operating lease liabilities	\$ 2,094	\$ 10,193
Other	25,000	24,944
Total cash paid for interest	<u>\$ 27,094</u>	<u>\$ 35,137</u>
Cash paid for amounts included in the measurement of operating lease liabilities	<u>\$ 106,792</u>	<u>\$ 105,906</u>
<u>Supplemental Disclosure of Noncash Cash Flow Information:</u>		
Noncash in-kind contribution of goods and services	\$ 81,372	\$ 59,563
Operating right-of-use assets upon ASC 842 implementation	\$ -	\$ 318,788
Operating right-of-use assets after ASC 842 implementation	\$ -	\$ 1,189
<u>Cash and Restricted Cash and Cash Equivalents:</u>		
Cash and cash equivalents	\$ 4,037,426	\$ 5,435,577
Loan loss reserve	32,942	16,640
Total Cash and Restricted Cash and Cash Equivalents	<u>\$ 4,070,368</u>	<u>\$ 5,452,217</u>

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

ACCESSITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

Note 1 - Organization:

Accessity, (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, Los Angeles, Orange, 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.

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.

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.

ACCESSITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

Note 2 - Significant Accounting Policies: (Continued)

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, 2023 and 2022.

Allowance for Credit Losses

Accessity recognizes an allowance for credit losses on receivables to present the net amount expected to be collected as of the statement of financial position date. Such allowance is based on the credit losses expected to arise over the life of the asset which is based on the expectation as of the statement of financial position date, aging reports and historical information. Receivables are written off when Accessity determines such receivables are deemed uncollectible. Write-offs are recognized as a deduction from the allowance for credit losses. The allowance for credit losses totaled \$420,615 and \$393,277 at December 31, 2023 and 2022, respectively.

Loans Receivable

Loans receivable are recorded at unpaid principal balances, less an allowance for credit losses. Interest on loans may range from 1.00% to 18.99% 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 13 and 5 loans on nonaccrual status at December 31, 2023 and 2022, 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.

Prior to January 1, 2023, the Organization's allowance for credit losses was recorded at an amount considered adequate to absorb probable losses in the portfolio based on management's evaluations of the size and current risk characteristics of the loan portfolio. The allowance for credit losses was evaluated on a regular basis by management and was based upon management's periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, and prevailing economic conditions.

ACCESSITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

Note 2 - Significant Accounting Policies: (Continued)

Loans Receivable (Continued)

The Organization adopted ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, as amended on January 1, 2023. With the adoption of ASU 2016-13, an allowance for credit losses is established upon origination for all loans through a provision for credit losses charged to expense. The expected credit loss model is based on management’s current best estimate of lifetime expected credit losses (“CECL”) inherent in the Organization’s loan portfolio. This accounting standard replaced the previous probable incurred loss model which incorporated known information as of the statement of financial condition date. CECL is estimated using quantitative methods that consider a variety of factors such as historical loss experience, the current credit quality of the portfolio, and average remaining lives, as well as qualitative factors, including supportable forecasts of economic outlook.

Beginning on January 1, 2023, the Organization uses a disciplined process and methodology to estimate the allowance for credit losses. The Organization establishes allowances for pooled loan segments sharing similar risk characteristics such as, loan type, collateral type, credit or risk ratings, etc. Management estimates the allowance needed for each portfolio industry segment, including loans analyzed individually and loans with similar risk factors analyzed on a pooled basis. The Organization’s portfolio industry segments include Contractor, Food, Professional, Retail, Service, and Trucking. The Organization’s portfolio segments include loans of between \$300 and up to \$100,000 with original maturities of one to eight years

Substantially all of the Organization’s borrowers are unable to obtain credit through a traditional banking relationship. The aging of the receivables is the primary credit quality indicator. Loans that are past due inherently have a greater risk of default than loans that are current.

For each pooled segment, net losses are modeled using historical experience and quantitative and other mathematical techniques, such as the probability of default, over the loss emergence period. This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available regarding changes in economic conditions, borrower behavior, and collateral value, among other influences. From time to time, events or economic factors may affect the loan portfolio, causing management to provide additional amounts to or release amounts from the allowance for credit losses.

The Organization uses an internally developed Weighted Average Remaining Maturity (WARM) analysis model in determining the allowance for credit losses. Management must use judgment in establishing input metrics for the modeling processes. The models and assumptions are reviewed to ensure that their theoretical foundation, assumptions, data integrity, computational processes, reporting practices and end-user controls are appropriate and properly documented. Management monitors differences between estimated and actual incurred credit losses. This monitoring process includes periodic assessment by senior management of portfolio segments and the models used to estimate incurred losses in those segments.

Additions and subtractions to the allowance for credit losses are made by an expense or credit to the provision for credit losses. Loans are charged against the allowance for credit losses when management believes that the collectability of the principal is unlikely. Loan losses are charged against the allowance when a loan is delinquent more than 180 days, or management believes there is confirmation that a loan balance is not collectible. Subsequent recoveries are credited to the allowance for credit losses.

ACCESSITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

Note 2 - Significant Accounting Policies: (Continued)

Loans Receivable (Continued)

The allowance for credit losses is increased by charges to income and decreased by charge-offs, net of recoveries. Credit 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.

All interest accrued but not collected for loans that are placed on nonaccrual or charge-off status is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to current accrual status. Loans are returned to accrual status when all principal and interest payment amounts contractually due are brought current and future payments are reasonably assured.

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 \$167,894 and \$704,676 at December 31, 2023 and 2022, 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.

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.

In situations where, for economic or legal reasons related to a borrowers' financial difficulties, the Organization grants a concession for other than an insignificant period of time to the borrower that the Organization would not otherwise consider, the related loan is classified as a loan modification. These modified terms may include rate reductions, principal or accrued interest forgiveness, payment forbearance, and other actions intended to minimize economic loss and to avoid foreclosure or repossession of the collateral. There were no significant modifications as of December 31, 2023 and 2022, respectively.

ACCESSITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

Note 2 - Significant Accounting Policies: (Continued)

Loan Loss Reserve

The Organization participates 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 \$32,942 and \$16,640 at December 31, 2023 and 2022, 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:

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

Depreciation totaled \$13,012 and \$4,007 for the years ended December 31, 2023 and 2022, 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 \$242,873 and \$220,269 at December 31, 2023 and 2022, respectively, is accrued when incurred and included in incentive and PTO payable as a component of accounts payable and accrued expenses.

ACCESSITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

Note 2 - Significant Accounting Policies: (Continued)

Revenue Recognition

Grants and 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.

Loan Origination Fees

Accessity prepares an annual assessment of its origination fee income and the cost associated with the originated loans including direct lending fees to evaluate whether the capitalization and amortization of these fees are material to the financial statements. The net amount of deferred origination fees, if any, would be reported as part of the loans receivable balance. As of December 31, 2023, Accessity has determined that a total of \$174,746 should be deferred. For the year ended December 31, 2022, Accessity did not defer any origination fees because they were immaterial to the financial statements taken as a whole.

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 are recorded at their fair value based upon the rates normally charged by the provider. The Organization recorded in-kind contributions of 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 using publicly available information. Donated services, facilities, and below market interest totaled \$81,372 and \$59,563 for the years ended December 31, 2023 and 2022, respectively, and have been reported as in-kind contributions and expenses and were used to support the Organization's program services.

	<u>2023</u>	<u>2022</u>
Below market interest on notes payable	\$ 41,250	\$ 41,480
Donated legal services	24,844	1,577
Donated workshop presenter services	15,278	10,143
Donated other services	-	3,288
In-kind rent	-	3,075
Total In-Kind Contributions	<u>\$ 81,372</u>	<u>\$ 59,563</u>

ACCESSITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

Note 2 - Significant Accounting Policies: (Continued)

Donated Services, Facilities and Below Market Interest (Continued)

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, 2023 and 2022, 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, 2023, 2022, 2021 and 2020 are subject to examination by the Internal Revenue Service and State taxing authorities, generally three to four years after the returns were filed.

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.

ACCESSITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

Note 2 - Significant Accounting Policies: (Continued)

Leasing Activities

The Organization entered into office and equipment leases (Note 13). Pursuant to the guidance for accounting for leases, the Organization accounts for the leases as operating leases.

The Organization determines if an arrangement is a lease at inception. An arrangement is a lease if the arrangement conveys a right to direct the use of and to obtain substantially all of the economic benefits from the use of an asset for a period of time in exchange for consideration.

Operating lease right-of-use assets and liabilities are recognized at the commencement date based on the present value of lease payments over the lease term. The Organization uses the risk-free rate in determining the present value of lease payments.

The operating lease right-of-use asset also included any lease payments made and excludes lease incentives. The lease terms may include options to extend or terminate the lease when it is reasonably certain that the Organization will exercise that option. The lease agreements do not contain any material residual value guarantees or material restrictive covenants. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

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>2023</u>	<u>2022</u>
Cash and money market funds	\$ 4,037,426	\$ 5,435,577
Loan loss reserve	32,942	16,640
Total Cash and Restricted Cash and Cash Equivalents	<u>\$ 4,070,368</u>	<u>\$ 5,452,217</u>

Accounting Pronouncements Adopted

In June 2016, the Financial Accounting Standards Board (“FASB”) issued ASU No. 2016-13, Financial Instruments – Credit Losses (“Topic 326”) to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. FASB ASU 2016-13 affects loans, debt securities, accounts receivables, net investments in leases, off-balance-sheet credit exposures, reinsurance receivables, and any other financial assets not excluded from the scope that have the contractual right to receive cash.

ACCESSITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

Note 2 - Significant Accounting Policies: (Continued)

Accounting Pronouncements Adopted (Continued)

The standard requires a financial asset (or a group of financial assets) measured at amortized cost basis to be presented at the net amount expected to be collected. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis of the financial asset(s) to present the net carrying value at the amount expected to be collected on the financial asset.

The Organization adopted ASU 2016-13 utilizing the modified retrospective transition approach. Total allowance for loan losses calculated using CECL model as of December 31, 2023 amounted to \$359,581.

Subsequent Events

The Organization has evaluated subsequent events through June 28, 2024 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.

Reclassification

The Organization has reclassified certain prior year information to conform with the current year presentation.

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 statements of financial position date, comprise the following:

	<u>2023</u>	<u>2022</u>
Financial assets at year-end:		
Cash and cash equivalents	\$ 4,037,426	\$ 5,435,577
Receivables, net - current	7,322,804	4,734,088
Less: Cash and cash equivalents held for donor - specified purposes	(777,161)	(524,452)
Cash and cash equivalents held for loan reserve	<u>(61,034)</u>	<u>(134,054)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 10,522,035</u>	<u>\$ 9,511,159</u>

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

ACCESSITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

Note 4 - Grants Receivable:

Grants receivable consist of the following at December 31:

	<u>2023</u>	<u>2022</u>
City of San Diego - Community Development Block Grant	\$ 34,297	\$ 50,624
City of San Diego - Small Business Enhancement Program	13,289	-
Total Grants Receivable	<u>\$ 47,586</u>	<u>\$ 50,624</u>

Note 5 - Contributions Receivable:

Contributions receivable consists of the following at December 31:

	<u>2023</u>	<u>2022</u>
Due in less than one year	<u>\$ 7,488</u>	<u>\$ 114,214</u>

Note 6 - Other Receivables:

Other receivables consist of the receivables from sold loans and loan loss recoveries requested but not received and totaled \$530,594 and \$125,794 at December 31, 2023 and 2022, respectively.

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>2023</u>	<u>2022</u>
Accessity	2.99% - 18.49%	\$ 10,058,946	\$ 6,417,495
Community Development Financial Institution	3.99% - 14.99%	2,140,400	1,873,302
Wells Fargo Bank	2.99% - 18.99%	2,069,654	2,063,488
San Diego County	1.00%	1,348,362	2,471,091
Comerica Bank	3.99% - 18.24%	1,065,871	998,616
Pacific Premier Bank	3.99% - 14.99%	450,630	486,693
Private sources	2.99% - 18.99%	247,999	239,788
Jacobs Foundation	7.99% - 14.99%	56,712	26,072
Torrey Pines Bank	9.99% - 14.99%	40,003	72,374
California Bank and Trust	13.99% - 14.99%	5,241	3,074
Total Loans Receivable		<u>17,483,818</u>	<u>14,651,993</u>
Less: Allowance for credit losses		(359,581)	(259,223)
Loss reserve		(61,034)	(134,054)
Loans receivable, net		<u>17,063,203</u>	<u>14,258,716</u>
Less: Current portion of loans receivable		(6,155,566)	(4,340,941)
Loans Receivable, Noncurrent		<u>\$ 10,907,637</u>	<u>\$ 9,917,775</u>

ACCESSITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

Note 7 - Loans Receivable: (Continued)

The activity in the allowance for credit losses consisted of the following for the year ended December 31, 2023:

	Balance, December 31, 2022	Impact of CECL ASU No. 2016-13 Adoption	Balance, January 1, 2023	Change in Allowance Estimate	Balance, December 31, 2023
<u>Allowance for Loan Losses:</u>					
Contractor	\$ 8,173	\$ (4,500)	\$ 3,673	\$ (417)	\$ 3,256
Food	63,142	(9,710)	53,432	3,506	56,938
Professional	16,179	(6,430)	9,749	47,124	56,873
Retail	27,003	14,647	41,650	11,958	53,608
Service	59,884	24,703	84,587	13,428	98,015
Trucking	84,842	(63,130)	21,712	69,179	90,891
Total allowance for loan losses	259,223	(44,420)	214,803	144,778	359,581
Loan loss reserves - Wells Fargo	61,034	-	61,034	-	61,034
Loan loss reserves - CDFI RRP	73,020	(73,020)	-	-	-
Total Allowance for Credit Losses	<u>\$ 393,277</u>	<u>\$ (117,440)</u>	<u>\$ 275,837</u>	<u>\$ 144,778</u>	<u>\$ 420,615</u>

An aging analysis of the total allowance for loan losses under CECL as of December 31, 2023 follows:

	<u>Current</u>	<u>Past Due</u>				<u>Total</u>
		<u>1 - 30 Days</u>	<u>31 - 60 Days</u>	<u>61 - 90 Days</u>	<u>>90 Days</u>	
Contractor	\$ 3,243	\$ 5	\$ 8	\$ -	\$ -	\$ 3,256
Food	54,813	813	1,154	-	159	56,939
Professional	52,891	1,963	1,635	-	384	56,873
Retail	49,329	3,366	139	-	773	53,607
Service	90,674	4,261	2,868	123	89	98,015
Trucking	81,960	4,618	2,969	281	1,063	90,891
Total	<u>\$ 332,910</u>	<u>\$ 15,026</u>	<u>\$ 8,773</u>	<u>\$ 404</u>	<u>\$ 2,468</u>	<u>\$ 359,581</u>

Movements in the allowance for credit losses are as follows:

	<u>2023</u>	<u>2022</u>
Balance at Beginning of Year	\$ 393,277	\$ 510,718
Recoveries	553,977	549,309
Loan loss reserve funded (used) by lender	27,338	(117,441)
Provision for loan losses	153,205	(126,731)
Loans charged off	(707,182)	(422,578)
Balance at End of Year	<u>\$ 420,615</u>	<u>\$ 393,277</u>

The Organization has secured guarantee agreements that limit its risk of loan loss on certain loans. Of the loans charged off, \$654,335 and \$399,939 for the years ended December 31, 2023 and 2022, respectively, were covered by these agreements (Note 12).

ACCESSITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

Note 7 - Loans Receivable: (Continued)

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

2023							
Current	1-30 Days	31-60 Days	Past Due			Total Past Due	Balance
			61-90 Days	91-120 Days	>120 Days		
\$ 16,201,058	\$ 708,688	\$ 421,488	\$ 21,825	\$ 98,405	\$ 32,354	\$ 1,282,760	\$ 17,483,818

2022							
Current	1-30 Days	31-60 Days	Past Due			Total Past Due	Balance
			61-90 Days	91-120 Days	>120 Days		
\$ 14,079,667	\$ 384,496	\$ 24,641	\$ 60,233	\$ 6,518	\$ 96,438	\$ 572,326	\$ 14,651,993

2023			2022		
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
\$ 17,483,818	\$ 150,278	\$ -	\$ 14,651,993	\$ 108,222	\$ -

The Organization sold loans which 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, 2023 and 2022, the principal balance of the sold loans totaled \$3,245,066 and \$2,547,902, respectively.

Note 8 - Property and Equipment:

Property and equipment consist of the following at December 31:

	<u>2023</u>	<u>2022</u>
Leasehold improvements	\$ 90,360	\$ 76,718
Computer software	43,484	43,484
Computer equipment	40,623	30,427
Furniture and equipment	7,092	7,092
Subtotal	181,559	157,721
Less: Accumulated depreciation	(153,487)	(140,475)
Property and Equipment, Net	<u>\$ 28,072</u>	<u>\$ 17,246</u>

ACCESSITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

Note 9 - Deferred Revenue:

During the year ended December 31, 2021, the Organization received a conditional award from CDFI totaling \$1,826,265. Funds were to be requested as the conditions of the grant were met which included meeting certain lending benchmarks. As required by the grant, \$50,000 was used to fund loan loss reserves in each of 2022 and 2021 year ends. In 2021 the Organization received \$913,133 and recognized revenue from the award totaling \$247,234. The remaining \$913,132 was received in 2022 and the Organization recognized revenue amounting to \$1,272,496. In 2023, the remaining deferred balance of \$206,535 was recognized as revenue under federal awards.

During the year ended December 31, 2022, the Organization received a conditional award from the CDFI totaling \$625,000. The Organization recognized revenue under federal awards amounting to \$73,562 and \$551,438 in 2023 and 2022, respectively.

During the year ended December 31, 2023, the Organization received a conditional award from CDFI totaling \$5,887,242. Funds were to be requested as the conditions of the grant were met which included meeting certain lending benchmarks. In 2023 the Organization received \$2,290,000 and recognized revenue under federal awards totaling \$754,246. Deferred revenue under the grant totaled \$1,535,754 at December 31, 2023.

During the year ended December 31, 2023, the Organization received a conditional award from private institutions totaling \$230,000 to be used as loan and operating capital. The entire amount was considered deferred revenue at December 31, 2023.

Deferred revenue consists of the following at December 31:

	<u>2023</u>	<u>2022</u>
CDFI grant	\$ 1,535,754	\$ 280,097
Other grant	230,000	-
Loan origination fees	174,746	-
Total Deferred Revenue	<u>\$ 1,940,500</u>	<u>\$ 280,097</u>

Note 10 - Notes Payable:

Notes payable consist of the following at December 31:

	<u>2023</u>	<u>2022</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 also be reduced by uncollected amounts on such business loans not to exceed 5% of the original principal amount. Any remaining balance will be due at maturity, December 31, 2025.	\$ 1,614,894	\$ 2,775,246

(Continued)

ACCESSITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

Note 10 - Notes Payable: (Continued)

	<u>2023</u>	<u>2022</u>
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.	<u>500,000</u>	<u>500,000</u>
Total Notes Payable	<u>\$ 2,864,894</u>	<u>\$ 4,025,246</u>

As of December 31, 2023 and 2022, accrued interest on notes payable totaled \$3,746 and \$3,750, respectively 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>	
2024	\$ 817,855
2025	1,547,039
2026	-
2027	-
2028	-
Thereafter	<u>500,000</u>
	<u>\$ 2,864,894</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>2023</u>	<u>2022</u>
Subject to Expenditure for Specified Purpose:		
Loan participation	<u>\$ 777,161</u>	<u>\$ 524,452</u>
Total Net Assets With Donor Restrictions	<u>\$ 777,161</u>	<u>\$ 524,452</u>

ACCESSITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

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

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

	<u>2023</u>	<u>2022</u>
Purpose Restrictions Accomplished:		
Loan participation	\$ <u>2,240,742</u>	\$ <u>1,168,787</u>

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, Pacific Coast Regional (PCR), Business Finance FDC 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 total balance covered by loan guarantee and reserve programs is reduced by the total loans sold but serviced to arrive at the total loans receivable as of December 31, 2023 and 2022, respectively. 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, Accessity 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 \$15,000.

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>2023</u>	<u>2022</u>
Number of Loans	<u>197</u>	<u>159</u>
Loan Balance	\$ <u>5,998,450</u>	\$ <u>5,579,438</u>
Loan Guarantee	\$ <u>4,798,760</u>	\$ <u>4,463,550</u>

ACCESSITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

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 \$8,000.

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>2023</u>	<u>2022</u>
Number of Loans	<u>326</u>	<u>133</u>
Loan Balance	<u>\$ 8,541,209</u>	<u>\$ 4,522,744</u>
Loan Guarantee	<u>\$ 6,832,967</u>	<u>\$ 3,618,195</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.

Pacific Coast Regional (PCR) Business Finance FDC

In 2023 the Organization began participating in the PCR 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 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, Accessity 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 \$15,000.

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>2023</u>	<u>2022</u>
Number of Loans	<u>9</u>	<u>-</u>
Loan Balance	<u>\$ 378,580</u>	<u>\$ -</u>
Loan Guarantee	<u>\$ 302,864</u>	<u>\$ -</u>

ACCESSITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

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

California Southern FDC Disaster Loss Guarantee Program

The Organization participates 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>2023</u>	<u>2022</u>
Number of Loans	<u>250</u>	<u>334</u>
Loan Balance	\$ <u>2,054,087</u>	\$ <u>4,028,520</u>
Loan Guarantee	\$ <u>1,951,383</u>	\$ <u>3,827,094</u>

California Capital Access Program (CalCAP)

The Organization participates in the CalCAP loan loss reserve program which is a post disbursement risk management tool available to Accessity when making micro loans. 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% by Accessity, 2% by the borrower). CalCAP then adds 100% of the lender (Accessity) premium (2%) to the reserve account. 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. The Organization does not record the CalCAP amount until the funds are drawn down due to the recapture component described in the next paragraph. Minimum loan amount to qualify for this program is \$5,001.

There is a recapture component to the program in which CalCAP has the right to recapture the amount they contributed (2% match) upon maturity of the loan or 5 years after enrollment (whichever comes first). CalCAP limits the amount of annual recapture to ensure that the balance remaining in the Loss Reserve Account immediately following recapture is greater than the minimum threshold set as a percentage of the outstanding principal balance of loans enrolled in the 60 months prior to each annual recapture. Beginning in 2023, the minimum threshold changed to ten percent (10%) The annual recapture was \$-0- for each of the years ended December 31, 2023 and 2022, given this threshold minimum.

ACCESSITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

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

California Capital Access Program (CalCAP) (Continued)

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>2023</u>	<u>2022</u>
Number of Loans	<u>88</u>	<u>76</u>
Loan Balance	<u>\$ 443,352</u>	<u>\$ 472,780</u>
Loan Loss Reserve	<u>\$ 43,288</u>	<u>\$ 34,533</u>

Note 13 - Leasing Activities:

Operating Leases

The Organization leased office space under an operating lease that expired January 31, 2023. The monthly rental amount was \$8,457 until the end of lease, January 31, 2023. The office space lease was renewed on February 1, 2023 for two years plus an option to renew for another five years. The monthly rental for the renewed lease agreement starts at \$8,510 with an annual escalation rate of 3%.

In addition, the Organization leases equipment comprising of a digital copier and a postage machine through May 2025. The total monthly rental amount for these leases is \$394.

The following summarizes the line items in the statement of financial position for the operating leases at December 31, 2023:

Operating lease right-of-use assets	<u>\$ 114,832</u>
Operating lease liabilities - current portion	\$ 108,898
Operating lease liabilities - long-term portion	<u>10,668</u>
Total operating lease liabilities	<u>\$ 119,566</u>

The following summarizes the weighted average remaining lease term and discount rate as of December 31, 2023:

Weighted average remaining lease term – Office space	13 months
Weighted average remaining lease term – Equipment	16 months
Weighted average discount rate – Office space	1.30%
Weighted average discount rate – Equipment	0.96%

ACCESSITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

Note 13 - Leasing Activities: (Continued)

Operating Leases (Continued)

The following summarizes the line items in the statement of functional expenses which include the components of lease expense for the year ended December 31, 2023:

Amortization of operating lease right-of-use assets	\$ 103,257
Interest on operating lease liabilities	2,094
Short-term and variable lease cost	7,295
Total lease expense	<u>\$ 112,646</u>

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>
2024	\$ 104,924	\$ 4,728	\$ 109,652
2025	<u>8,765</u>	<u>1,904</u>	<u>10,669</u>
Total Lease Payments	113,689	6,632	120,321
Less: Discount	<u>(740)</u>	<u>(15)</u>	<u>(755)</u>
Total	<u>\$ 112,949</u>	<u>\$ 6,617</u>	<u>\$ 119,566</u>

Note 14 - Commitments and Contingencies:

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 \$63,282 and \$60,188 to the Plan for the years ended December 31, 2023 and 2022, respectively 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, 2023 and 2022.

Legal Matters

The Organization is subject to claims that arise out of the normal course of business. The Organization maintains insurance coverage and uses various risk management activities which, combined, management believes are sufficient to ensure that the final outcome of any claims or proceedings will not have an adverse material effect on the financial position, operations, or liquidity of the Organization.

ACCESSITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2023

Federal Grants/Pass-Through Grantor/Program or Cluster Title	Assistance Listing 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	B-22-MC-06-0542	\$ -	\$ 218,102	\$ 218,102
Total CDBG - Entitlement Grants Cluster			-	218,102	218,102
Total U.S. Department of Housing and Urban Development			-	218,102	218,102
<u>U.S. Department of the Treasury:</u>					
Direct Program:					
Community Development Financial Institutions Program	21.020	211FA056287-G	-	73,562	73,562
Community Development Financial Institutions Rapid Response Program	21.024	21RRP056388-G	-	243,675	243,675
Community Development Financial Institutions Fund Equitable Recovery Program	21.033	22ERP061125	-	754,246	754,246
Total U.S. Department of the Treasury			-	1,071,483	1,071,483
Total Expenditures of Federal Awards			\$ -	\$ 1,289,585	\$ 1,289,585

ACCESSITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
DECEMBER 31, 2023

Note 1 - Basis of Presentation:

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Accessity under programs of the federal government for the year ended December 31, 2023. 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 Accessity, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Accessity.

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.

Accessity 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
Accessity

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 Accessity (a nonprofit organization), which comprise the statement of financial position as of December 31, 2023, 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 28, 2024.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Accessity’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 Accessity’s internal control. Accordingly, we do not express an opinion on the effectiveness of Accessity’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 or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Accessity'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 the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Leaf & Cole LLP

San Diego, California
June 28, 2024



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
Accessity

Report on Compliance for the Major Federal Program

Opinion on the Major Federal Program

We have audited Accessity's compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on Accessity's major federal program for the year ended December 31, 2023. Accessity's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, Accessity complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the major federal program for the year ended December 31, 2023.

Basis for Opinion on the Major Federal Program

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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Accessity and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for the major federal program. Our audit does not provide a legal determination of Accessity's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to Accessity's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Accessity's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Accessity's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Accessity's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Accessity's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 Accessity's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on 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 a 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 Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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.

Leaf & Cole LLP

San Diego, California
June 28, 2024

**ACCESSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2023**

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 weaknesses identified?	_____	Yes	_____ <u>X</u> _____	No
Significant deficiencies identified?	_____	Yes	_____ <u>X</u> _____	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 weaknesses identified?	_____	Yes	_____ <u>X</u> _____	No
Significant deficiencies identified?	_____	Yes	_____ <u>X</u> _____	No

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

Identification of the major program:

<u>Assistance Listing Number(s)</u>	<u>Name of Federal Program or Cluster</u>
21.033	Community Development Financial Institutions Fund Equitable Recovery 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

**ACCESSITY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2023**

There were no prior audit findings for Accessity relative to federal awards for the year ended December 31, 2022.