

Accion Opportunity Fund, Inc.

Consolidated Financial Statements
and Supplementary Information

As of June 30, 2020 and for the Period from
January 1, 2020 through June 30, 2020



TABLE OF CONTENTS

	<u>Page No.</u>
Independent Auditor's Report	1 - 2
Consolidated Statement of Financial Position	3
Consolidated Statement of Activities	4
Consolidated Statement of Functional Expenses	5
Consolidated Statement of Cash Flows	6
Notes to Consolidated Financial Statements	7 - 26
Supplementary Information	
Statement of Financial Position	28
Statement of Activities	29



INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Accion Opportunity Fund, Inc.
San Jose, California

We have audited the accompanying consolidated financial statements of Accion Opportunity Fund, Inc. (a California nonprofit public benefit corporation) (the "Organization"), which comprise the consolidated statement of financial position as of June 30, 2020, and the related consolidated statements of activities, functional expenses, and cash flows for the period from January 1, 2020 through June 30, 2020, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements based on our audit. We conducted our audit 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Accion Opportunity Fund, Inc. as of June 30, 2020, and the changes in their net assets and their cash flows for the period from January 1, 2020 through June 30, 2020 in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note 2 to the consolidated financial statements, the Organization has implemented Financial Accounting Standards Board Accounting Standards Update ASU 2018-08, *Clarifying the Scope and Accounting Guidance for Contributions Received and Made*. Our opinion is not modified with respect to these matters.

Emphasis of Matter

As described in Note 1 to the consolidated financial statements, on February 28, 2020, Accion Opportunity Fund, Inc. ("AOF") combined with Opportunity Fund Community Development and Subsidiary ("OFCD"). Our opinion is not modified with respect to these matters.

As described in Note 7 to the consolidated financial statements, in March 2020, the World Health Organization declared the outbreak of a novel coronavirus ("COVID-19") as a pandemic, which continues to spread throughout the United States. The impact from the outbreak of COVID-19 on the Organization's mission, financial condition and results of operations will depend on future developments, which are highly uncertain and cannot be predicted at this time. Our opinion is not modified with respect to these matters.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The information on pages 28 - 29 is presented for purposes of additional analysis and is not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated financial statements as a whole.



Armanino^{LLP}
San Jose, California

October 9, 2020

Accion Opportunity Fund, Inc.
Consolidated Statement of Financial Position
June 30, 2020
(In thousands)

ASSETS

Current assets	
Cash and cash equivalents	\$ 24,707
Cash - programs (Note 5)	10,227
Investments (Note 4)	741
Loans receivable - small business, net (Note 7)	33,487
Contributions receivable (Note 6)	4,429
Due from related parties	23
Small business interest and fees receivable	1,069
Prepaid and other current assets	<u>553</u>
Total current assets	<u>75,236</u>
Property and equipment, net (Note 9)	3,511
Non-current assets	
Loan receivable - small business, net (Note 7)	55,516
Contributions receivable (Note 6)	645
Investment in LLCs (Note 2)	<u>857</u>
Total non-current assets	<u>57,018</u>
Total assets	<u>\$ 135,765</u>

LIABILITIES AND NET ASSETS

Current liabilities	
Accounts payable	\$ 3,284
Notes payable, current (Notes 10 and 11)	<u>11,643</u>
Total current liabilities	<u>14,927</u>
Long-term liabilities	
Accounts payable	700
Notes payable, net of current portion (Notes 10 and 11)	<u>80,491</u>
Total long-term liabilities	<u>81,191</u>
Total liabilities	<u>96,118</u>
Net assets	
Without donor restrictions	35,596
With donor restrictions (Note 12)	<u>4,051</u>
Total net assets	<u>39,647</u>
Total liabilities and net assets	<u>\$ 135,765</u>

The accompanying notes are an integral part of these consolidated financial statements.

Accion Opportunity Fund, Inc.
Consolidated Statement of Activities
For the Period from January 1, 2020 through June 30, 2020
(In thousands)

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and contributions			
Earned revenues			
Interest from loan programs	\$ 4,225	\$ -	\$ 4,225
Loan and other program income	1,122	-	1,122
Income from sale of portfolio	316	-	316
NMTC program income	946	-	946
Investment income, net	44	-	44
Other income	<u>104</u>	<u>-</u>	<u>104</u>
Total earned revenues	<u>6,757</u>	<u>-</u>	<u>6,757</u>
Contributions and grants			
Contributions	13,406	1,854	15,260
Recoveries	2,115	-	2,115
In-kind contributions (Note 2)	570	-	570
Net assets released from restriction (Notes 1 and 12)	<u>2,916</u>	<u>(2,916)</u>	<u>-</u>
Total contributions and grants	<u>19,007</u>	<u>(1,062)</u>	<u>17,945</u>
Total revenues and contributions	<u>25,764</u>	<u>(1,062)</u>	<u>24,702</u>
Expenses			
Program services	<u>15,902</u>	<u>-</u>	<u>15,902</u>
Support services			
Management and general	2,422	-	2,422
Fundraising	<u>806</u>	<u>-</u>	<u>806</u>
Total support services	<u>3,228</u>	<u>-</u>	<u>3,228</u>
Total expenses	<u>19,130</u>	<u>-</u>	<u>19,130</u>
Change in net assets from operations	<u>6,634</u>	<u>(1,062)</u>	<u>5,572</u>
Other change			
Contributions received in combination (see Note 1)	<u>27,344</u>	<u>3,004</u>	<u>30,348</u>
Total other change	<u>27,344</u>	<u>3,004</u>	<u>30,348</u>
Change in net assets	33,978	1,942	35,920
Net assets, beginning of period	<u>1,618</u>	<u>2,109</u>	<u>3,727</u>
Net assets, end of period	<u>\$ 35,596</u>	<u>\$ 4,051</u>	<u>\$ 39,647</u>

The accompanying notes are an integral part of these consolidated financial statements.

Accion Opportunity Fund, Inc.
Consolidated Statement of Functional Expenses
For the Period from January 1, 2020 through June 30, 2020
(In thousands)

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Personnel expenses	\$ 3,625	\$ 1,487	\$ 572	\$ 5,684
Program operating	809	-	-	809
Interest expense	768	-	-	768
Professional services	697	404	51	1,152
Information technology	455	112	38	605
Occupancy	232	72	24	328
Other	100	145	14	259
Parking and travel	29	9	3	41
Marketing	1	77	-	78
Special events	-	-	65	65
Donations	3,468	-	-	3,468
Provision for loan losses	5,353	-	-	5,353
Depreciation and Amortization	<u>365</u>	<u>116</u>	<u>39</u>	<u>520</u>
Total	<u>\$ 15,902</u>	<u>\$ 2,422</u>	<u>\$ 806</u>	<u>\$ 19,130</u>
Percentage of total	<u>83.1 %</u>	<u>12.7 %</u>	<u>4.2 %</u>	<u>100.0 %</u>

The accompanying notes are an integral part of these consolidated financial statements.

Accion Opportunity Fund, Inc.
Consolidated Statement of Cash Flows
For the Period from January 1, 2020 through June 30, 2020
(In thousands)

Cash flows from operating activities	
Loan collections	\$ 31,203
Contributions from individuals and organizations	14,638
Proceeds from loan program - notes payable	12,557
Loan sales	3,780
Income from new markets tax credit program	923
Recovery income	981
Income from PPP loan origination	541
Income from sale of loan portfolio	321
Other income	146
Loan disbursements	(20,968)
Repayments to third party partners	(14,111)
Salaries and benefits	(5,233)
Administrative & other	(4,759)
Repayments of loan program - notes payable	(2,530)
Net repayments to loan program - lines of credit	(2,500)
Interest	(1,024)
Occupancy	(323)
Program operating	(304)
Marketing	(78)
Net cash provided by operating activities	<u>13,260</u>
 Cash flows from investing activities	
Net changes in investment in LLCs	(417)
Acquisition of property and equipment	(505)
Cash received from combination (see Note 1)	<u>18,709</u>
Net cash provided by investing activities	<u>17,787</u>
 Net increase in cash and cash equivalents	31,047
 Cash, cash equivalents and restricted cash, beginning of period	<u>3,887</u>
 Cash, cash equivalents and restricted cash, end of period	<u>\$ 34,934</u>
 Cash, cash equivalents and restricted cash consisted of the following:	
Cash and cash equivalents	\$ 24,707
Cash - programs	<u>10,227</u>
	<u>\$ 34,934</u>

Supplemental schedule of noncash investing and financing activities

The accompanying notes are an integral part of these consolidated financial statements.

Accion Opportunity Fund, Inc.
Notes to Consolidated Financial Statements
June 30, 2020
(In thousands)

1. NATURE OF OPERATIONS

Accion Opportunity Fund, Inc. (“AOF”), formerly known as Accion, The U.S. Network Inc., was incorporated on December 7, 2011. AOF envisions a world in which all hardworking entrepreneurs have the financial access and tools they need to improve their lives and enhance the well-being of their families, communities, and local economies for years to come.

The mission of AOF is to assist in building world-class microfinance institutions in the United States to enhance economic development through increasing access to credit and otherwise promoting financial inclusion and health for members of low-to-moderate income communities. AOF works on a national scale to propel the flow of resources, support, tools, and information through fundraising, training and education, media, partnerships, and programmatic opportunities to encourage development, sustainability, and growth. AOF is classified as a publicly supported, tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code, incorporated in Delaware with headquarters in New York.

Opportunity Fund Community Development and Subsidiary (“OFCD”), is a Community Development Financial Institution certified by the U.S. Department of the Treasury. OFCD was formed as a for-profit organization on December 8, 1993. On September 30, 2000, OFCD converted to a California nonprofit public benefit corporation. Since then, OFCD has been classified as a publicly supported, tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and is exempt from California franchise taxes under Revenue and Taxation Code Section 23701(d).

OFCD’s mission is to drive economic mobility by delivering affordable capital and responsible financial solutions to determined entrepreneurs and communities. OFCD relies on earned revenue from interest and fee income generated by its mission-oriented programs as well as charitable donations from individuals and institutions to fund the costs of its operations. OFCD also borrows funds from public and private institutions to use as loan capital for its small business lending program. OFCD maintains offices in California and its programs primarily reach clients and borrowers in California but also in forty-four other states. OFCD has the programs described below, and also promotes policies and research which further financial inclusion and impact measurement.

Combination

With the purpose of significantly expanding their mission outreach in the United States, effective February 28, 2020, AOF combined with OFCD (collectively, the “Organization”). In accordance with the combination agreement, OFCD amended and restated its articles of incorporation and by-laws to admit AOF as its sole member. AOF and OFCD share the same Board of Directors and management team, but maintain their distinct Federal Tax ID numbers and 501(c)(3) designations.

Accion Opportunity Fund, Inc.
Notes to Consolidated Financial Statements
June 30, 2020
(In thousands)

1. NATURE OF OPERATIONS (continued)

Combination (continued)

The fair value of OFCD's assets and liabilities at the combination date are as follows:

Cash and cash equivalents	\$ 9,749
Cash - programs	8,960
Investments	1,419
Contributions receivable	3,577
Small Business Lending receivable	89,666
Prepaid expenses and other	521
Investments in LLCs	438
Property and equipment, net	3,730
Accounts payable and accrued expenses	(3,104)
Notes payable	<u>(84,608)</u>
	<u>\$ 30,348</u>

Net assets consisted of the following:

With donor restrictions	\$ 3,004
Without donor restrictions	<u>27,344</u>
	<u>\$ 30,348</u>

Small Business Lending program

OFCD makes loans to small businesses that lack access to affordable credit from traditional sources. Since inception, OFCD has made over 19,000 loans totaling \$505 million to small businesses whose owners are primarily people of color and low and moderate income. OFCD offers loans outside of California in forty-four additional states. Many loans to California-based borrowers are enrolled in a loan loss reserve funded by the State of California as part of its Capital Access Program.

OFCD sells participations in its loan portfolio to a few institutions. The purpose of these sales is to manage credit concentration in OFCD's portfolio and to raise additional capital as it grows. Loans are typically sold at a premium over face value and OFCD retains the servicing of the loans, for which it charges a monthly fee.

Accion Opportunity Fund, Inc.
Notes to Consolidated Financial Statements
June 30, 2020
(In thousands)

1. NATURE OF OPERATIONS (continued)

Small Business Technical Assistance

AOF provides wraparound technical assistance to diverse underserved small business owners in multiple ways. AOF hosts frequent educational webinars in English and Spanish to help small business owners navigate challenges they face on a range of topics including e-commerce strategies, crisis management, navigating conversations with employees, adapting their supply chain, and many more. AOF partners with organizations to offer one-on-one personal and business financial coaching. This comes in the form of financial coaching over the phone, and through a partnership to pair small business owners with mentors on a range of topics.

New Market Tax Credits program

In 2003, OFCD was certified by the U.S. Department of Treasury Community Development Financial Institution Fund ("CDFI Fund") as a Community Development Entity ("CDE") under its New Market Tax Credit ("NMTC") program. As of June 30, 2020, OFCD has received a cumulative total of \$388 million of tax credit allocations. OFCD through its subsidiary CDE, the LCD New Markets Fund, LLC uses these allocations to attract new capital to support large real estate projects providing high community impact in low-income areas. As of June 30, 2020, OFCD has deployed \$377 million in Qualified Equity Investments ("QEIs").

Ratings

OFCD is rated by Aeris, a national organization which provides ratings, data, and advisory services to support investment in CDFIs. As analyzed September 30, 2019, OFCD is rated A+, four-star. A+ is a rating of Financial Strength and Performance demonstrating OFCD "has strong financial strength, recent performance, and risk management practices relative to its size, complexity, and risk profile." Four-star is the highest possible impact rating, demonstrating "exceptional alignment of its impact mission, strategies, activities, and data."

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting and financial statement presentation

The consolidated financial statements have been prepared on the accrual basis of accounting which recognizes revenue when earned and expenses when incurred and, accordingly, reflect all receivables and payables outstanding at the end of the reporting period.

The Organization presents information regarding its consolidated financial position and activities according to two classes of net assets:

- *Net assets without donor restrictions* - are available to support all activities of the Organization without restrictions and include those net assets whose use is not restricted by donors.

Accion Opportunity Fund, Inc.
Notes to Consolidated Financial Statements
June 30, 2020
(In thousands)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of accounting and financial statement presentation (continued)

- *Net assets with donor restrictions* - are contributions with donor imposed time or purpose restrictions. Restricted net assets with donors' restrictions become unrestricted when the time restriction expires or the donor stipulated purpose has been accomplished, at which time they are reported in the statement of activities as net assets released from restrictions.

Principles of consolidation

Because AOF and OFCD are commonly controlled by a same board, according to generally accepted accounting principles ("GAAP"), their financial statements are consolidated as presented here. The consolidated financial statements consist the financial position of AOF and OFCD as of June 30, 2020, and the statement of activities, statement of cash flows and related notes of AOF from January 1, 2020 through June 30, 2020 and OFCD from March 1, 2020 through June 30, 2020. All material intercompany balances and transactions have been eliminated in consolidation.

OFCD financial information includes the accounts of a subsidiary, LCD New Markets Fund, LLC (the "LLC") of which OFCD is the managing member with a 99% interest. The LLC is a Delaware limited liability company that was formed in April 2003. All material intercompany balances and transactions have been eliminated in consolidation.

Investments in NMTC entities

The following NMTC entities, over which OFCD exercises significant influence, are included in the consolidated financial statements using the equity method of accounting. The investment is recorded at cost then adjusted for OFCD's proportionate share of undistributed earnings or losses (see Note 14). OFCD has a 0.01% financial interest in each of the following entities. As of June 30, 2020, OFCD has related-party receivables from certain of the following entities related to asset management fees and operating advances totaling \$23.

Accion Opportunity Fund, Inc.
Notes to Consolidated Financial Statements
June 30, 2020
(In thousands)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in NMTC entities (continued)

NMTC entities consist of the following:

LCD New Markets Fund XII, LLC *	LCD New Markets Fund XXV, LLC
LCD New Markets Fund XIII, LLC *	LCD New Markets Fund XXVI, LLC
LCD New Markets Fund XIV, LLC *	LCD New Markets Fund XXVII, LLC
LCD New Markets Fund XV, LLC	LCD New Markets Fund XXVIII, LLC
LCD New Markets Fund XVI, LLC	LCD New Markets Fund XXIX, LLC
LCD New Markets Fund XVII, LLC	LCD New Markets Fund XXX, LLC
LCD New Markets Fund XVIII, LLC	LCD New Markets Fund XXXI, LLC
LCD New Markets Fund XIX, LLC	LCD New Markets Fund XXXII, LLC
LCD New Markets Fund XX, LLC	LCD New Markets Fund XXXIII, LLC **
LCD New Markets Fund XXI, LLC	LCD New Markets Fund XXXIV, LLC **
LCD New Markets Fund XXII, LLC	LCD New Markets Fund XXXV, LLC **
LCD New Markets Fund XXIII, LLC	LCD New Markets Fund XXXVI, LLC **
LCD New Markets Fund XXIV, LLC	LCD New Markets Fund XXXVII, LLC **

* These entities were closed during fiscal year 2020, when the projects were unwound and reached the end of the 7 year NMTC compliance period.

** These are shelf entities that have not yet been utilized in an NMTC project yet, as of June 30, 2020.

The above limited liability companies were formed in the State of Delaware to qualify as CDEs under the provisions of Section 45D of the Internal Revenue Code and to make qualified Low Income Community Investments from the proceeds of Qualified Equity Investments received from the NMTC Investor Entities.

Investment in Acceso Loan Fund, LLC

On December 9, 2019, OFCD entered into an agreement with Acceso Loan Fund, LLC, a Delaware limited liability company (“Acceso”). Acceso is organized to provide loans to small businesses that would otherwise have difficulty accessing capital, particularly minority-owned businesses by (i) investing in loans to small businesses, (ii) managing and monitoring such investments, and (iii) engaging in any other activities incidental or ancillary thereto or otherwise permitted by the Delaware Act as the Manager deems necessary or advisable. OFCD’s capital investment in Acceso has been made through a generous contribution from a corporate donor. The amount of the contribution is \$833.

Cash and cash equivalents

The Organization considers all highly liquid investments with a maturity of three months or less at the date of purchase to be cash equivalents.

Accion Opportunity Fund, Inc.
Notes to Consolidated Financial Statements
June 30, 2020
(In thousands)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Restricted cash

Restricted cash consists of cash with limitations on the Organization's ability to use it due to restrictions imposed by donors.

Contributions and grants revenue recognition

Contributed support that is restricted by the donor is reported as an increase in net assets without donor restrictions if the restriction expires during the reporting period in which the support is recognized, otherwise such support is reported as an increase in net assets with donor restrictions. All other contributed support is recognized as revenue when received or promised without conditions.

In-kind contributions

The Organization in-kind donations when receiving pro-bono professional services and other qualified contributions. These services and contributions would have been purchased had they not been donated.

During the period from January 1, 2020 through June 30, 2020, the Organization received pro-bono legal services valued at \$570.

Loans receivable

Loans receivable are stated at the principal amount outstanding net of the allowance for loan losses (see Note 7). Interest income on a loan is accrued on the principal outstanding at the loan's stated interest rate.

OFCD prepares an annual assessment of its originations fee income and the cost associated with the origination of loans in order to evaluate the need for capitalization and amortization of these costs. The net amount of deferred origination fees and unamortized initial direct costs, if any, would be reported as part of the loans receivable balance to which it relates on the accompanying Consolidated Statement of Financial Position. As of June 30, 2020, OFCD had no net deferred origination fees nor unamortized direct costs recorded on the accompanying Consolidated Statement of Financial Position.

Accion Opportunity Fund, Inc.
Notes to Consolidated Financial Statements
June 30, 2020
(In thousands)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Sale and assignment of loans receivable

OFCD sells participations in its loan portfolio and its practice is to retain a small percentage of ownership in each loan. OFCD evaluates sale premium income and related servicing obligations annually in order to determine the need to record either a financial asset or liability on its balance sheet. As of June 30, 2020, OFCD has not recorded a servicing asset or servicing liability as the fees OFCD earns approximates adequate compensation for the costs associated with servicing participated loans.

Allowance for loan losses

The allowance for loan losses represents management's estimate of probable losses inherent in OFCD's lending activities. Credit exposures deemed to be uncollectible are charged to the allowance. Management evaluates the adequacy of the allowance based on historical and best efforts, projected performance of its portfolio as well as internal and external factors and trends such as operational efficiency, national and local economic conditions and the adequacy of other cash loan loss reserves available (see Note 8). The allowance for loan losses is presented in Note 7.

Investments

The Organization invests in marketable securities and fixed income instruments. Investments are recorded at fair value. Unrealized gains and losses represent market fluctuations and are recorded on a monthly basis. Interest and dividend income are recognized when earned (see Note 4).

Fair value of financial instruments

Financial instruments included in the Organization's Consolidated Statement of Financial Position as of June 30, 2020 include cash and cash equivalents, receivables, investments, accounts payable and accrued expenses, funds provided for programs without recourse and notes payable with recourse to unrestricted net assets. For cash and cash equivalents, receivables, accounts payable and accrued expenses, funds provided for programs without recourse and notes payable with recourse to unrestricted net assets, the carrying amounts represent a reasonable estimate of the corresponding fair values. Investments are reflected in the accompanying Consolidated Statements of Financial Position at their estimated fair values using methodologies described in Note 4.

Property, equipment, and intangible

Purchased property, equipment, and intangible are stated at cost. Acquisitions of property, equipment, and intangible in excess of \$5 are capitalized. Significant donated assets are recorded at estimated fair value at the date of receipt. In absence of restrictions regarding the use of such donated assets, contributions are recorded as unrestricted support.

Accion Opportunity Fund, Inc.
Notes to Consolidated Financial Statements
June 30, 2020
(In thousands)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, equipment, and intangible (continued)

Depreciation is computed using the straight-line method over the estimated useful lives of the assets of five years for furniture, three years for computers and software, and four years for the intangible. Leasehold improvements are amortized using the straight-line method over the lesser of the assets' estimated useful lives or the term of the applicable lease.

Concentration of credit risk

The Organization maintains cash and cash equivalents with commercial banks and other major financial institutions. Cash equivalents include overnight investments and money market funds. By policy, the Organization invests in low risk highly liquid investments at top rated financial institutions. Deposits, at times, might exceed Federal Deposit Insurance Corporation ("FDIC") limits. The Organization has not experienced any losses in such accounts. Management believes it is not exposed to any significant risk on cash accounts.

Concentration in contributors

For the period from January 1, 2020 through June 30, 2020, the Organization had one government entity who provided approximately 21% and one foundation entity who provided 32% (includes donor advised funds) of total contributions.

Concentration in loans receivable

For the period from January 1, 2020 through June 30, 2020, OFCD originated 32% of trucking-related loans as a percentage of total loan originations. As of June 30, 2020, OFCD's trucking-related loans receivable as a percentage of total loans receivable was 50%.

Change in accounting principle

In June 2018, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2018-08, Not-For-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made. This ASU clarifies the criteria for evaluating whether a transaction is a contribution or an exchange transaction and whether a contribution is conditional or unconditional.

The Organization adopted ASU 2018-08 with a date of the initial application of January 1, 2020 using the modified prospective method. The adoption of ASU 2018-08 did not have a significant impact on the Organization's financial position, result of operations, or cash flows. The Organization has evaluated contributions received and contributions made and has determined that there is no change as a result of the adoption of the standard.

Accion Opportunity Fund, Inc.
Notes to Consolidated Financial Statements
June 30, 2020
(In thousands)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Change in accounting principle (continued)

AOF adopted ASU 2018-08 with a date of the initial application of January 1, 2019. OFCD adopted ASU 2018-08 with a date of the initial application of July 1, 2019. The adoption of ASU 2018-08 did not have a significant impact on the financial position, result of operations, or cash flows.

Functional expense allocation

The costs of providing the various program and supporting services have been summarized on a functional basis in the consolidated statement of activities and changes in net assets. Accordingly, certain costs have been allocated, based on estimates of time, space, and other factors, among the classifications.

Income tax status

AOF and OFCD are exempt from federal income taxes under the provisions of Section 501(c) (3) of the Internal Revenue Code. In addition, AOF and OFCD qualify for charitable contribution deductions and have been classified as organizations that are not private foundations. Income which is not related to exempt purposes less applicable deductions, is subject to federal and state corporate income taxes. The Organization had no unrelated business income for the period from January 1, 2020 through June 30, 2020.

AOF is exempt from New York state income taxes under Section 102 of the Not-for-Profit Corporation Law. AOF may be liable for income taxes based on income earned in other states and in which it has not yet applied for exemption. As of June 30, 2020, AOF assessed the amount of state taxes, if any, to be immaterial to its financial statements and did not accrue any tax liability in its Statement of Financial Position.

OFCD is exempt from California state income taxes under the provision of Section 23701d of the Revenue and Taxation Code. OFCD may be liable for income taxes based on income earned in other states and in which it has not yet applied for exemption. As of June 30, 2020, OFCD assessed the amount of state taxes, if any, to be immaterial to its financial statements and did not accrue any tax liability in its Statement of Financial Position.

Accounting for uncertainty in income taxes

The Organization evaluates its uncertain tax positions and will recognize a loss contingency when it is probable that a liability has been incurred as of the date of the consolidated financial statements and the amount of the loss can be reasonably estimated. The amount recognized is subject to estimate and management judgment with respect to the likely outcome of each uncertain tax position. The amount that is ultimately sustained for an individual uncertain tax position or for all uncertain tax positions in the aggregate could differ from the amount recognized. As of June 30, 2020, management did not identify any uncertain tax positions.

Accion Opportunity Fund, Inc.
Notes to Consolidated Financial Statements
June 30, 2020
(In thousands)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounting for uncertainty in income taxes (continued)

The Organization is subject to potential examination by taxing authorities for income tax returns filed in the U.S. federal jurisdiction, the State of California, and the State of New York. The tax years that remain subject to potential examination for the U.S. federal jurisdiction are years ended June 30, 2017, and forward. The State of California and New York tax jurisdictions are subject to potential examination for years ended June 30, 2016 and forward.

Use of estimates

The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures 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 these estimates.

Subsequent events

Subsequent events have been evaluated through the date of the financial statements, October 9, 2020, which is the date the consolidated financial statements were available to be issued.

See Note 16 for subsequent events disclosure.

3. LIQUIDITY

The Organization presents a classified statement of financial position where the current assets are listed by order of liquidity and purpose.

Accion Opportunity Fund, Inc.
Notes to Consolidated Financial Statements
June 30, 2020
(In thousands)

3. LIQUIDITY (continued)

The financial assets that are available within one year of June 30, 2020 for operations and programs needs are as follows:

	2020	
	Operations	Programs
Unrestricted cash		
Cash	\$ 24,707	\$ -
Short-term investments	741	-
Loan capital funds	-	4,807
Savings program match funds	-	92
Total unrestricted cash	25,448	4,899
Receivables - current		
Loans receivable	-	33,487
Contributions receivable	1,184	3,245
Due from related-parties	23	-
Small business interest and fees receivable	1,069	-
Total receivables - current	2,276	36,732
Total financial assets available for use within one year	\$ 27,724	\$ 41,631

The Organization's management reports on its operating and loan capital liquidity on a quarterly basis to the Finance Committee. OFCD manages its liquidity to be in compliance with its loan covenants. OFCD's loan covenants require it to keep at least 90 days of operating cash on hand. To help manage unanticipated liquidity needs, OFCD has a committed operating line of credit in the amount of \$4 million, and committed undrawn credit facilities for loan capital in the aggregate amount of \$13 million, which it could draw upon at any time. As of June 30, 2020, OFCD had on hand approximately 301 days of operating cash and 26 days of loan capital on hand. Both of these ratios exclude cash available from the operating line of credit and undrawn credit facilities for loan capital.

4. INVESTMENTS

The Organization follows the provisions of the Fair Value Measurements and Disclosure topic of the FASB ASC (820-10-35). These standards establish a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, Level 2 inputs consist of observable inputs other than quoted prices for identical assets, and Level 3 inputs consist of significant unobservable inputs. All investments are at quoted prices in active markets for identical assets (level 1 input).

Accion Opportunity Fund, Inc.
Notes to Consolidated Financial Statements
June 30, 2020
(In thousands)

4. INVESTMENTS (continued)

Investments consisted of the following:

Mutual funds	\$ <u>741</u>
	<u>\$ 741</u>

Investment earnings during the period consisted of the following:

Interest income	\$ 22
Net realized and unrealized income	<u>5</u>
	<u>\$ 27</u>

5. CASH - PROGRAMS

Cash - programs consisted of the following:

Cash for loan capital	\$ 4,807
Cash for loan loss reserves (1)	5,328
Cash for savings program match	<u>92</u>
	<u>\$ 10,227</u>

(1) OFCD and the State of California's CalCAP program (see Note 8) jointly own a cash account held at a commercial bank. Each entity owns its own contributions made to the program when enrolling eligible loans.

6. CONTRIBUTIONS RECEIVABLE

Contributions receivable consist of unconditional pledges that have not yet been received. The Organization records a present value discount for the future cash flows of these pledges, if material to the consolidated financial statements. As of June 30, 2020 a present value discount was not recorded as the amount was immaterial to the consolidated financial statements. The Organization evaluates contributions receivable for collectability annually. As of June 30, 2020, an allowance for doubtful accounts for contributions receivable was not recorded as the amount was immaterial to the consolidated financial statements.

Accion Opportunity Fund, Inc.
Notes to Consolidated Financial Statements
June 30, 2020
(In thousands)

6. CONTRIBUTIONS RECEIVABLE (continued)

Future maturities of these receivables are as follows:

<u>Year ending June 30,</u>	
2021	\$ 4,429
2022	240
2023	204
2024	<u>201</u>
	5,074
Current portion	<u>(4,429)</u>
	<u><u>\$ 645</u></u>

7. LOANS RECEIVABLE AND LOAN LOSS RESERVE

Small business loans

OFCD offers a standard loan product to small businesses from \$2.6 to \$250 with fixed interest rates ranging from 5.9% to 24.9% and terms of up to 60 months. Loans are fully amortizing and payments are due at least monthly. Interest is calculated on the outstanding balance. During the period from March 1, 2020 through June 30, 2020, OFCD disbursed \$10.5 million among 298 standard loans in the Small Business Program.

In April 2020 OFCD was approved as a Paycheck Protection Program (“PPP”) lender by the U.S. Small Business Administration. This product for small businesses ranges in size based on the payroll of the company, has a 1% fixed interest rate, and may be fully forgivable if the funds are used for an eligible purpose. During the period from March 1, 2020 through June 30, 2020, the Organization disbursed \$11.4 million among 767 PPP loans.

In total, during the period from March 1, 2020 through June 30, 2020, OFCD disbursed \$21.9 million among 1,065 loans combining standard and PPP loans.

Small business program loans receivable are as follows:

Total portfolio under management	\$ 170,216
Less third parties' portfolios under management (1)	<u>(75,575)</u>
	94,641
Less allowance for loan losses	<u>(5,638)</u>
	<u><u>\$ 89,003</u></u>

(1) Balance of loan participations owned by third parties / investors. In the period ended June 30, 2020, OFCD sold participations in 120 loans for a total of \$4.7 million.

Accion Opportunity Fund, Inc.
Notes to Consolidated Financial Statements
June 30, 2020
(In thousands)

7. LOANS RECEIVABLE AND LOAN LOSS RESERVE (continued)

Small business loans (continued)

Loans receivable net of allowance- current	\$	33,487
Loans receivable net of allowance - non-current	\$	55,516

Aging schedule

2020 aging schedule by category

	<u>Balance</u>	<u>Current</u>	<u>31 - 60 Days</u>	<u>61 - 90 Days</u>	<u>91 - 120 Days</u>	<u>121 - 150 Days</u>	<u>150+ Days</u>
Small business loans	\$ 166,070	\$157,250	\$ 2,814	\$ 1,885	\$ 1,107	\$ 1,296	\$ 1,718
Restructured loans	<u>4,146</u>	<u>3,150</u>	<u>379</u>	<u>210</u>	<u>111</u>	<u>107</u>	<u>189</u>
 Total portfolio under management	 170,216	 160,400	 3,193	 2,095	 1,218	 1,403	 1,907
 Less third parties' portfolio under management	 <u>(75,575)</u>	 <u>(70,910)</u>	 <u>(1,241)</u>	 <u>(848)</u>	 <u>(675)</u>	 <u>(839)</u>	 <u>(1,062)</u>
 Total loans receivable	 <u>\$ 94,641</u>	 <u>\$ 89,490</u>	 <u>\$ 1,952</u>	 <u>\$ 1,247</u>	 <u>\$ 543</u>	 <u>\$ 564</u>	 <u>\$ 845</u>
		94.56 %	2.06 %	1.32 %	0.57 %	0.60 %	0.89 %

Troubled debt restructurings ("TDR's")

From time to time and as a result of an evaluation of a borrower's circumstances, the Organization considers modifying the terms of a loan that the Organization otherwise would not consider but for the borrower's financial difficulties.

As of June 30, 2020, there were 223 TDR's in the Organization's small business portfolio accounting for a total of \$2,551 representing 2.7% of the total portfolio.

Accion Opportunity Fund, Inc.
Notes to Consolidated Financial Statements
June 30, 2020
(In thousands)

7. LOANS RECEIVABLE AND LOAN LOSS RESERVE (continued)

Troubled debt restructurings ("TDR's") (continued)

2020 TDR aging schedule is presented as follows:

	<u>Balance</u>	<u>Current</u>	<u>31 - 60 Days</u>	<u>61 - 90 Days</u>	<u>91 - 120 Days</u>	<u>121 - 150 Days</u>	<u>150+ Days</u>
Total TDR's under management (1)	\$ 4,146	\$ 3,150	\$ 379	\$ 210	\$ 111	\$ 107	\$ 189
Less third parties' TDR's under management	<u>(1,595)</u>	<u>(1,188)</u>	<u>(171)</u>	<u>(75)</u>	<u>(41)</u>	<u>(49)</u>	<u>(71)</u>
	<u>\$ 2,551</u>	<u>\$ 1,962</u> 76.90 %	<u>\$ 208</u> 8.15 %	<u>\$ 135</u> 5.29 %	<u>\$ 70</u> 2.74 %	<u>\$ 58</u> 2.27 %	<u>\$ 118</u> 4.63 %

(1) Subset of total portfolio

COVID-19

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus ("COVID-19") as a pandemic, which continues to spread throughout the United States. The COVID-19 pandemic remains a rapidly evolving situation. The extent of the impact of COVID-19 on the Organization's business and financial results will depend on future developments, potentially including increased losses in the loan portfolio, increased uncertainty in underwriting of small business loans, and uncertain demand for new small business loans. The Organization raised a significant amount of contributed supports in the year in part to mitigate the negative effects of COVID-19 on small businesses. The ultimate extent of the impact of any epidemic, pandemic or other health crisis on the Organization's mission, financial condition and results of operations will depend on future developments, which are highly uncertain and cannot be predicted. Accordingly, the Organization cannot predict the extent to which its financial condition and results of operations will be affected.

Payment deferrals and forgiveness

As a result of the COVID-19 global pandemic, the Organization raised a significant amount of fundraising to help small businesses survive the crisis. Clients with difficulty making their payment and attesting hardship could be eligible for up to three payment deferrals. As of June 30, 2020, OFCD deferred \$4.4 million of borrower payments to 3,515 unique clients. Additionally, clients with prolonged hardship could be eligible for all or a portion of their payment forgiven. As of June 30, 2020, OFCD extended forgiveness totaling \$873 on 1,253 payments.

Accion Opportunity Fund, Inc.
Notes to Consolidated Financial Statements
June 30, 2020
(In thousands)

7. LOANS RECEIVABLE AND LOAN LOSS RESERVE (continued)

Allowance for loan losses

OFCD maintains both an allowance for loan losses and cash loan loss reserves (see Note 8) which together are adequate to cover potential losses from its portfolio. The allowance for loan losses represents management's estimate of probable losses inherent in OFCD's portfolio. Credit exposures deemed to be uncollectible are charged against the allowance. Recaptures on previously charged-off amounts are credited to the allowance. Management evaluates the adequacy of the allowance based on historical performance and a best efforts forward looking evaluation of the portfolio performance, internal and external factors and trends such as operational efficiency, national and local economic conditions and the adequacy of other cash loan loss reserves available.

The following table summarizes the allowance for loan losses as follows:

Balance, beginning of period	\$ 4,346
Provisions for loan losses	5,353
Loans charged-off	<u>(4,061)</u>
Balance, end of period	<u>\$ 5,638</u>

8. CASH FOR LOAN LOSS RESERVES

OFCD participates in a State program called the California Capital Access Program ("CalCAP") that has been funded in part by the Small Business Credit Initiative ("SSBCI"). SSBCI is a federal program that provides funding to states to expand access to credit for small businesses. Through this program the state provides cash reserves that protect OFCD against potential credit losses. When an enrolled loan is deemed uncollectable, OFCD can claim 100% of the loss to CalCAP. This protection is limited to the amount of cash in those reserves. Nearly all of OFCD's loans to California-based businesses are enrolled in this program.

Cash for loan loss reserves - CalCAP consist of the following:

Opportunity Fund contributions to CalCAP Reserve	\$ 5,328
State contributions to CalCAP Reserve (1)	1,675
State contributions to CalCAP ARB Reserve (2)	<u>1,904</u>
	<u>\$ 8,907</u>

(1) Reserves for small business loans with general purpose. This portion of the reserve is not included in OFCD's Consolidated Statement of Financial Position.

Accion Opportunity Fund, Inc.
Notes to Consolidated Financial Statements
June 30, 2020
(In thousands)

8. CASH FOR LOAN LOSS RESERVES (continued)

(2) State reserves for loans extended to businesses in the trucking industry with the purpose of meeting environmental standards of the State of California. OFCD is not required to contribute to this reserve and it is not included in the Consolidated Statement of Financial Position

9. PROPERTY AND EQUIPMENT, NET

Property and equipment consisted of the following:

Furniture	\$ 227
Computer and equipment	137
Software	2,163
Software-in-kind	2,655
Intangible asset	1,600
Leasehold improvements	<u>197</u>
	6,979
Accumulated depreciation	<u>(3,468)</u>
	<u><u>\$ 3,511</u></u>

Depreciation and amortization expense for the period from March 1, 2020 through June 30, 2020 was \$521.

10. REVOLVING LINES OF CREDIT

OFCD entered into multiple lines of credit agreements with multiple banks in a total amount of \$37 million. These lines of credit mature between October 2020 and December 2025 and carry annual interest rates between 2.68% and 4.5%. The aggregate outstanding balances as of June 30, 2020 was \$20 million.

11. NOTES PAYABLE

OFCD entered into multiple notes payable agreements with multiple institutions for a total of \$61.28 million. These notes payable mature between July 2020 and September 2029 and carry annual interest rates between 0% and 4%.

OFCD entered into multiple agreements with individual investors in the amount of \$10.85 million. These impact investments mature between March 2022 and August 2024 and carry annual interest rates between 1.15% and 4%.

Accion Opportunity Fund, Inc.
Notes to Consolidated Financial Statements
June 30, 2020
(In thousands)

11. NOTES PAYABLE (continued)

In April 2020, OFCD entered into a loan with Beneficial State Bank in an aggregate principal amount of \$2.6 million pursuant to the Paycheck Protection Program under the Coronavirus Aid, Relief, and Economic Security (CARES) Act. This loan program provides paycheck protection for employees of the Organization from the economic impact to the business due to COVID19. The principal amount of the PPP loan is subject to forgiveness to the extent that proceeds are used to pay eligible program expenses including payroll costs, rent obligations, and utility payments. The company intends to apply for forgiveness of the PPP loan with respect to these covered expenses.

Certain of the notes payable agreements require the Organization to comply with various financial covenants. The Organization was in compliance with all, or received a temporary waiver on certain, covenants as of June 30, 2020.

Future maturities of all debts are as follows:

<u>Year ending June 30,</u>		
2021	\$	11,643
2022		27,802
2023		20,332
2024		11,082
2025		1,775
Thereafter		<u>19,500</u>
		92,134
Current portion		<u>(11,643)</u>
	<u>\$</u>	<u>80,491</u>

12. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions were for the following purposes:

	<u>Beginning of Period</u>	<u>Additions through combination</u>	<u>Additions to restrictions</u>	<u>Releases from restrictions</u>	<u>End of Period</u>
Time-restricted operating grants					
- AOF	\$ 2,109	\$ -	\$ 1,854	\$ (2,260)	\$ 1,703
Small business operating -					
OFCD	-	245	-	(209)	36
Time-restricted operating grants					
- OFCD	<u>-</u>	<u>2,759</u>	<u>-</u>	<u>(447)</u>	<u>2,312</u>
	<u>\$ 2,109</u>	<u>\$ 3,004</u>	<u>\$ 1,854</u>	<u>\$ (2,916)</u>	<u>\$ 4,051</u>

Accion Opportunity Fund, Inc.
Notes to Consolidated Financial Statements
June 30, 2020
(In thousands)

13. RETIREMENT PLAN

OFCD provides a defined contribution 403(b) retirement savings plan ("Plan") for all eligible full and part time employees. The Plan provides for employee contributions, through a salary reduction agreement, plus employer contributions at OFCD's discretion and an employer matching contribution at various matching levels. During the period from March 1, 2020 through June 30, 2020, OFCD contributed approximately \$216 to the Plan for participating employees.

14. COMMITMENTS

New Markets Tax Credits commitments

OFCD provides indemnifications for its various NMTC projects in an event of a tax benefit recapture. The NMTC tax benefit recapture risk is based on the initial qualified equity investment amount, adjusted based on the life of the project. The indemnification period ends after ten years and nine months: seven years of the tax benefit period and three years nine months after the last tax return showing benefits has been filed.

The following recapture events may trigger indemnification by OFCD: (1) the CDE ceases to be a qualified CDE; (2) the CDE fails to meet the substantially all test; or (3) the QEI is redeemed before the end of the tax credit period. Management has taken significant steps to mitigate these potential indemnification risks.

Management believes that the likelihood of a recapture event is remote. In the entire history of the NMTC program, management is not aware of one recapture event anywhere in the country.

Total amounts currently at risk are \$79 million and future amounts are \$45 million. The maturity dates range from April 2021 through November 2030 at which times OFCD is no longer liable.

Operating leases commitments

The Organization is obligated under non-cancelable operating leases for facilities and office equipment, which expire at various times.

The scheduled minimum lease payments under the lease terms are as follows:

<u>Year ending June 30,</u>		
2021	\$	845
2022		384
2023		395
2024		64
		64
	\$	1,688

Accion Opportunity Fund, Inc.
Notes to Consolidated Financial Statements
June 30, 2020
(In thousands)

14. COMMITMENTS (continued)

Operating leases commitments (continued)

Rental expense for AOF for the period from January 1, 2020 through June 30, 2020 was \$21 and for OFCD for the period from March 1, 2020 through June 30, 2020 was \$307.

15. TRADEMARK AGREEMENT

AOF entered into a trademark agreement with Accion International Inc. effective February 28, 2020 with an initial three-year term. The agreement provides for the legal use of the 'Accion' brand name by AOF.

16. SUBSEQUENT EVENTS

In July 2020, OFCD received a \$15 million unrestricted grant from one individual. This is the largest individual donation the Organization has received in its history. The grant accelerates the Organization's efforts to reach thousands of underserved entrepreneurs with capital across the United States in the coming years.

SUPPLEMENTARY INFORMATION

Accion Opportunity Fund, Inc.
Statement of Financial Position
June 30, 2020
(In thousands)

ASSETS

	Accion Opportunity Fund
Current assets	
Cash and cash equivalents	\$ 3,353
Contributions receivable	760
Prepaid and other current assets	<u>8</u>
Total current assets	<u>4,121</u>
Total assets	<u><u>\$ 4,121</u></u>

LIABILITIES AND NET ASSETS

	Accion Opportunity Fund
Current liabilities	
Accounts payable and accrued expenses	<u>\$ 573</u>
Total current liabilities	<u>573</u>
Net assets	
Without donors restrictions	1,699
With donors restrictions	<u>1,849</u>
Total net assets	<u>3,548</u>
Total liabilities and net assets	<u><u>\$ 4,121</u></u>

Accion Opportunity Fund, Inc.
Statement of Activities
For the Period from January 1, 2020 through June 30, 2020
(In thousands)

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Support and revenue			
Interest income	\$ 13	\$ -	\$ 13
Contributions	291	2,000	2,291
In-kind contributions	152	-	152
Net assets released from restrictions	<u>2,260</u>	<u>(2,260)</u>	<u>-</u>
Total support and revenue	<u>2,716</u>	<u>(260)</u>	<u>2,456</u>
Functional expenses			
Program services	<u>2,375</u>	<u>-</u>	<u>2,375</u>
Support services			
Management and general	234	-	234
Fundraising	<u>26</u>	<u>-</u>	<u>26</u>
Total support services	<u>260</u>	<u>-</u>	<u>260</u>
Total functional expenses	<u>2,635</u>	<u>-</u>	<u>2,635</u>
Changes in net assets	81	(260)	(179)
Net assets, beginning of period	<u>1,618</u>	<u>2,109</u>	<u>3,727</u>
Net assets, end of period	<u>\$ 1,699</u>	<u>\$ 1,849</u>	<u>\$ 3,548</u>