

Accion Opportunity Fund, Inc.

Consolidated Financial Statements
and Supplementary Information

June 30, 2021



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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, 2021, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, 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.



An independent firm
associated with Moore
Global Network Limited

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, 2021, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 1 to the financial statements, in March 2020, the World Health Organization declared the novel strain of coronavirus ("COVID-19") a global pandemic and recommended containment and mitigation measures worldwide. However, the ultimate financial impact and duration of these events cannot be reasonably estimated at this time. Our opinion is not modified with respect to that matter.

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 26 - 27 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 25, 2021

Accion Opportunity Fund, Inc.
Consolidated Statement of Financial Position
June 30, 2021
(In thousands)

ASSETS

Current assets	
Cash and cash equivalents	\$ 26,137
Cash - programs (Note 5)	31,103
Investments (Note 4)	861
Loans receivable - small business, net (Note 7)	36,982
Contributions receivable (Note 6)	5,790
Due from related parties	16
Small business interest and fees receivable	1,362
Prepaid expenses and other	<u>412</u>
Total current assets	<u>102,663</u>
Property and equipment, net (Note 9)	2,440
Non-current assets	
Loan receivable - small business, net (Note 7)	100,350
Contributions receivable, net of current portion (Note 6)	231
Investment in LLCs (Note 2)	<u>851</u>
Total non-current assets	<u>101,432</u>
Total assets	<u><u>\$ 206,535</u></u>

LIABILITIES AND NET ASSETS

Current liabilities	
Accounts payable and accrued expenses	\$ 4,158
Notes payable (Notes 10 and 11)	<u>23,113</u>
Total current liabilities	<u>27,271</u>
Long-term liabilities	
Accounts payable	300
Notes payable, net of current portion (Notes 10 and 11)	<u>121,169</u>
Total long-term liabilities	<u>121,469</u>
Total liabilities	<u>148,740</u>
Net assets	
Without donor restrictions	46,581
With donor restrictions (Note 12)	<u>11,214</u>
Total net assets	<u>57,795</u>
Total liabilities and net assets	<u><u>\$ 206,535</u></u>

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

Accion Opportunity Fund, Inc.
Consolidated Statement of Activities
For the Year Ended June 30, 2021
(In thousands)

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenues and contributions			
Earned revenues			
Interest from loan programs	\$ 12,601	\$ -	\$ 12,601
Loan and other program income	7,432	-	7,432
Income from sale of portfolio	676	-	676
NMTC program income	1,452	-	1,452
Investment income, net	74	-	74
Other income	<u>188</u>	<u>-</u>	<u>188</u>
Total earned revenues	<u>22,423</u>	<u>-</u>	<u>22,423</u>
Contributions and grants			
Contributions	22,348	9,203	31,551
Government contracts and grants	1,847	1,826	3,673
Recoveries	1,551	-	1,551
Net assets released from restriction (Note 12)	<u>4,063</u>	<u>(4,063)</u>	<u>-</u>
Total contributions and grants	<u>29,809</u>	<u>6,966</u>	<u>36,775</u>
Total revenues and contributions	<u>52,232</u>	<u>6,966</u>	<u>59,198</u>
Expenses			
Program services	<u>29,425</u>	<u>-</u>	<u>29,425</u>
Support services			
Management and general	9,058	-	9,058
Fundraising	<u>2,567</u>	<u>-</u>	<u>2,567</u>
Total support services	<u>11,625</u>	<u>-</u>	<u>11,625</u>
Total expenses	<u>41,050</u>	<u>-</u>	<u>41,050</u>
Change in net assets	11,182	6,966	18,148
Net assets, beginning of year	<u>35,399</u>	<u>4,248</u>	<u>39,647</u>
Net assets, end of year	<u>\$ 46,581</u>	<u>\$ 11,214</u>	<u>\$ 57,795</u>

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

Accion Opportunity Fund, Inc.
Consolidated Statement of Functional Expenses
For the Year Ended June 30, 2021
(In thousands)

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Personnel expenses	\$ 7,090	\$ 6,747	\$ 1,676	\$ 15,513
Program operating	5,928	-	-	5,928
Donations	5,106	-	75	5,181
Provision for loan losses	4,227	-	-	4,227
Professional services	1,348	610	457	2,415
Interest expense	2,330	-	-	2,330
Information technology	1,350	330	102	1,782
Depreciation and amortization	1,011	411	115	1,537
Occupancy	616	250	69	935
Marketing	73	277	-	350
Special events	-	7	20	27
Parking and travel	(12)	5	(1)	(8)
Other	<u>358</u>	<u>421</u>	<u>54</u>	<u>833</u>
 Total	 <u>\$ 29,425</u>	 <u>\$ 9,058</u>	 <u>\$ 2,567</u>	 <u>\$ 41,050</u>
 Percentage of total	 <u>71.7 %</u>	 <u>22.1 %</u>	 <u>6.2 %</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 Year Ended June 30, 2021
(In thousands)

Cash flows from operating activities	
Change in net assets	\$ 18,148
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation and amortization	1,537
Provision for loan losses	4,227
Forgiveness of notes and interest payable	(346)
(Increase) decrease in contribution receivable	(897)
(Increase) decrease in due from related parties	7
(Increase) decrease in small business interest and fees receivable	(292)
(Increase) decrease in prepaid expenses and other	90
Increase (decrease) in accounts payable and accrued expenses	<u>618</u>
Net cash provided by operating activities	<u>23,092</u>
Cash flows from investing activities	
Disbursements under loan programs	(120,460)
Collections under loan programs	49,949
Proceeds from sale of loans	17,956
Purchases of investments	(114)
Proceeds from disposition of investments	11
Purchases of property & equipment	<u>(476)</u>
Net cash used in investing activities	<u>(53,134)</u>
Cash flows from financing activities	
Proceeds from notes payable	85,223
Repayment of notes payable	<u>(32,875)</u>
Net cash provided by financing activities	<u>52,348</u>
Net increase in cash, cash equivalents and restricted cash	22,306
Cash, cash equivalents and restricted cash, beginning of year	<u>34,934</u>
Cash, cash equivalents and restricted cash, end of year	<u><u>\$ 57,240</u></u>
Cash, cash equivalents and restricted cash consisted of the following:	
Cash and cash equivalents	\$ 26,137
Cash - programs	<u>31,103</u>
	<u><u>\$ 57,240</u></u>
Supplemental disclosure of cash flow information	
Cash paid during the year for interest	\$ 2,278

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

Accion Opportunity Fund, Inc.
Notes to Consolidated Financial Statements
June 30, 2021
(In thousands)

1. NATURE OF OPERATIONS

Accion Opportunity Fund, Inc. (the "Organization" or "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 the state of Delaware.

AOF is the sole member of Accion Opportunity Fund Community Development and Subsidiary ("AOFCD"). AOFCD is a Community Development Financial Institution certified by the U.S. Department of the Treasury and was previously named Opportunity Fund Community Development. AOFCD was formed as a for-profit organization on December 8, 1993. On September 30, 2000, AOFCD converted to a California nonprofit public benefit corporation. Since then, AOFCD 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).

AOFCD's mission is to drive economic mobility by delivering affordable capital and responsible financial solutions to determined entrepreneurs and communities. AOFCD 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. AOFCD also borrows funds from individuals and institutions to use for its small business lending program and for general operating expenses. AOFCD maintains offices in California and its programs primarily reach clients and borrowers in California but also in forty-four other states.

Small Business Lending Program

AOFCD makes loans to small businesses that lack access to affordable credit from traditional sources. Since inception, AOFCD has made over 22,000 loans totaling \$625 million to small businesses whose owners are primarily people of color and low and moderate income. Many loans to California-based borrowers are enrolled in a loan loss reserve partially funded by the State of California as part of its Capital Access Program (see Note 8 - CASH FOR LOAN LOSS RESERVES).

Accion Opportunity Fund, Inc.
Notes to Consolidated Financial Statements
June 30, 2021
(In thousands)

1. NATURE OF OPERATIONS (continued)

Small Business Lending Program (continued)

Beginning in June 2020, in response to COVID-19, AOFCD began offering lower cost loans with interest rates from 4-4.25% to select borrowers who were severely impacted by COVID-19. AOFCD also began participating in select public-private partnerships that offer low-rate loan programs. These loans are typically backstopped by a loan loss reserve program administered by a government program and sold to a special purpose credit vehicle where only a portion of the loans, typically 5-10%, remain on the consolidated statement of financial position.

In April 2020 AOFCD 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.

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

AOFCD uses a global service provider to assist with some of its loan originations and servicing functions. The global service provider performs these functions outside the US and has industry appropriate business continuity plans in place. AOFCD does not have any employees or assets outside the US.

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, AOFCD 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, 2021, AOFCD has received a cumulative total of \$388 million of tax credit allocations. AOFCD 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, 2021, AOFCD has deployed \$388 million in Qualified Equity Investments ("QEIs").

Accion Opportunity Fund, Inc.
Notes to Consolidated Financial Statements
June 30, 2021
(In thousands)

1. NATURE OF OPERATIONS (continued)

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 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 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.

Ratings

AOFCD is rated by Aeris, a national organization which provides ratings, data, and advisory services to support investment in CDFIs. As analyzed September 30, 2020, AOFCD is rated A+, four-star. A+ is a rating of Financial Strength and Performance demonstrating AOFCD "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

The consolidated financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles.

Basis of Presentation

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

- *Net assets without donor restrictions* - Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of the Organization's management and the board of directors.
- *Net assets with donor restrictions* - Net assets 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.

Accion Opportunity Fund, Inc.
Notes to Consolidated Financial Statements
June 30, 2021
(In thousands)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Principles of Consolidation

Because AOF and AOFCD 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 of the financial position of AOF and AOFCD as of June 30, 2021, and the statement of activities, statement of functional expenses, statement of cash flows and related notes for the year then ended. All material intercompany balances and transactions have been eliminated in consolidation.

The consolidated financial statements include the accounts of a subsidiary, LCD New Markets Fund, LLC (the "LLC") of which AOFCD 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.

Use of Estimates

The preparation of consolidated financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as of the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Investments in NMTC entities

The following NMTC entities, over which AOFCD 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 AOFCD's proportionate share of undistributed earnings or losses (see Note 14 - COMMITMENTS). AOFCD has a 0.01% financial interest in each of the following entities. As of June 30, 2021, AOFCD has related-party receivables from certain of the following entities related to asset management fees and operating advances totaling \$16 thousand.

Accion Opportunity Fund, Inc.
Notes to Consolidated Financial Statements
June 30, 2021
(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 seven-year NMTC compliance period.

** These entities were closed during fiscal year 2021, when the projects were unwound and reached the end of the seven-year NMTC compliance period.

*** These are shelf entities that have not yet been utilized in an NMTC project yet, as of June 30, 2021.

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, AOFCD 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. AOFCD's capital investment in Acceso has been made through a generous contribution from a corporate donor. AOFCD accounted for the investment activities using the equity method of accounting. As of June 30, 2021, the balance of investment in Acceso was \$830 thousand.

Accion Opportunity Fund, Inc.
Notes to Consolidated Financial Statements
June 30, 2021
(In thousands)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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. The Organization maintains cash and cash equivalents with commercial banks and other major financial institutions. By policy, the Organization invests in low risk highly liquid investments at top rated financial institutions. Most deposits exceed Federal Deposit Insurance Corporation ("FDIC") limits of \$250 thousand. Management believes it is not exposed to any significant risk on its cash accounts.

Cash - Programs

Cash - programs consist of cash accounts that are designated by the source of the funds for a specific purpose.

Contributions and Grants Revenue Recognition

Contributions and grants that are restricted by the donor are reported as an increase in net assets without donor restrictions during the reporting period in which the restrictions are met, otherwise such support is reported as an increase in net assets with donor restrictions. All other contributions and grants are recognized as revenue when received or promised without conditions.

Conditional contributions and grants are not recognized until they become unconditional, which is when donor stipulated barriers are overcome and the Organization is entitled to the assets transferred or promised. There was no conditional contributions and grants as of June 30, 2021.

Loan Program Revenue Recognition

Loan interest revenue is recognized using the contractual maturity and the stated interest rate on the loan. Loan origination fees are earned when the loan transaction is funded.

In-kind Contributions

Donated facilities, equipment, and services are reflected in the accompanying financial statements at fair market value at the time of receipt. Donated services are recognized if the services received create or enhance nonfinancial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Other volunteer services that do not meet these criteria are not recognized in the financial statements.

The Organization received no legal pro-bono services valued in 2021.

Accion Opportunity Fund, Inc.
Notes to Consolidated Financial Statements
June 30, 2021
(In thousands)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 2021 a present value discount was not recorded as the amount was immaterial to the consolidated financial statements. The Organization annually evaluates contributions receivable for collectability. As of June 30, 2021, an allowance for doubtful accounts for contributions receivable was not recorded as the amount was immaterial to the consolidated financial statements.

Loans Receivable

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

AOFCD prepares an annual assessment of its originations fee income and the cost associated with the origination of loans in order to evaluate whether the capitalization and amortization of these fees and costs is material to the consolidated financial statements. The net amount of deferred origination fees and costs, if any, would be reported as part of the loans receivable balance. For the period ending June 30, 2021, AOFCD did not defer any origination fees or costs because they were immaterial to the consolidated financial statements taken as a whole.

Sale and Assignment of Loans Receivable

AOFCD sells participations in its loan portfolio and retains a percentage of ownership of 5-10% in each loan along with the servicing. As of June 30, 2021, AOFCD has not recorded a servicing asset or servicing liability as the fees AOFCD earns approximates adequate compensation for the costs associated with servicing the participated loans.

Allowance for Loan Losses

The allowance for loan losses represents management's estimate of probable losses inherent in AOFCD's loan portfolio. Credit exposures deemed to be uncollectible are charged to the allowance when management believes collectability of the principal is unlikely which usually occurs when the loan is 150 days delinquent. Recoveries from the borrower, or the underlying collateral, of loans previously charged off are credited to the allowance. Recoveries from cash loan loss reserve funded by the California Capital Access Program ("CalCAP") are recorded as contributions and grants recoveries (see Note 8 - CASH FOR LOAN LOSS RESERVES). Management evaluates the adequacy of the allowance based on historical losses by product or channel along with consideration of the adequacy of cash loan loss reserves available. The allowance for loan losses is presented in Note 7 - LOANS RECEIVABLE AND LOAN LOSS RESERVE.

Accion Opportunity Fund, Inc.
Notes to Consolidated Financial Statements
June 30, 2021
(In thousands)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 through the Statement of Activities. Interest and dividend income are recognized when earned (see Note 4 - INVESTMENTS).

Fair Value Measurements

Investments are shown at their estimated fair value in accordance with FASB ASC 820, "Fair Value Measurements and Disclosures." Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Realized gains and losses are recorded using the specific identification method upon the sale of investment assets. The fair value of investments is subject to ongoing fluctuation. The amount ultimately realized upon disposition will differ from the amounts reported in these consolidated financial statements.

Certain items are carried at cost on the consolidated statement of financial position, which approximates fair value due to their short-term, highly liquid nature. These items include cash and cash equivalents, interest and fees receivable, prepaid expenses, accounts payable and accrued expenses.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organization believes its valuation methods are appropriate and consistent with other organizations, the use of different methodologies or assumptions to determine fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Property, Equipment, and Intangibles

Acquired property, equipment, and intangible assets exceeding \$5 thousand are capitalized and recorded at amortized cost. Donated assets are valued at their estimated fair market value on the date donated. Expenses for repairs that materially extend the useful life of an asset are capitalized at cost.

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 intangibles. 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.

Accion Opportunity Fund, Inc.
Notes to Consolidated Financial Statements
June 30, 2021
(In thousands)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 statement of functional expenses. Accordingly, certain costs have been allocated, based on estimates of time, space, and other factors, among the classifications.

New Accounting Pronouncement

The Organization has adopted the Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") 2014-09, Revenue from Contracts with Customers (Topic 606). Topic 606 supersedes the revenue recognition requirements in FASB ASC 605, Revenue Recognition and requires the recognition of revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. Upon adoption there was no material impact on the Organizations' financial position or changes in net assets.

Income Tax Status

AOF and AOFCF are exempt from federal income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code. In addition, AOF and AOFCF 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 year ended June 30, 2021.

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, 2021, 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.

AOFCF is exempt from California state income taxes under the provision of Section 23701d of the Revenue and Taxation Code. AOFCF 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, 2021, AOFCF 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.

Accion Opportunity Fund, Inc.
Notes to Consolidated Financial Statements
June 30, 2021
(In thousands)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Uncertain Tax Positions

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, 2018, and forward. The State of California and New York tax jurisdictions are subject to potential examination for years ended June 30, 2017 and forward. As of June 30, 2021, management did not identify any uncertain tax positions.

Fiscal Agency Transaction

The Organization was subject to pass-through grants in which AOF acted as a fiscal agency by agreeing to use assets on behalf of another Organization. The Organization recognized a liability to the beneficiary, rather than a contribution received.

3. LIQUIDITY

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

The financial assets that are available within one year of June 30, 2021 for operations and programs needs are as follows:

	2021	
	<u>Operations</u>	<u>Programs</u>
Available Cash and Investments		
Cash and cash equivalents	\$ 26,137	\$ -
Loan funds	-	27,166
Short-term investments	<u>861</u>	<u>-</u>
Total available cash and investments	<u>26,998</u>	<u>27,166</u>
Receivables - current		
Loans receivable	-	36,982
Contributions receivable	11	5,779
Due from related-parties	16	-
Small business interest and fees receivable	<u>1,362</u>	<u>-</u>
Total receivables - current	<u>1,389</u>	<u>42,761</u>
Total financial assets available for use within one year	<u>\$ 28,387</u>	<u>\$ 69,927</u>

Accion Opportunity Fund, Inc.
Notes to Consolidated Financial Statements
June 30, 2021
(In thousands)

3. LIQUIDITY (continued)

The Organization's management reports on its operating and loan capital liquidity on a quarterly basis to the Finance Committee of the Board. AOFCD manages its liquidity to be in compliance with its loan covenants. AOFCD's loan covenants require it to keep at least 90 days of operating cash on hand. For the period ended June 30, 2021, AOFCD was in compliance with this loan covenant. To help manage unanticipated liquidity needs, AOFCD has operating lines of credit in the amount of \$32 million, of which \$13.5 million was drawn as of June 30, 2021.

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).

Investments consisted of the following:

Money market	\$ 184
Mutual funds	<u>677</u>
Total investments	<u>\$ 861</u>

Investment earnings during the period consisted of the following:

Interest income	\$ 84
Net realized and unrealized income	<u>(10)</u>
Total investment earnings	<u>\$ 74</u>

5. CASH - PROGRAMS

Cash - programs consisted of the following:

Cash for loan program	\$ 27,166
Cash for loan loss reserves (1)	<u>3,937</u>
Total cash - programs	<u>\$ 31,103</u>

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

Accion Opportunity Fund, Inc.
Notes to Consolidated Financial Statements
June 30, 2021
(In thousands)

6. CONTRIBUTIONS RECEIVABLE

Future maturities of these receivables are as follows:

<u>Year ending June 30,</u>	
2022	\$ 5,790
2023	29
2024	201
2025	<u>1</u>
	6,021
Current portion	<u>(5,790)</u>
Total long-term contributions receivable	<u>\$ 231</u>

7. LOANS RECEIVABLE AND LOAN LOSS RESERVE

Small Business Loans

AOFCF offers loans product to small businesses from \$5 to \$250 thousand with fixed interest rates ranging from 5.9% to 24.9% and terms of up to 60 months. For borrowers who qualify for various public-private partnerships which we participate in and described in Note 1, AOFCF also offers lower cost loans with interest rates ranging from 4.0 to 4.25%. During the year ended June 30, 2021, AOFCF disbursed \$97.3 million to 1,690 borrowers in the Small Business Program.

In April 2020 AOFCF 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 year ended June 30, 2021, AOFCF disbursed \$23.1 million among 1,367 PPP loans.

In total, during the year ended June 30, 2021, AOFCF disbursed \$120.5 million among 3,057 loans combining standard and PPP loans.

Small business program loans receivable are as follows:

Total portfolio under management	\$ 197,507
Less third parties' portfolios under management (1)	<u>(54,846)</u>
	142,661
Less allowance for loan losses	<u>(5,329)</u>
Total net loans receivable	<u>\$ 137,332</u>

(1) Balance of loan participations owned by third parties / investors. For the year ended June 30, 2021, AOFCF sold participations in 311 loans for a total of \$17.9 million.

Accion Opportunity Fund, Inc.
Notes to Consolidated Financial Statements
June 30, 2021
(In thousands)

7. LOANS RECEIVABLE AND LOAN LOSS RESERVE (continued)

Small Business Loans (continued)

Loans receivable net of allowance- current	\$	36,982
Loans receivable net of allowance - non-current	\$	100,350

Troubled Debt Restructurings ("TDRs")

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, 2021, there were 224 TDRs in the Organization's small business portfolio accounting for a total of \$3.2 million representing 2.2% of the total portfolio.

Aging schedule

2021 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	\$ 139,477	\$138,791	\$ 383	\$ 132	\$ 119	\$ 39	\$ 13
Small business loans - TDRs	<u>3,184</u>	<u>2,871</u>	<u>95</u>	<u>39</u>	<u>78</u>	<u>88</u>	<u>13</u>
 Total loans receivable	 <u>\$ 142,661</u>	 <u>\$141,662</u>	 <u>\$ 478</u>	 <u>\$ 171</u>	 <u>\$ 197</u>	 <u>\$ 127</u>	 <u>\$ 26</u>
		99.30 %	0.34 %	0.12 %	0.14 %	0.09 %	0.02 %

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, 2021, AOFCD deferred \$458 thousand of borrower payments to 542 unique clients. Additionally, clients with prolonged hardship could be eligible for all or a portion of their payment forgiven. As of June 30, 2021, AOFCD extended forgiveness totaling \$3.2 million on 4,833 payments.

Accion Opportunity Fund, Inc.
Notes to Consolidated Financial Statements
June 30, 2021
(In thousands)

7. LOANS RECEIVABLE AND LOAN LOSS RESERVE (continued)

Allowance for Loan Losses

AOFCD maintains both an allowance for loan losses and cash loan loss reserves (see Note 8 - CASH FOR LOAN LOSS RESERVES) which together are adequate to cover potential losses from its portfolio.

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

Balance, beginning of year	\$ 5,638
Provisions for loan losses	4,226
Loans charged-off	<u>(4,535)</u>
Balance, end of year	<u><u>\$ 5,329</u></u>

8. CASH FOR LOAN LOSS RESERVES

AOFCD participates in a State of California 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 AOFCD against potential credit losses. When an enrolled loan is deemed uncollectable, AOFCD can claim 100% of the loss to CalCAP. This protection is limited to the amount of cash in those reserves. Nearly all of AOFCD's loans to California-based businesses are enrolled in this program.

On an annual basis, the State of California can recapture a portion of its contributions to the Small Business Reserve for those loans no longer in the program subject to certain defined minimum thresholds. During the year ended June 30, 2021, CalCAP withdrew \$803 thousand.

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

Opportunity Fund contributions to CalCAP Reserve	\$ 3,937
State contributions to CalCAP Reserve (1)	372
State contributions to CalCAP ARB Reserve (2)	<u>4,380</u>
Total cash for loan loss reserves	<u><u>\$ 8,689</u></u>

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

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

Accion Opportunity Fund, Inc.
Notes to Consolidated Financial Statements
June 30, 2021
(In thousands)

9. PROPERTY AND EQUIPMENT, NET

Property and equipment consisted of the following:

Furniture	\$ 227
Computer and equipment	179
Software	2,598
Software-in-kind	2,655
Intangible asset	1,600
Leasehold improvements	<u>177</u>
	7,436
Accumulated depreciation and amortization	<u>(4,996)</u>
 Total property and equipment, net	 <u><u>\$ 2,440</u></u>

10. REVOLVING LINES OF CREDIT

AOFCF entered into multiple lines of credit agreements with multiple banks in a total amount of \$32 million. These lines of credit mature between October 2021 and June 2026 and carry annual interest rates between 2.75% and 4.5%. The aggregate outstanding balances as of June 30, 2021 was \$13.5 million.

11. NOTES PAYABLE

AOFCF has entered into multiple notes payable agreements with various institutions for a total of \$119.83 million. These notes payable mature between September 2021 and November 2030 and carry annual interest rates between 0% and 4.5%.

AOFCF entered into multiple agreements with individual investors in the amount of \$10.95 million. These impact investments mature between March 2022 and August 2025 and carry annual interest rates between 0.64% and 3.39%.

In April 2020, AOFCF entered into a \$2.6 million loan with Beneficial State Bank 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 AOFCF from the economic impact to the business due to COVID-19. 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. Please see Note 16 - SUBSEQUENT EVENTS which provides information on the forgiveness of this loan in September 2021.

Certain of the notes payable agreements require AOFCF to comply with various financial covenants. AOFCF was in compliance with all, or received a temporary waiver on certain, covenants as of June 30, 2021.

Accion Opportunity Fund, Inc.
Notes to Consolidated Financial Statements
June 30, 2021
(In thousands)

11. NOTES PAYABLE (continued)

Future maturities of all debts are as follows:

<u>Year ending June 30,</u>		
2022	\$	23,113
2023		16,882
2024		16,582
2025		4,732
2026		74,973
Thereafter		<u>8,000</u>
		144,282
Current portion		<u>(23,113)</u>
Total long-term notes payable	\$	<u><u>121,169</u></u>

12. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions were for the following purposes:

	<u>Balance at</u> <u>July 1, 2021</u>	<u>Additions to</u> <u>Restrictions</u>	<u>Releases</u> <u>from</u> <u>Restrictions</u>	<u>Balance at</u> <u>June 30,</u> <u>2021</u>
Time-restricted operating grants - AOF	\$ 1,850	\$ 5,150	\$ (3,573)	\$ 3,427
Small business operating - AOFCD	86	5,716	(86)	5,716
Time-restricted operating grants - AOFCD	<u>2,312</u>	<u>163</u>	<u>(404)</u>	<u>2,071</u>
	<u>\$ 4,248</u>	<u>\$ 11,029</u>	<u>\$ (4,063)</u>	<u>\$ 11,214</u>

13. RETIREMENT PLAN

AOFCD provides a defined contribution 403(b) retirement savings plan ("Plan") for all eligible full-time and part-time employees. The Plan provides for employee contributions, through a salary reduction agreement, plus employer contributions at AOFCD's discretion. During the year ended June 30, 2021, AOFCD contributed approximately \$250 thousand to the Plan for participating employees.

Accion Opportunity Fund, Inc.
Notes to Consolidated Financial Statements
June 30, 2021
(In thousands)

14. COMMITMENTS

New Markets Tax Credits commitments

AOFCF 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 AOFCF: (1) the CDE ceases to be a qualified CDE; (2) the CDE fails to invest the substantially all the QEI in Qualified Loan Income Community Investments ("QLICIs") (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 and believes that the likelihood of a recapture event is remote.

Total amounts currently at risk are \$86 million and future amounts are \$41 million. The maturity dates range from January 2022 through August 2031 at which times AOFCF 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>	
2022	\$ 535
2023	104
2024	107
2025	111
Thereafter	<u>163</u>
	<u>\$ 1,020</u>

Rental expense for AOF and AOFCF for the year ended June 30, 2021 was \$13 thousand and \$922 thousand, respectively.

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.

Accion Opportunity Fund, Inc.
Notes to Consolidated Financial Statements
June 30, 2021
(In thousands)

16. SUBSEQUENT EVENTS

Subsequent events have been evaluated through the date of the financial statements, October 25, 2021, which is the date the consolidated financial statements were available to be issued.

In September 2021, AOFCD obtained forgiveness of its \$2.6 million Paycheck Protection Program loan from U.S. Small Business Administration in full. The forgiveness of this loan will be recorded as other revenue in the Consolidated Statement of Activities.

Additionally, AOFCD received notification from the CDFI Fund that it had received a \$55 million allocation of New Market Tax Credits.

SUPPLEMENTARY INFORMATION

Accion Opportunity Fund, Inc.
Statement of Financial Position
June 30, 2021
(In thousands)

ASSETS

	Accion Opportunity Fund
Current assets	
Cash and cash equivalents	\$ 3,388
Contributions receivable	2,740
Prepaid expenses and other	<u>44</u>
Total current assets	<u>6,172</u>
Total assets	<u><u>\$ 6,172</u></u>

LIABILITIES AND NET ASSETS

	Accion Opportunity Fund
Current liabilities	
Accounts payable and accrued expenses	<u>\$ 207</u>
Total current liabilities	<u>207</u>
Net assets	
Without donors restrictions	2,538
With donors restrictions	<u>3,427</u>
Total net assets	<u>5,965</u>
Total liabilities and net assets	<u><u>\$ 6,172</u></u>

Accion Opportunity Fund, Inc.
Statement of Activities
For The Year Ended June 30, 2021
(In thousands)

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Support and revenue			
Interest income	\$ 1	\$ -	\$ 1
Grants and contributions	1,093	5,150	6,243
Net assets released from restrictions	<u>3,573</u>	<u>(3,573)</u>	<u>-</u>
Total support and revenue	<u>4,667</u>	<u>1,577</u>	<u>6,244</u>
Functional expenses			
Program services	<u>2,356</u>	<u>-</u>	<u>2,356</u>
Support services			
Management and general	855	-	855
Fundraising	<u>616</u>	<u>-</u>	<u>616</u>
Total support services	<u>1,471</u>	<u>-</u>	<u>1,471</u>
Total functional expenses	<u>3,827</u>	<u>-</u>	<u>3,827</u>
Changes in net assets	840	1,577	2,417
Net assets, beginning of year	<u>1,698</u>	<u>1,850</u>	<u>3,548</u>
Net assets, end of year	<u>\$ 2,538</u>	<u>\$ 3,427</u>	<u>\$ 5,965</u>