



*Report of Independent Auditors and
Financial Statements*

Working Solutions CDFI

Years Ended September 30, 2021 and 2020



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Report of Independent Auditors

Board of Directors
Working Solutions CDFI

Report on the Financial Statements

We have audited the accompanying financial statements of Working Solutions CDFI (Working Solutions), which comprise the statements of financial position as of September 30, 2021 and 2020, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Working Solutions CDFI as of September 30, 2021 and 2020, 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.

New Accounting Standards

As discussed in Note 2 to the financial statements, Working Solutions adopted Financial Accounting Standards Board (“FASB”) Accounting Standards Update (“ASU”) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* and ASU No. 2016-02, *Leases (Topic 842)* using the modified retrospective method applied to all contracts. The adoption of the standards resulted in additional footnote disclosures and has been applied retrospectively to all periods presented. Our opinion is not modified with respect to this matter.

Moss Adams LLP

San Francisco, California
January 26, 2022

Financial Statements

Working Solutions CDFI
Statements of Financial Position
As of September 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 6,526,301	\$ 2,407,464
Restricted cash and cash equivalents	2,560,042	1,981,585
Cash and cash equivalents restricted for loan loss reserve	159,735	557,679
Contributions receivable	599,967	885,353
Interest receivable	34,033	92,300
Loans receivable due within one year (net of loan loss reserve)	1,605,443	1,398,939
Prepaid expenses	<u>20,257</u>	<u>9,282</u>
Total current assets	11,505,778	7,332,602
Property and equipment, net	4,110	16,331
Loans receivable, net of amounts due within one year	4,915,490	5,385,217
Operating lease asset	441,939	-
Lease deposit	<u>21,604</u>	<u>21,604</u>
Total assets	<u>\$ 16,888,921</u>	<u>\$ 12,755,754</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 278,651	\$ 147,087
Operating lease liability, current portion	85,290	-
Loans payable due within one year	<u>2,087,616</u>	<u>1,056,592</u>
Total current liabilities	2,451,557	1,203,679
Agency funds	8,000	8,175
Deferred rent	-	2,672
Operating lease liability, net of current portion	377,795	-
San Francisco Revolving Loan Fund payable	458,657	458,657
Loans payable, net of amounts due within one year	<u>5,058,027</u>	<u>6,399,402</u>
Total liabilities	8,354,036	8,072,585
Net assets		
Without donor restrictions:		
Undesignated	3,327,953	2,615,902
Board designated	<u>1,580,595</u>	<u>1,448,517</u>
Total without donor restrictions	4,908,548	4,064,419
With donor restrictions	<u>3,626,337</u>	<u>618,750</u>
Total net assets	8,534,885	4,683,169
Total liabilities and net assets	<u>\$ 16,888,921</u>	<u>\$ 12,755,754</u>

Working Solutions CDFI
Statements of Activities and Changes in Net Assets
Years Ended September 30, 2021 and 2020

	2021			2020		
	Without donor restrictions	With donor restrictions	Totals	Without donor restrictions	With donor restrictions	Totals
Contributions and grants						
Contributions	\$ 988,857	\$ 4,358,765	\$ 5,347,622	\$ 1,179,712	\$ 883,000	\$ 2,062,712
Contributed goods and services	133,719	-	133,719	218,953	-	218,953
Government grants and contracts	-	-	-	82,932	-	82,932
Net assets released from restrictions	1,351,178	(1,351,178)	-	745,901	(745,901)	-
Total contributions and grants	<u>2,473,754</u>	<u>3,007,587</u>	<u>5,481,341</u>	<u>2,227,498</u>	<u>137,099</u>	<u>2,364,597</u>
Earned revenue						
Administration fees	1,084,871	-	1,084,871	554,777	-	554,777
Special events, net	1,000	-	1,000	-	-	-
Client fees	152,057	-	152,057	128,110	-	128,110
Interest income on loans	561,305	-	561,305	646,991	-	646,991
Interest income on bank deposits	11,601	-	11,601	18,573	-	18,573
Total earned revenue	<u>1,810,834</u>	<u>-</u>	<u>1,810,834</u>	<u>1,348,451</u>	<u>-</u>	<u>1,348,451</u>
Total contributions, grants, and earned revenue	4,284,588	3,007,587	7,292,175	3,575,949	137,099	3,713,048
Expenses						
Program services	2,446,289	-	2,446,289	2,387,253	-	2,387,253
Management and general	863,219	-	863,219	772,789	-	772,789
Fundraising	360,071	-	360,071	442,409	-	442,409
Total expenses	<u>3,669,579</u>	<u>-</u>	<u>3,669,579</u>	<u>3,602,451</u>	<u>-</u>	<u>3,602,451</u>
Nonoperating income						
Extinguishment of loan payable	229,120	-	229,120	-	-	-
Change in net assets	844,129	3,007,587	3,851,716	(26,502)	137,099	110,597
Net assets, beginning of year	4,064,419	618,750	4,683,169	4,090,921	481,651	4,572,572
Net assets, end of year	<u>\$ 4,908,548</u>	<u>\$ 3,626,337</u>	<u>\$ 8,534,885</u>	<u>\$ 4,064,419</u>	<u>\$ 618,750</u>	<u>\$ 4,683,169</u>

See accompanying notes.

Working Solutions CDFI
Statements of Functional Expenses
Years Ended September 30, 2021 and 2020

	2021				2020			
	Program Services	Management and General	Fundraising	Totals	Program Services	Management and General	Fundraising	Totals
Personnel costs								
Salaries	\$ 994,488	\$ 511,300	\$ 239,819	\$ 1,745,607	\$ 1,032,443	\$ 323,666	\$ 255,688	\$ 1,611,797
Payroll taxes	78,616	25,425	17,965	122,006	80,808	1,044	20,821	102,673
Employee benefits	169,487	105,127	54,395	329,009	126,132	65,996	49,753	241,881
Total personnel costs	1,242,591	641,852	312,179	2,196,622	1,239,383	390,706	326,262	1,956,351
Contributed goods and services	87,395	46,324	-	133,719	210,108	8,845	-	218,953
Consulting and other professional fees	260,272	85,595	10,114	355,981	57,793	231,581	37,892	327,266
Direct client costs								
Loan servicing and client expenses	190,083	4,064	-	194,147	27,010	40	-	27,050
Provision for loan losses	223,652	-	-	223,652	470,704	-	-	470,704
Total direct client costs	413,735	4,064	-	417,799	497,714	40	-	497,754
Other operating expenses								
Occupancy	89,715	27,520	11,676	128,911	67,083	34,022	27,758	128,863
Interest	153,642	151	-	153,793	162,313	12,449	-	174,762
Insurance	6,825	1,488	819	9,132	3,671	8,176	1,519	13,366
Office supplies and equipment maintenance	9,739	5,108	1,194	16,041	16,982	12,068	4,063	33,113
Travel and transportation	75	170	-	245	4,781	735	244	5,760
Technology expenses	151,091	44,352	16,967	212,410	91,402	60,098	33,848	185,348
Telephone	4,644	1,644	503	6,791	5,653	2,255	1,423	9,331
Marketing	3,905	413	4,595	8,913	8,333	752	2,861	11,946
Membership dues and licenses	11,468	2,188	289	13,945	8,010	4,394	949	13,353
Conferences and meetings	2,379	173	504	3,056	5,493	2,843	2,059	10,395
Depreciation and amortization	8,813	2,177	1,231	12,221	8,534	3,825	3,531	15,890
Total other operating expenses	442,296	85,384	37,778	565,458	382,255	141,617	78,255	602,127
Total expenses	<u>\$ 2,446,289</u>	<u>\$ 863,219</u>	<u>\$ 360,071</u>	<u>\$ 3,669,579</u>	<u>\$ 2,387,253</u>	<u>\$ 772,789</u>	<u>\$ 442,409</u>	<u>\$ 3,602,451</u>

See accompanying notes.

Working Solutions CDFI
Statements of Cash Flows
Years Ended September 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities		
Change in net assets	\$ 3,851,716	\$ 110,597
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	12,221	15,890
Change in discount of operating lease liability	(65,671)	-
Provision for loan losses	223,652	470,704
Extinguishment of loan payable	(229,120)	-
Changes in operating assets and liabilities:		
Contributions receivable	285,386	(736,069)
Interest receivable	58,267	(45,153)
Prepaid expenses	(10,975)	28,058
Operating lease asset	(441,939)	-
Accounts payable and accrued liabilities	131,564	4,074
Agency funds	(175)	175
Deferred rent	(2,672)	586
Operating lease liability	528,756	-
Net cash provided by (used in) operating activities	<u>4,341,010</u>	<u>(151,138)</u>
Cash flows from investing activities		
Issuance of loans receivable	(2,840,213)	(2,799,335)
Collections of loans receivable	2,879,784	2,597,445
Net cash provided by (used in) investing activities	<u>39,571</u>	<u>(201,890)</u>
Cash flows from financing activities		
Borrowings under loans payable	1,375,000	729,120
Principal payments of loans payable	(1,456,231)	(680,293)
Net cash (used in) provided by financing activities	<u>(81,231)</u>	<u>48,827</u>
Net change in cash, cash equivalents, and restricted cash	4,299,350	(304,201)
Cash, cash equivalents, restricted cash, beginning of the year	<u>4,946,728</u>	<u>5,250,929</u>
Cash, cash equivalents, restricted cash, end of the year	<u>\$ 9,246,078</u>	<u>\$ 4,946,728</u>
Supplemental cash-flow disclosures		
Cash paid for interest	<u>\$ 153,793</u>	<u>\$ 174,762</u>

NOTE 1 – DESCRIPTION OF ORGANIZATION

Working Solutions CDFI (Working Solutions or the Organization), formerly known as TMC Development Working Solutions, is a California nonprofit corporation and a certified Community Development Financial Institution (CDFI). Working Solutions is the *First to Believe* in start-up and early-stage businesses by providing affordable capital, customized business consulting, and community connections to diverse entrepreneurs – with a focus on low-income individuals, entrepreneurs of color, and women – to increase economic opportunity in the San Francisco Bay Area. Working Solutions supports microenterprise growth to strengthen the local economy, create jobs, and build strong communities. Working Solutions provides the following services:

- Microloans from \$5,000 to \$50,000
- Small business grants
- Free, one-on-one business consulting to help entrepreneurs navigate the challenges of owning a small business with a specific focus on financial management and risk mitigation.
- Referrals to free or low-cost industry experts for legal, accounting, marketing, and other types of specialized support.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting – The accompanying financial statements of Working Solutions have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States (U.S. GAAP). Under the accrual basis of accounting, contributions are recognized when promised, revenues are recognized when earned and expenses are recognized when incurred.

Working Solutions is required to report information regarding its financial position and activities according to the following classes of net assets:

Without donor restrictions include resources for which there are no donor restrictions. Such amounts are available to support Working Solutions’ operations and programs. A portion of these net assets may be designated by the Board of Directors for specific purposes. Board designated net assets were \$1,580,595 and \$1,448,517 as of September 30, 2021 and 2020, respectively, in accordance with Board required six month reserve policy.

With donor restrictions is defined as that portion of net assets that consist of a restriction on the specific use or the occurrence of a certain future event. Donor-imposed restricted contributions whose restrictions are met in the same reporting period, are reported as with donor-imposed restricted revenue on the statements of activities and changes in net assets. Once the restriction is met, contributions are reported as net assets released from restriction on the statements of activities and changes in net assets.

Use of estimates – Working Solutions prepares its financial statements in accordance with U.S. GAAP. The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Although management bases these estimates on its knowledge of current events and actions it may undertake in the future, actual results could differ from those estimated.

Working Solutions CDFI Notes to Financial Statements

The most significant estimate relates to an allowance for loan losses. This estimate may be adjusted as more current information becomes available and any adjustment could be significant.

Cash and cash equivalents – Working Solutions considers all highly liquid instruments purchased with an original maturity of three months or less to be cash equivalents. Working Solutions places its cash and restricted cash only with high credit quality institutions.

As of September 30, 2021 and 2020, cash and cash equivalents consisted of funds held in checking, savings, and money market accounts. Working Solutions considers money market accounts to be cash and cash equivalents as there are no limitations on withdrawals associated with these accounts that would have a material effect on their liquidation value.

Working Solutions holds funds received from certain commercial banks in separate accounts as required by the grant and the loan agreements. Cash in these accounts is designated for microlending and loan losses and is presented in the financial statements as restricted cash and cash equivalents in current assets.

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the statements of financial position that sum to the total of the same such amounts shown in the statements of cash flows.

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 6,526,301	\$ 2,407,464
Restricted cash and cash equivalents	2,560,042	1,981,585
Cash and cash equivalents restricted for loan loss reserve	<u>159,735</u>	<u>557,679</u>
 Total cash, cash equivalents, and restricted cash shown in the statement of cash flows	 <u>\$ 9,246,078</u>	 <u>\$ 4,946,728</u>

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

As of September 30, 2021 and 2020, Working Solutions' restricted cash was comprised of the following:

	<u>2021</u>	<u>2020</u>
Cash restricted for future loans	\$ 2,552,042	\$ 1,973,410
Cash held for others	<u>8,000</u>	<u>8,175</u>
 Total	 <u>\$ 2,560,042</u>	 <u>\$ 1,981,585</u>

Working Solutions CDFI Notes to Financial Statements

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

	2021	2020
Loan guaranty programs through the California Capital Access Program	\$ 85,756	\$ 207,838
Small Business Administration	73,979	81,489
Other loan losses	-	268,352
	\$ 159,735	\$ 557,679
Total		

Working Solutions and the State of California's Capital Access Program (CalCap) (Note 5) jointly own a cash account held at a commercial bank. Each entity owns its contribution made to the program when enrolling eligible loans. Not included in the financial statements are CalCap's cash reserves controlled by the State of California (Note 5).

Cash held for others and agency funds – From time to time, Working Solutions will hold cash received in an agency capacity. These assets represent cash received from financial institutions, government agencies, or not for profit organizations Working Solutions is acting as an agent for. The cash received is for the ultimate benefit of unrelated organizations who participate in programs which Working Solutions helps administer funds for. Cash is recorded on the statement of financial position; a corresponding liability for the same amount is also recorded as agency funds on the accompanying statements of financial position. As of September 30, 2021 and 2020, agency funds totaled \$8,000 and \$8,175, respectively.

Contributions receivable – Contributions receivable consist of the amounts due from donors or grantors on their promises to give. Contributions receivable are stated at the amounts Working Solutions expects to collect. Working Solutions records an allowance for estimated uncollectible contributions in an amount approximating anticipated losses. The provision for uncollectible amounts is computed based upon historical averages and management's consideration of current economic factors that could affect collections. Individual uncollected promises to give are written off against the allowance when collection of the individual account appears doubtful. As of September 30, 2021 and 2020, Working Solutions determined that no allowance for doubtful accounts was required.

As of September 30, 2021 and 2020, contributions receivable are expected to be collected within one year.

Interest receivable – Interest receivable consisted of interest income earned on loans receivable outstanding as of September 30, 2021 and 2020.

Loans receivable – Working Solutions, in the normal course of its business, makes microloans of up to \$50,000 to new and existing businesses that do not qualify for such loans through conventional channels. The loans can be unsecured, partially secured or fully secured.

Loans are not held for sale and management has the intent and ability to hold them for the foreseeable future or until maturity or payoff. Loans are reported at cost equal to the outstanding principal balance adjusted for any charge-offs, the allowance for loan losses, and any deferred fees or costs.

Management, with the oversight of the Board, follows specific policies and procedures that guide its practices for screening applicants, underwriting, and managing the loans. These policies are reviewed annually.

Working Solutions CDFI Notes to Financial Statements

Allowance for loan losses – Allowance for loan losses reflects management’s best estimate of losses inherent in the loan portfolio. The allowance is increased by provisions for loan losses charged against earnings and reduced by charge-offs, net of recoveries.

Management has established a process to determine the adequacy of the allowance for loan losses that assesses the risks and losses inherent in their portfolio, including adverse situations that may affect the borrower’s ability to repay, the estimated value of any underlying collateral, and historical loss experience. Management also considers economic uncertainties and other subjective factors, including industry trends.

Management has an experienced team that works with borrowers to help them through financial challenges that could affect their ability to make loan payments. If the financial position of certain borrowers improves over time, it may be possible to recover part of the allowance for loan losses and take the recovered amount back into income.

Impaired loans – Impairment is considered to exist when it is probable that not all amounts due will be collected under the terms of the loan receivable. Factors considered by Management in determining whether a loan is impaired include payment status, and ability of collecting scheduled principal and interest payments when due.

Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower’s prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

If management determines that the value of the impaired loan is less than the recorded investment in the loan, Working Solutions includes the impairment in the calculation of the overall allowance for loan losses.

Loans receivable are considered delinquent when an account has been outstanding for more than 30 days. Loans receivable are determined to be uncollectible when all repayment efforts have been exhausted and repayment appears unlikely. Based on Working Solutions historically incurred losses, loans are deemed uncollectible and charged off generally after 120 days.

Troubled Debt Restructuring (“TDR”) – Management strives to identify borrowers in financial difficulty early and works with them to modify their loan to more affordable terms before it is charged off. A restructuring of a debt constitutes a TDR if the creditor for economic or legal reasons related to the debtor’s financial difficulties grants a concession to the debtor that it would not otherwise consider. Concessions could include a reduction in the interest rate to a rate that is below market on the loan, payment extensions, forgiveness of principal, forbearance, and other actions designed to maximize collections.

Property and equipment – Property and equipment are recorded at cost when purchased or at estimated fair value at the date of receipt, if donated. Working Solutions capitalizes property and equipment with an original cost or estimated fair value exceeding \$1,000. Property and equipment are depreciated by using the straight-line method over the assets’ estimated useful lives. No property was donated during the years ended September 30, 2021 and 2020.

Leases – Working Solutions recognizes assets and liabilities arising from leases with terms longer than 12 months on the statements of financial position. Leases are classified as either operating or finance, with classification affecting the pattern of expense recognition in the statements of activities and changes in net assets.

Working Solutions recognized operating lease assets and operating lease liabilities of \$441,939 and \$463,085, respectively, as of September 30, 2021.

New accounting pronouncements – During fiscal year ended September 30, 2021, Working Solutions adopted Accounting Standards Codification (ASC) Topic 606, *Revenue from Contracts with Customers* (“ASC 606”) using the modified retrospective method, applied to all contracts effective October 1, 2020. The adoption of ASC 606 did not have a material impact on the financial statements and did not require restatement of beginning net asset balances.

During fiscal year ended September 30, 2021, the Working Solutions adopted Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842)* (“ASC 842”) using the modified retrospective method. As a result of the adoption of the standard, the Working Solutions recognized assets and liabilities arising from leases with terms longer than 12 months on the statement of financial position. Leases are classified as either operating or finance, with classification affecting the pattern of expense recognition in the statement of activities and change in net assets. The adoption of ASU 2016-02 did not have a material impact on the financial statements and did not require restatement of beginning net asset balances.

Contributions – Contributions consist primarily of amounts received from financial institutions.

Working Solutions recognizes all contributions when they are received or unconditionally promised, regardless of compliance with restrictions. Contributions without donor-imposed restrictions are reported as net assets without donor restrictions. Contributions with donor-imposed restrictions are reported as net assets with donor restrictions.

When the time or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported as net assets released from restrictions.

Conditional contributions and promises to give are not recognized until they become unconditional; that is when the conditions on which they depend are met. As of September 30, 2021 and 2020, there were no conditional contributions.

Contributions to be received after one year are discounted at an appropriate rate commensurate with the anticipated cash flow and risks involved. Amortization of the discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. As of September 30, 2021 and 2020, Working Solutions did not have contributions to be received after one year.

Contributed goods and services – Donated services are reflected in the financial statements at the fair value of the services received only if the services received (a) create or enhance nonfinancial assets or (b) require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation.

During the years ended September 30, 2021 and 2020, Working Solutions received legal, accounting and consulting services of \$133,719 and \$218,953, respectively. Donated services have been reflected in the accompanying financial statements as contributed goods and services, with an equivalent amount included in program costs or supporting services as an in-kind expense.

Working Solutions CDFI Notes to Financial Statements

Government grants and contracts – Government grants and contracts consists of grants from the federal government, financial institutions, and other not for profit organizations. Government grants and contracts are considered conditional until the conditions in which they depend upon have been met. Grants are utilized to support Working Solutions' microloan program. Grant funding received is recognized as unearned income until revenue is earned.

Working Solutions records certain revenue from contracts with customers in accordance with ASC Topic 606, *"Revenue from Contracts with Customers"* (*"Topic 606"*). Under Topic 606, Working Solutions must identify the contract with a customer, identify the performance obligations in the contract, determine the transaction price, allocate the transaction price to the performance obligations in the contract, and recognize revenue when (or as) Working Solutions satisfies a performance obligation.

Working Solutions accounts for a contract with a customer through the issuance of a participation agreement and when it has a legally enforceable contract with a customer, the arrangement identifies the rights of the parties, the contract has commercial substance, and Working Solutions determines it probable that it will collect the contract consideration. Working Solutions recognizes revenue when control of the promised goods or services transfers to customers, in an amount that reflects the consideration Working Solutions expects to be entitled to in exchange for those goods or services.

Certain sources of revenue are derived from interest and dividends earned on loans that are not within the scope of Topic 606. All revenue from contracts with customers in the scope of Topic 606 is recognized in noninterest income. Sources of revenue from contracts with customers that are in the scope of Topic 606 include the following:

Special events – Special events revenue, net of direct donor benefit costs, is recognized when the event takes place. There are no contract assets or contract liabilities related to this revenue stream.

Fee revenue – Fee revenue consists of administration, consulting, and client fees related to government grants and contracts. Fee revenue is recognized as revenue once the expenses have been incurred.

Working Solutions has evaluated the nature of its contracts with customers and determined that further disaggregation of revenue from contracts with customers into more granular categories beyond what is presented in the statements of activities and changes in net assets was not necessary. Working Solutions satisfies its performance obligations on its contracts with customers as services are rendered and the transaction prices are typically fixed; charged either on a periodic basis, or based on activity. Because performance obligations are satisfied as services are rendered and the transaction prices are fixed, there is limited judgment involved in applying Topic 606 that significantly affects the determination of the amount and timing of revenue from contracts with customers.

Interest income – Interest income consists of interest earned on loans and interest earned on certificates of deposits and money market accounts. Interest income is recognized in the period earned.

Functional expenses – The costs of Working Solutions' various activities have been summarized on a functional basis in the accompanying statements of functional expenses. Expenses are allocated to program and supporting services based upon employees' time for each function, purpose of each expenditure and service provided for each program.

Working Solutions CDFI Notes to Financial Statements

Income taxes – Working Solutions is exempt from Federal and California income tax under Section 501(c)(3) of the Internal Revenue Code and Section 23701d of the State Revenue and Taxation Code. Working Solutions has been classified as a publicly supported organization as described in Section 509(a)(1) of the Internal Revenue Code. Accordingly, donors are entitled to the maximum charitable contribution allowed by law. The management of Working Solutions believes that no activities of Working Solutions jeopardized its exemption from income taxes, its classification as a “public charity” or subjected Working Solutions to taxes on unrelated business income.

U.S. GAAP requires Working Solutions management to evaluate tax positions taken by Working Solutions and recognize a tax liability (or asset), if Working Solutions has taken an uncertain position that more likely than not would not be sustained upon examination by Internal Revenue Service.

Working Solutions’ evaluation on September 30, 2021 and 2020, revealed no tax positions that would have a material impact on the financial statements. The tax returns of Working Solutions are subject to examination by federal and state taxing authorities. However, there are currently no examinations in progress or pending.

Reclassifications – Certain 2020 numbers previously stated have been reclassified to conform to the 2021 presentation. The reclassifications had no impact on the previously stated net assets or changes in net assets.

Subsequent events – Subsequent events are events or transactions that occur after the statement of financial position date but before the financial statements are available to be issued. Working Solutions recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the statement of financial position, including the estimates inherent in the process of preparing the financial statements. Working Solutions’ financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the statement of financial position but arose after the statement of financial position date and before the financial statements are available to be issued.

In October 2021, the maturity date of the Wells Fargo loan payable of \$250,000 due on December 21, 2021 (see Note 6), was extended to December 15, 2023.

Working Solutions has evaluated subsequent events through January 26, 2022, which is the date the financial statements were available to be issued.

Working Solutions CDFI Notes to Financial Statements

NOTE 3 – CONTRIBUTIONS RECEIVABLE

As of September 30, 2021 and 2020, contributions receivable consisted of the following:

	<u>2021</u>	<u>2020</u>
The Sobrato Family Foundation	\$ 200,000	\$ 400,000
Bank of America Charitable Foundation	100,000	200,000
Lendistry	150,000	-
Small Business Administration	89,295	96,555
City of SF OEWD	50,672	
Other	10,000	20,450
California Capital Access Program (CalCAP)	-	130,848
Federal Home Loan Bank of San Francisco	-	37,500
	<u> </u>	<u> </u>
Total	<u>\$ 599,967</u>	<u>\$ 885,353</u>

NOTE 4 – LOANS RECEIVABLE

Working Solutions, in the ordinary course of its business, makes microloans of \$5,000 to \$50,000. All loans are considered to be microloans to small businesses. The loans are for a three or five-year period, and can be unsecured, partially secured, or fully secured by business inventory and other assets and personal guarantees. Working Solutions filed UCC-1 statements for all collateral. Most loans are fully amortizing, and payments are due monthly. Interest rates are fixed, and they range from 4% to 11%.

The following table discloses the outstanding loan receivable balance as of September 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Loans receivable, due within one year	\$ 1,912,712	\$ 1,755,853
Loans receivable, net of amounts due within one year	<u>4,915,490</u>	<u>5,385,217</u>
Total loans receivable	6,828,202	7,141,070
Allowance for loan loss	<u>(307,269)</u>	<u>(356,914)</u>
Total loans receivable, net	<u>\$ 6,520,933</u>	<u>\$ 6,784,156</u>

Working Solutions CDFI Notes to Financial Statements

Risk analysis – All loans at origination are assessed for credit quality by various measures. Based on the credit quality of the borrower, a loan is given an initial risk rating within the following tiers – Excellent, Good, Acceptable, and Close Follow being the highest risk position. Performing loans that have not been modified are re-rated on their two-year anniversary, and every year thereafter. Loans that are delinquent more than 60 days, loans that have requested modification or undergone modification or restructure, or loans otherwise on the portfolio watch list are re-rated at the time of the triggering event. Existing loans may be risk rated within the initial risk rating tiers, as well as two additional tiers, Substandard and Doubtful. Depending on the tier of the risk rating of each loan, an allowance for loan loss between 1% and 100% is reserved for each loan, noted in the risk rating tiers, offset by any enrolled guarantees for each loan. As a portfolio-wide floor, the allowance for loan loss is no less than 4.5% at any given time.

As of September 30, 2021 and 2020, loans guaranteed by CA Southern FDC or enrolled in CalCap total \$2,026,447 and \$4,674,911, respectively.

The activity in the allowance for loan losses, for the years ended September 30, 2021 and 2020, is as follows:

Balance, September 30, 2019	\$	293,874
Additions		470,704
Recoveries of previously charged off loans		(3,276)
Direct write-offs		<u>(404,388)</u>
Balance, September 30, 2020		356,914
Additions		223,652
Recoveries of previously charged off loans		(47,938)
Direct write-offs		<u>(225,359)</u>
Balance, September 30, 2021	\$	<u><u>307,269</u></u>

The following table shows the ending balance of current and past due loans as of September 30, 2021 and 2020:

<u>Greater than</u>	September 30, 2021		September 30, 2020	
	Number of loans	Amount	Number of loans	Amount
30 days	-	\$ -	2	\$ 16,975
60 days	2	27,312	4	25,925
> 90 days	-	-	5	110,913
Total past due	2	27,312	11	153,813
Current	<u>384</u>	<u>6,800,890</u>	<u>378</u>	<u>6,987,257</u>
Total outstanding loans	<u><u>386</u></u>	<u><u>\$ 6,828,202</u></u>	<u><u>389</u></u>	<u><u>\$ 7,141,070</u></u>

Working Solutions CDFI Notes to Financial Statements

The following table presents loans modified as troubled debt restructurings as of September 30, 2021 and 2020:

	September 30, 2021		September 30, 2020	
	Number of loans	Amount	Number of loans	Amount
Microloans for small business	4	\$ 83,405	3	\$ 49,636

The modifications of loan terms during the years ended September 30, 2021 and 2020, included lowering principal and interest payments and payment deferrals.

There were no troubled debt restructurings for which there was a payment default within 12 months following the modification during the years ended September 30, 2021 and 2020.

NOTE 5 – CALCAP LOAN LOSS RESERVE

The Organization participates in the State’s CalCap program that has been funded in part with Small Business Credit Initiative (SSBCI). SSBCI is a federal program that provides funding to States to expand access to credit for small businesses. Through this program, the State of California provides cash reserves that protect Working Solutions against potential credit losses. When an enrolled loan is charged off Working Solutions can claim 100% of the loss to CalCap. This protection is limited to the amount of cash in those reserves. Historically, loans with a risk rating of Pass IV are enrolled in the program. As of September 30, 2021 and 2020, approximately 30% and 65%, respectively, of loans outstanding are enrolled in this program.

The following table discloses the loan loss reserve available from CalCap as of September 30, 2021 and 2020:

	2021	2020
Working Solutions contributions to CalCap reserve	\$ 85,756	\$ 207,838
State contributions to CalCap reserve	<u>42,878</u>	<u>122,814</u>
Total CalCap reserve	<u>\$ 128,634</u>	<u>\$ 330,652</u>

The State contributions to CalCap reserve are for small business loans. This portion of the reserve is not included in Working Solutions’ statements of financial position. Each entity owns its own contributions made to the program when enrolling eligible loans.

NOTE 6 – LOANS PAYABLE

Loans payable, with the exception of the U.S. Small Business Administration (SBA) Micro Lending Program, represent full recourse unsecured obligations of Working Solutions to repay borrowed money. As of September 30, 2021 and 2020, Working Solutions had outstanding debt of \$7,145,643 and \$7,455,994, respectively. For the years ended September 30, 2021 and 2020, Working Solutions drew \$1,375,000 and \$729,120, in new debt borrowings, made a total of \$1,456,231 and \$680,293 in principal payments, and made a total of \$153,793 and \$174,762 in interest payments, respectively.

Working Solutions CDFI Notes to Financial Statements

Additionally, on April 30, 2020, Working Solutions was granted a loan under the Paycheck Protection Program offer through Self Help Credit Union under the Coronavirus Aid, Relief, and Economic Security Act (“CARES ACT”), for \$229,120, with a maturity date of April 30, 2022. This loan was subject to partial or full forgiveness if Working Solutions complies with CARES ACT rules, regulations, and guidance. On January 11, 2021, the principal amount of \$229,120 and the accrued interest of the loan were approved for forgiveness by the bank and the SBA had remitted the forgiven loan amount to the bank. The outstanding balance has been derecognized as long-term debt and recognized as a gain on debt extinguishment in the statements of activities and changes in net assets for the year ended September 30, 2021.

As of September 30, 2021 and 2020, loans payable consisted of the following:

	Maturities	Interest Rates	September 30, 2021			September 30, 2020		
			Current	Long-term	Total	Current	Long-term	Total
Financial institutions	2022-2029	1.00% - 3.00%	\$ 2,000,000	\$ 2,416,341	\$ 4,416,341	\$ 956,600	\$ 5,141,662	\$ 6,098,262
Public agencies	2022-2028	1.00% - 2.63%	87,616	891,686	979,302	99,992	757,740	857,732
Nonprofit and other institutions	2025-2029	0.00%-3.00%	-	1,750,000	1,750,000	-	500,000	500,000
Total loans payable			<u>\$ 2,087,616</u>	<u>\$ 5,058,027</u>	<u>\$ 7,145,643</u>	<u>\$ 1,056,592</u>	<u>\$ 6,399,402</u>	<u>\$ 7,455,994</u>

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

For the Fiscal Years Ending,

2022	\$ 2,087,616
2023	338,472
2024	589,344
2025	90,215
2026	2,437,914
Thereafter	<u>1,602,082</u>
	<u>\$ 7,145,643</u>

As of September 30, 2021 and 2020, Working Solutions had \$1,500,000 and \$837,000, respectively, of available undrawn sources of funding with maturities ranging from 2022 to 2026.

Working Solutions CDFI Notes to Financial Statements

(a) Subordinate Debt

As of September 30, 2021 and 2020, Working Solutions had subordinated debt totaling \$4,500,000 from six financial institutions. Most of these subordinate loans have extension options at maturity, provided that Working Solutions continues to satisfactorily perform all its obligations under the loan agreements. Management expects to extend these maturities, but no decision has been made yet.

	<u>Amount</u>	<u>Maturity</u>	<u>Extension</u>
Bank of the West	\$ 1,000,000	5/2/2029	N/A
Mechanics Bank	250,000	4/30/2023	2 year extension option
Opportunity Finance Network	500,000	9/30/2029	N/A
U.S. Bank National Association	500,000	9/20/2024	1 year extension option
Wells Fargo	250,000	12/21/2021*	2 year extension option
Wells Fargo	1,000,000	2/23/2026	2 year extension option
Western Alliance Bank	1,000,000	7/1/2022	5 year extension option
Total	<u>\$ 4,500,000</u>		

*Loan was extended in fiscal year 2022. See subsequent event section of Note 2

(b) Secured Debt

Working Solutions has certain assets as collateral to secure recourse indebtedness under loans borrowed from the U.S. Small Business Administration (SBA). As of September 30, 2021 and 2020, this collateral included all loans made under the SBA microloan program totaling \$53,000 and \$763,431, and all funds in the six bank accounts totaling \$168,723 and \$722,781, respectively.

(c) Lines of Credit

As of September 30, 2021 and 2020, Working Solutions had available bank lines of credit of \$1,500,000 and \$1,545,262, respectively, with outstanding balances of \$0 and \$708,262, respectively and undrawn and available amount of \$1,500,000 and \$837,000, respectively.

For the years ended September 30, 2021 and 2020, the undrawn balances were on two facilities, one of which is an unsecured, full recourse line of credit from Capital One, which bears an interest rate of 2.3%. The facility had an original maturity date of April 1, 2021 and was extended to July 1, 2024. As of September 30, 2021 and 2020, the facility had available and undrawn funds of \$750,000 and \$87,000, respectively.

Working Solutions also had a fully undrawn, unsecured revolving line of credit from HSBC Bank in the amount of \$750,000. This line bears an interest rate of 2.5% and matures on March 31, 2026. No funds were borrowed under this agreement during the fiscal year ended September 30, 2021 and 2020.

Covenants

In accordance with the terms of the loan agreements with several Working Solutions lenders, Working Solutions is required to meet certain financial covenants. Working Solutions was in compliance with its financial covenants as of September 30, 2021 and 2020.

Working Solutions CDFI
Notes to Financial Statements

NOTE 7 – BOARD DESIGNATED NET ASSETS

Board designated appropriations at September 30, 2021 and 2020, are as follows:

	2021	2020
Operating reserve	\$ 1,580,595	\$ 1,448,517
Total	\$ 1,580,595	\$ 1,448,517

At September 30, 2021 and 2020, the operating reserve represents 6 months of operating expense excluding depreciation, loan loss reserve, and pro-bono services.

NOTE 8 – WITH DONOR-IMPOSED RESTRICTIONS

Net assets with donor restrictions and net assets released from restrictions (by grantor/donor) during the years ended September 30, 2021 and 2020, consist of the following:

	2020	Additions	Releases	2021
Grantor/Donor Name				
Community Development				
Financial Institutions Fund	\$ -	\$ 2,346,265	\$ (520,000)	\$ 1,826,265
Wells Fargo Bank	-	1,500,000	(346,725)	1,153,275
The San Francisco Foundation	-	300,000	-	300,000
The Sobrato Family Foundation	400,000	-	(200,000)	200,000
Walter & Elise Haas Foundation	17,500	50,000	(25,833)	41,667
U.S. Bank National Association	-	40,000	-	40,000
Bank of the West	25,000	100,000	(97,727)	27,273
Capital One Services, LLC	20,000	20,000	(20,000)	20,000
HSBC	83,333	-	(65,476)	17,857
JPMorgan Chase & Co.	6,250	-	(6,250)	-
Citi Foundation	29,167	-	(29,167)	-
Federal Home Loan Bank of SF	37,500	-	(37,500)	-
Manufacturers Bank	-	2,500	(2,500)	-
Total	\$ 618,750	\$ 4,358,765	\$ (1,351,178)	\$ 3,626,337

Working Solutions CDFI Notes to Financial Statements

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

Net assets with donor restrictions and net assets released from restrictions during the years ended September 30, 2021 and 2020, by purpose and time, consist of the following:

Purpose	2020	Additions	Releases	2021
Micro Lending	\$ 25,850	\$ 3,846,265	\$ (761,725)	\$ 3,110,390
Geographic Restriction	454,567	22,500	(27,500)	449,567
Time	138,333	490,000	(561,953)	66,380
Total	\$ 618,750	\$ 4,358,765	\$ (1,351,178)	\$ 3,626,337

Purpose	2019	Additions	Releases	2020
Micro Lending	\$ 306,651	\$ 213,000	\$ (493,801)	\$ 25,850
Loan Loss Reserve	-	5,000	(5,000)	-
	306,651	218,000	(498,801)	25,850
Geographic Restriction	175,000	490,000	(210,433)	454,567
Time	-	175,000	(36,667)	138,333
Total	\$ 481,651	\$ 883,000	\$ (745,901)	\$ 618,750

All net assets with donor restrictions are expected to be released from restriction by September 30, 2023.

Working Solutions CDFI
Notes to Financial Statements

NOTE 9 – LIQUIDITY AND FUNDS AVAILABLE

The following table reflects Working Solutions’ financial assets as of September 30, 2021 and 2020, reduced by amounts not available for general expenditures within one year. Financial assets are considered unavailable when illiquid or not convertible to cash within one year. Other considerations of nonliquid assets are donor restricted assets for specific expenditures, contractual reserve requirements, or governing board designations.

	2021	2020
Financial assets		
Cash and cash equivalents	\$ 6,526,301	\$ 2,407,464
Restricted cash and cash equivalents	2,560,042	1,981,585
Cash and cash equivalents restricted for loan loss reserve	159,735	557,679
Contributions receivable	599,967	885,353
Interest receivable	34,033	92,300
Loans receivable, net	6,520,933	6,784,156
Financial assets	16,401,011	12,708,537
Less those unavailable for general expenditures within one year, due to:		
Restricted cash and cash equivalents	2,560,042	1,981,585
Loans receivable, net of amounts due within one year	4,915,490	5,385,217
Cash and cash equivalents restricted for loan loss reserve	159,735	557,679
Board designated assets, operating reserve	1,580,595	1,448,517
Financial assets available to meet cash needs for general expenditures within one year	\$ 7,185,149	\$ 3,335,539

The Organization's Board has a net assets-reserves policy, (Note 7). As of September 30, 2021 and 2020, \$1,580,595 and \$1,448,517, respectively, in Board Designated assets support the Board’s requirement to hold liquid assets equivalent to six months of operating cash expenses less depreciation, loan loss reserve, and pro-bono services. At time of liquidity needs, through board approval, Board Designated assets can be used for general expenditures.

As of September 30, 2021 and 2020, Working Solutions had undrawn bank lines of credit totaling \$1,500,000 and \$837,000, respectively, which could be used for general expenditure if needed.

NOTE 10 – CONCENTRATIONS, RISKS, AND UNCERTAINTIES

Working Solutions has cash on deposit with federally insured banks. Periodically, such deposits may be in excess of federally insured limits.

Working Solutions CDFI Notes to Financial Statements

Working Solutions makes microloans in the normal course of business. A selection of the portfolio is guaranteed by the California Southern Small Business Financial Development Corporation (CA Southern FDC). Beginning in July 2020, in response to COVID-19, Working Solutions also began participating in the State Guarantee program, enrolling all Recovery product loans made since onset of COVID-19 into a 90% State Guarantee program. As of September 30, 2021 and 2020, approximately 25% or \$1,720,000 loans, and 7% or \$491,000 loans, respectively, are enrolled in the program. Participating loans are guaranteed by CA Southern FDC. Additionally, the Organization participates in CalCap, which matches loan loss reserve allocations for specified enrolled loans. Management performs ongoing credit evaluations and maintains adequate reserves for loss.

During the year ended September 30, 2021, Working Solutions recognized \$4,346,265 of revenue from three donors, which represents approximately 83% of total contributions, grants, and earned revenue. During the year ended September 30, 2020, Working Solutions recognized \$1,343,000 of revenue from four donors, which represents approximately 36% of total contributions, grants, and earned revenue.

As of September 30, 2021, Working Solutions had outstanding payable balances from four commercial banks of \$3,750,000, which represented 49% of total loans payable. As of September 30, 2020, Working Solutions had outstanding payable balances from three commercial banks of \$3,000,000, which represented 40% of total loans payable. Management reasonably expects these loans will renew at maturity.

Contingencies contained within grants awarded to Working Solutions are subject to the donor's established criteria under which loans may be funded from the related grants. Should the loans funded not comply with the established criteria, Working Solutions could be held responsible for the repayments to the funding source for any disallowed loans. Management is not aware of any material noncompliance with its lending policies that would lead to disallowed loans and the related risk is considered by management to be minimal.

The World Health Organization declared the novel coronavirus outbreak a public health emergency. Working Solutions' operations are concentrated in California which has restricted gatherings and implemented shelter in place restrictions. Working Solutions implemented a responsive, phased strategy to meet the evolving needs of the organization and its small business clients in the face of combined health, economic, social, and environmental crises during year. This included pivoting to virtual operations for the entire staff team, offering payment deferrals and debt relief for loan fund clients, providing emergency relief grants to small businesses to offer liquidity and to cover immediate losses, and launching a recovery loan product. Working Solutions has not observed any material decline in portfolio quality that warrants additional provisioning for loan loss at this time. Working Solutions continues to monitor the situation closely, but given the ongoing uncertainty, management can't estimate the impact to the financial statements.

NOTE 11 – OPERATING LEASES

Beginning May 15, 2021, Working Solutions began leasing office space in San Francisco under a noncancelable operating lease that will expire in April 2026. The lease calls for monthly rent between \$5,000 and \$10,671.

Working Solutions records the present value of future minimum lease payments as an operating asset and liability on the statements of financial position. As of September 30, 2021, the present value discount rate was 8%. As of September 30, 2021, the operating lease asset and operating lease liability were \$441,939 and \$463,085, respectively.

Working Solutions CDFI Notes to Financial Statements

Required minimum lease payments are as follows:

For the Year Ending September 30,

2022	\$	85,290
2023		120,696
2024		122,205
2025		125,871
2026		74,694
		<hr/>
Total lease payments		528,756
Less: present value discount		(65,671)
		<hr/>
Operating lease liability	\$	<u>463,085</u>

Lease Term and Discount Rate

Weighted average remaining lease term	2.5 years
Weighted average discount rate	8%

For the years ended September 30, 2021 and 2020, rent expense totaled \$128,911 and \$128,863, respectively.

NOTE 12 – EMPLOYEE BENEFIT PLAN

Working Solutions offers a 401(k) plan (Plan) for the benefit of its employees. The Plan covers all employees who have completed 3 months of service and have attained age 21. Contributions to the Plan may not exceed the IRS annual contribution limits. The Plan provides for discretionary matching contributions equal to a uniform percentage of the employee's contribution. The Plan also provides for a discretionary contribution. The employer contributions are vested at 20% after 2 years of employment, 40% after 3 years, 60% after 4 years, 80% after 5 years and 100% after 6 years of employment. Working Solutions incurred employer contributions expenses during the years ended September 30, 2021 and 2020, totaling \$42,337 and \$35,249, respectively.

