Accion Opportunity Fund Community Development and Subsidiary

Consolidated Financial Statements

June 30, 2023 and 2022

armanino

TABLE OF CONTENTS

armanino

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Accion Opportunity Fund Community Development and
Subsidiary
San Jose, California

Opinion

We have audited the accompanying consolidated financial statements of Accion Opportunity Fund Community Development and Subsidiary (the "Organization"), which comprise the consolidated statements of financial position as of June 30, 2023 and 2022, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Accion Opportunity Fund Community Development and Subsidiary as of June 30, 2023 and 2022, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with generally accepted auditing standards, we:

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

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

Armanino LLP

Armanino[LLP]
San Jose, California

September 28, 2023

Accion Opportunity Fund Community Development and Subsidiary
Consolidated Statements of Financial Position
June 30, 2023 and 2022
(In thousands)

	2023	2022
ASSETS		
Cash and cash equivalents	$ 23,077	$ 19,220
Restricted cash (Note 5)	50,497	10,656
Investments (Note 4)	7,145	2,983
Loans receivable - small business, net (Note 7)	121,445	142,896
Contribution receivable, net (Note 6)	20,204	17,067
Due from related parties	807	331
Small business interest and fees receivable	1,188	1,031
Prepaid expenses and other	638	714
Property and equipment, net (Note 9)	1,628	1,928
Operating lease right-of-use assets	1,280	-
Investment in LLCs	855	849
Total assets	$ 228,764	$ 197,675
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	$ 5,990	$ 4,851
Due to related parties	-	550
Operating lease liabilities	1,316	-
Notes payable (Notes 10 and 11)	148,683	118,513
Total liabilities	155,989	123,914
Net assets		
Without donor restrictions	48,534	52,184
With donor restrictions (Note 12)	24,241	21,577
Total net assets	72,775	73,761
Total liabilities and net assets	$ 228,764	$ 197,675

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

Accion Opportunity Fund Community Development and Subsidiary
Consolidated Statement of Activities
For the Year Ended June 30, 2023
(In thousands)

	Without Donor Restrictions	With Donor Restrictions	Total
Earned revenues and contributions			
Interest income			
Interest from loan programs	$ 16,710	$ -	$ 16,710
Investment income	1,637	-	1,637
Total interest income	18,347	-	18,347
Less: interest expense	3,107	-	3,107
Net interest margin	15,240	-	15,240
Provisions for loan losses	8,197	-	8,197
Other earned revenues			
Loan and other program income	3,530	-	3,530
Income from sale of portfolio	1,984	-	1,984
NMTC program income	2,893	-	2,893
Service income from related parties	1,320	-	1,320
Total other earned revenues	9,727	-	9,727
Net earned revenue	16,770	-	16,770
Contributions and grants			
Contributions	4,055	14,300	18,355
Contributions from related parties	500	-	500
Government contracts and grants	1,917	1,651	3,568
In-kind contributions	680	-	680
Net assets released from restriction	13,287	(13,287)	-
Total contributions and grants	20,439	2,664	23,103
Total earned revenues and contributions	37,209	2,664	39,873
Expenses			
Program services	30,854	-	30,854
Support services			
Management and general	6,867	-	6,867
Fundraising	3,138	-	3,138
Total support services	10,005	-	10,005
Total expenses	40,859	-	40,859
Change in net assets	(3,650)	2,664	(986)
Net assets, beginning of year	52,184	21,577	73,761
Net assets, end of year	$ 48,534	$ 24,241	$ 72,775

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

Accion Opportunity Fund Community Development and Subsidiary
Consolidated Statement of Activities
For the Year Ended June 30, 2022
(In thousands)

	Without Donor Restrictions	With Donor Restrictions	Total
Earned revenues and contributions			
Interest income			
Interest from loan programs	$ 16,030	$ -	$ 16,030
Investment income	172	-	172
Total interest income	16,202	-	16,202
Less: interest expense	2,831	-	2,831
Net interest margin	13,371	-	13,371
Provisions for loan losses	2,450	-	2,450
Other earned revenues			
Loan and other program income	5,754	-	5,754
Income from sale of portfolio	1,059	-	1,059
NMTC program income	2,395	-	2,395
Service income from related parties	673	-	673
Total other earned revenues	9,881	-	9,881
Net earned revenue	20,802	-	20,802
Contributions and grants			
Contributions	4,930	13,653	18,583
Contributions from related parties	630	9,504	10,134
Forgiveness of Paycheck Protection Program	2,592	-	2,592
Government contracts and grants	797	690	1,487
In-kind contributions	859	-	859
Net assets released from restriction	10,057	(10,057)	-
Total contributions and grants	19,865	13,790	33,655
Total earned revenue and contributions	40,667	13,790	54,457
Expenses			
Program services	22,577	-	22,577
Support services			
Management and general	8,016	-	8,016
Fundraising	1,934	-	1,934
Total support services	9,950	-	9,950
Total expenses	32,527	-	32,527
Change in net assets	8,140	13,790	21,930
Net assets, beginning of year	44,044	7,787	51,831
Net assets, end of year	$ 52,184	$ 21,577	$ 73,761

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

Accion Opportunity Fund Community Development and Subsidiary
Consolidated Statement of Functional Expenses
For the Year Ended June 30, 2023
(In thousands)

	Program Services	Management and General	Fundraising	Total
Personnel expenses	$ 15,259	$ 3,880	$ 2,462	$ 21,601
Program operating	5,803	-	1	5,804
Donations	3,778	-	-	3,778
Provision for loan losses	8,197	-	-	8,197
Interest	3,107	-	-	3,107
Information technology	3,222	869	178	4,269
Depreciation and amortization	500	278	59	837
Professional services	868	1,005	200	2,073
Occupancy	321	181	37	539
Marketing	553	164	112	829
Special events	5	-	6	11
Parking and travel	154	82	24	260
Other	391	408	59	858
Total	42,158	6,867	3,138	52,163
Less: interest included with revenues on the consolidated statement of activities	(3,107)	-	-	(3,107)
Less: provision for loan losses included with revenues on the consolidated statement of activities	(8,197)	-	-	(8,197)
Total	$ 30,854	$ 6,867	$ 3,138	$ 40,859
Percentage of total	75.5 %	16.8 %	7.7 %	100.0 %

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

Accion Opportunity Fund Community Development and Subsidiary
Consolidated Statement of Functional Expenses
For the Year Ended June 30, 2022
(In thousands)

	Program Services	Management and General	Fundraising	Total
Personnel expenses	$ 11,802	$ 4,129	$ 1,647	$ 17,578
Program operating	6,215	3	3	6,221
Donations	1,609	-	-	1,609
Provision for loan losses	2,450	-	-	2,450
Interest	2,831	-	-	2,831
Information technology	1,012	2,136	39	3,187
Depreciation and amortization	529	331	64	924
Professional services	363	710	37	1,110
Occupancy	302	185	36	523
Marketing	426	124	1	551
Special events	-	5	53	58
Parking and travel	33	58	14	105
Other	286	335	40	661
Total	27,858	8,016	1,934	37,808
Less: interest included with revenues on the consolidated statement of activities	(2,831)	-	-	(2,831)
Less: provision for loan losses included with revenues on the consolidated statement of activities	(2,450)	-	-	(2,450)
Total	$ 22,577	$ 8,016	$ 1,934	$ 32,527
Percentage of total	69.5 %	24.6 %	5.9 %	100.0 %

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

Accion Opportunity Fund Community Development and Subsidiary
Consolidated Statements of Cash Flows
For the Years Ended June 30, 2023 and 2022
(In thousands)

	2023	2022
Cash flows from operating activities		
Change in net assets	$ (986)	$ 21,930
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	837	924
Provision for loan losses	8,197	2,450
Gain on sale of loans	(1,341)	(484)
Forgiveness of notes and interest payable	-	(2,557)
(Increase) decrease in contribution receivable	(3,137)	(13,983)
(Increase) decrease in due from related parties	(1,026)	235
(Increase) decrease in small business interest and fees receivable	(157)	331
(Increase) decrease in prepaid expenses and other	76	(29)
Increase (decrease) in accounts payable and accrued expenses	1,176	(69)
Increase (decrease) in due to related parties	-	550
Net cash provided by operating activities	3,639	9,298
Cash flows from investing activities		
Disbursements under loan programs	(71,690)	(113,225)
Collections under loan programs	53,291	78,582
Proceeds from sale of loans	32,994	27,112
Purchases of investments	(4,884)	(4,227)
Proceeds from disposition of investments	716	2,106
Acquisition of property and equipment	(538)	(412)
Net cash provided by (used in) investing activities	9,889	(10,064)
Cash flows from financing activities		
Proceeds from notes payable	55,900	30,726
Repayment of notes payable	(25,730)	(53,938)
Net cash provided by (used in) financing activities	30,170	(23,212)
Net increase (decrease) in cash, cash equivalents and restricted cash	43,698	(23,978)
Cash, cash equivalents and restricted cash, beginning of year	29,876	53,854
Cash, cash equivalents and restricted cash, end of year	$ 73,574	$ 29,876

	2023	2022
Cash, cash equivalents and restricted cash consisted of the following:		
Cash and cash equivalents	$ 23,077	$ 19,220
Restricted cash	50,497	10,656
	$ 73,574	$ 29,876

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

Accion Opportunity Fund Community Development and Subsidiary
Consolidated Statements of Cash Flows
For the Years Ended June 30, 2023 and 2022
(In thousands)

	2023	2022
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	$ 3,107	$ 2,758
Supplemental schedule of noncash investing and financing activities		
Operating lease right-of-use assets obtained in exchange for lease liabilities	$ 1,366	$ -

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

1. ORGANIZATION AND BACKGROUND

Accion Opportunity Fund Community Development and Subsidiary (the "Organization" or "AOFCD"), is a Community Development Financial Institution certified by the U.S. Department of the Treasury and was previously named Opportunity Fund Community Development. The Organization was formed as a for-profit organization on December 8, 1993. On September 30, 2000, the Organization converted to a California nonprofit public benefit corporation. Since then, the Organization 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). With the purpose of significantly expanding its mission outreach in the United States, effective February 28, 2020, the Organization combined with Accion Opportunity Fund ("AOF", formerly Accion, The US Network, Inc.), a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code, incorporated in the state of Delaware. AOFCD is a member-controlled organization and AOF is its sole member.

The Organization's mission is to drive economic mobility by delivering affordable capital and responsible financial solutions to determined entrepreneurs and communities. The Organization 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. The Organization also borrows funds from individuals and institutions to use for its small business lending program and for general operating expenses. The Organization 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

The Organization makes loans to small businesses that lack access to affordable credit from traditional sources. Since inception, the Organization has made over 26,900 loans totaling $813 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).

Beginning in June 2020, in response to COVID-19, the Organization began offering lower cost loans with interest rates from 4-4.25% to select borrowers who were severely impacted by COVID-19. The Organization 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 agency and sold to a special purpose credit vehicle where only a portion of the loans, typically 5-10%, remain on the Organization's consolidated statement of financial position.

1. ORGANIZATION AND BACKGROUND (continued)

Small Business Lending Program (continued)

In April 2020 the Organization 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. As of June 30, 2023, substantially all PPP loans have been fully repaid.

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

New Market Tax Credits Program

In 2003, the Organization 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, 2023, the Organization has received a cumulative total of $498 million of tax credit allocations. The Organization 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, 2023 and 2022, the Organization has deployed $471.5 million and $424 million in Qualified Equity Investments ("QEIs"), respectively.

Ratings

The Organization is rated by Aeris, a national organization which provides ratings, data, and advisory services to support investment in CDFIs. As analyzed June 30, 2022, the Organization is rated AA-, four-star. AA- is a rating of Financial Strength and Performance demonstrating the Organization "has very strong financial strength, 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Principles of consolidation

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

Reclassifications

Certain 2022 balances have been reclassified to conform to the 2023 consolidated financial statement presentation. These reclassifications have no effect on previously reported change in net assets.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in NMTC Entities

There are 15 NMTC entities, over which the Organization exercises significant influence, and are included in the consolidated financial statements using the equity method of accounting. The investment is recorded at cost then adjusted for the Organization's proportionate share of undistributed earnings or losses (see Note 16 - NEW MARKETS TAX CREDITS COMMITMENTS). The Organization has a 0.01% financial interest in each of these entities. As of June 30, 2023 and 2022, the Organization has related-party receivables from certain of the following entities related to asset management fees and operating advances totaling $0 thousand and $16 thousand, respectively.

In fiscal year 2023 and 2022, AOFCD closed three and two entities, respectively, when the projects were unwound and reached the end of the seven-year NMTC compliance period. There are ten shelf entities that have not yet been utilized in an NMTC project yet as of June 30, 2023.

The 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, the Organization 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. The Organization's capital investment in Acceso has been made through a generous contribution from a corporate donor. The Organization accounted for the investment activities using the equity method of accounting. As of June 30, 2023 and 2022, the balance of investment in Acceso was $830 thousand and $830 thousand, respectively.

Cash and cash equivalents

The Organization considers all highly liquid investments with initial maturities 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. Only limited 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Restricted cash

Restricted cash consists of cash accounts that are required by the donor to be maintained for a specific purpose or loan program.

Contribution 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 were no conditional contributions and grants as of June 30, 2023.

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 non-financial 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.

During the years ended June 30, 2023 and 2022, the Organization received legal pro-bono services valued at $0 thousand and $68 thousand, respectively, referral broker's fees valued at $680 thousand and $791 thousand, respectively. The Organization values these in-kind professional services based on estimated current rates for similar legal and referral services.

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, 2023 and 2022, a present value discount of $1,242 thousand and $842 thousand was recorded to the consolidated financial statements, respectively. The Organization annually evaluates the collectability of contributions receivable. As of June 30, 2023 and 2022, an allowance of $500 thousand and $500 thousand was recorded for doubtful accounts for contributions receivable 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.

The Organization prepares an annual assessment of its originations fee income and the costs associated with the origination of loans 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 periods ending June 30, 2023 and 2022, the Organization 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

The Organization 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, 2023 and 2022, the Organization has not recorded a servicing asset or servicing liability as the fees the Organization earns approximates adequate compensation for the costs associated with servicing the participated loans.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Allowance for loan losses

The allowance for loan losses represents management's estimate of probable losses inherent in the Organization'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 government contracts and grants (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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 which are five years for furniture, five 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.

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

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Codification ("ASC") 842, Leases, to increase transparency and comparability among organizations by requiring the recognition of right-of-use ("ROU") assets and lease liabilities on the balance sheet. Most prominent among the changes in the standard is the recognition of ROU assets and lease liabilities by lessees for those leases classified as operating leases. Under the standard, disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases.

ROU assets represent the Organization's right to use an underlying asset for the lease term and lease liabilities represent the Organization's obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at the commencement date based on the present value of lease payments over the lease term. As the implicit rate of the leases is not determinable, the Organization uses an incremental borrowing rate based on the information available at the lease commencement date in determining the present value of lease payments.

The Organization adopted the standard effective July 1, 2022 and recognized and measured leases existing at, or entered into after, July 1, 2022, with certain practical expedients available. Lease disclosures for the year ended June 30, 2022 are made under prior lease guidance in FASB ASC 840.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New accounting pronouncement (continued)

The Organization elected the available practical expedients to account for existing capital leases and operating leases as finance leases and operating leases, respectively, under the new guidance, without reassessing (a) whether the contracts contain leases under the new standard, (b) whether classification of capital leases or operating leases would be different in accordance with the new guidance, or (c) whether the unamortized initial direct costs before transition adjustments would have met the definition of initial direct costs in the new guidance at lease commencement.

As a result of the adoption of the new lease accounting guidance, the Organization recognized an initial lease liability of $1,406 thousand and a right-of-use asset of $1,366 thousand.

The standard had a material impact on Organization's statement of financial position, but did not have a material impact on Organization's consolidated statement of activities, nor consolidated statement of cash flows. The most significant impact was the recognition of ROU asset and lease liability for the operating lease on the consolidated statement of financial position.

Income tax status

The Organization is exempt from federal income taxes under the provisions of Section 501(c) (3) of the Internal Revenue Code. In addition, the Organization qualifies for charitable contribution deductions and has been classified as an organization that is not a private foundation. 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 years ended June 30, 2023 and 2022, respectively.

The Organization is exempt from California state income taxes under the provision of Section 23701d of the Revenue and Taxation Code. The Organization 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, 2023 and 2022 , the Organization 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.

Uncertain tax positions

The Organization is subject to potential examination by taxing authorities for income tax returns filed in the U.S. federal jurisdiction and the State of California. The tax years that remain subject to potential examination for the U.S. federal jurisdiction are years ended June 30, 2020, and forward. The State of California tax jurisdiction is subject to potential examination for years ended June 30, 2019 and forward. As of June 30, 2023 and 2022, management did not identify any uncertain tax positions.

(In thousands)

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, 2023 and 2022, respectively, for operations and programs needs are as follows:

	2023		2022	
	Operations	Programs	Operations	Programs
Available Cash and Investments				
Cash and cash equivalents	$ 23,077	$ -	$ 19,220	$ -
Loan funds	-	45,667	-	6,408
Investments	7,145	-	2,983	-
Total available cash and investments	30,222	45,667	22,203	6,408
Receivables - current				
Loans receivable	-	41,281	-	31,250
Contributions receivable	1,130	11,661	520	6,477
Due from related parties	807	-	331	-
Small business interest and fees receivable	1,188	-	1,031	-
Total receivables - current	3,125	52,942	1,882	37,727
Total financial assets available for use within one year	$ 33,347	$ 98,609	$ 24,085	$ 44,135

The Organization's management reports on its operating and program liquidity position on a quarterly basis to the Finance Committee of the Board. The Organization manages its liquidity to be in compliance with its loan covenants. The Organization's loan covenants require it to keep at least 90 days of operating cash on hand. For the periods ended June 30, 2023 and 2022, the Organization was in compliance with this loan covenant. To help manage the Organization's liquidity needs, it has operating lines of credit in the amount of $13 million, of which $0 is drawn and has committed loan program credit facilities in the aggregate amount of $23 million of which only $13 million was drawn as of June 30, 2023.

(In thousands)

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, 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:

	2023	2022
Money market	$ 591	$ 1,359
Mutual funds	1,662	1,624
US Treasury bill	4,892	-
Total investments	$ 7,145	$ 2,983

Investment earnings (losses) during the year consisted of the following:

	2023	2022
Interest income	$ 1,645	$ 49
Net realized and unrealized income (losses)	(8)	123
Total investment earnings	$ 1,637	$ 172

Interest income consisted of interest earned from cash, cash equivalent and restricted cash in the amount of $1,452 thousand.

5. RESTRICTED CASH

Restricted cash consisted of the following:

	2023	2022
Cash for loan program	$ 45,667	$ 6,408
Cash for loan loss reserves (1)	4,830	4,248
Total cash - programs	$ 50,497	$ 10,656

(1) The Organization 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 individual contributions made to the program when enrolling eligible loans.

(In thousands)

6. CONTRIBUTIONS RECEIVABLE

Future maturities of contributions receivables are as follows:

Year ending June 30,		
2024	$	12,791
2025		3,945
2026		3,590
2027		1,620
		21,946
Less: debt discount and allowance		(1,742)
Total long-term contributions receivable	$	20,204

For the year ended June 30, 2023, the Organization had one government entity who provided approximately 10% of total contributions, one corporate entity who provided 12% and one individual who provided approximately 18% of total contributions.

For the year ended June 30, 2022, the Organization had three individuals who provided approximately 46% of total contributions.

The Organization considers members of the board of directors, the executive team, and their immediate family members to be related parties. For the years ended June 30, 2023 and 2022, contributions from these related parties included in revenue totaled $3.4 million and $9.9 million respectively. Additionally, contributions receivable from related parties as of June 30, 2023 and 2022 totaled $10.4 million and $11.6 million, respectively.

7. LOANS RECEIVABLE AND LOAN LOSS RESERVE

Small business loans

The Organization offers loans to small businesses from $5 to $250 thousand with fixed interest rates ranging from 5.99% to 21.9% 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, the Organization also offers lower cost loans with interest rates ranging from 4.0 to 4.25%. During the years ended June 30, 2023 and 2022, the Organization disbursed $71.7 million to 2,322 borrowers and $113.2 million to 2,450 borrowers in the Small Business Program, respectively.

(In thousands)

7. LOANS RECEIVABLE AND LOAN LOSS RESERVE (continued)

Small business loans (continued)

In April 2020 the Organization 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, AOFCD disbursed $23.1 million among 1,367 PPP loans, and the program ended in June 2021. During fiscal year 2022, AOFCD has helped 1,786 borrowers obtain loan forgiveness from the SBA for loans amounts totaling $28.7 million. During fiscal year 2023, AOFCD has helped 36 borrowers obtain loan forgiveness from the SBA for loans amounts totaling $1.3 million.

In total, during the years ended June 30, 2023 and 2022 , the Organization disbursed $71.7 million among 2,322 loans and $113.2 million among 2,450 loans in the Small Business Program, respectively, combining standard and PPP loans.

For the years ended June 30, 2023 and 2022, the Organization originated 38% and 57%, respectively, of trucking-related loans as a percentage of total loan originations. As of June 30, 2023 and 2022, the Organization's trucking-related loans receivable as a percentage of total loans receivable was 64% and 77%, respectively.

Small business program loans receivable are as follows:

	2023	2022
Total portfolio under management	$ 191,631	$ 203,306
Less third parties' portfolios under management (1)	(62,400)	(54,019)
	129,231	149,287
Less allowance for loan losses	(7,786)	(6,391)
Total net loans receivable	$ 121,445	$ 142,896

(1) Balance of loan participations owned by third parties / investors. In fiscal year 2023 and 2022, the Organization sold participations in 749 loans for a total of $31.7 million, and 308 loans for a total of $26.7 million, respectively.

Troubled Debt Restructurings ("TDRs")

As a result of an evaluation of a borrower's financial circumstances, the Organization may modify the terms of a loan that the Organization otherwise would not consider but for the borrower's financial difficulties.

As of June 30, 2023, there were 180 TDRs in the Organization's small business portfolio accounting for a total of $2.2 million representing 1.70% of the total portfolio. As of June 30, 2022, there were 168 TDRs accounting for $2.0 million representing 1.32% of the total portfolio.

(In thousands)

7. LOANS RECEIVABLE AND LOAN LOSS RESERVE (continued)

Aging schedule

2023 aging schedule by category

	Balance	Current	31 - 60 Days	61 - 90 Days	91 - 120 Days	121 - 150 Days	150+ Days
Small business loans	$ 127,037	$ 120,306	$ 2,045	$ 1,551	$ 919	$ 1,536	$ 680
Small business loans - TDRs	2,194	1,836	145	115	16	41	41
Total loans receivable	$ 129,231	$ 122,142	$ 2,190	$ 1,666	$ 935	$ 1,577	$ 721
		94.52 %	1.69 %	1.29 %	0.72 %	1.22 %	0.56 %

2022 aging schedule by category

	Balance	Current	31 - 60 Days	61 - 90 Days	91 - 120 Days	121 - 150 Days	150+ Days
Small business loans	$ 147,319	$ 145,487	$ 697	$ 325	$ 387	$ 235	$ 188
Small business loans - TDRs	1,968	1,702	56	143	67	-	-
Total loans receivable	$ 149,287	$ 147,189	$ 753	$ 468	$ 454	$ 235	$ 188
		98.60 %	0.50 %	0.31 %	0.30 %	0.16 %	0.13 %

Payment deferrals and forgiveness

As a result of the COVID-19 global pandemic, the Organization raised a significant amount of funds 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, 2023, the Organization deferred $577 thousand of borrower payments to 238 unique clients. Additionally, clients with prolonged hardship could be eligible for all or a portion of their payment forgiven. As of June 30, 2023, the Organization extended forgiveness totaling $1.2 million on 1,419 payments for 620 unique clients. As of June 30, 2022, the Organization deferred $179 thousand of borrower payments to 138 unique clients and extended forgiveness totaling $1.5 million on 2,085 payments.

Allowance for loan losses

The Organization 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 probable losses inherent in its loan portfolio.

(In thousands)

7. LOANS RECEIVABLE AND LOAN LOSS RESERVE (continued)

Allowance for loan losses (continued)

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

	2023	2022
Balance, beginning of year	$ 6,391	$ 5,329
Provisions for loan losses	8,197	2,450
Loans charged-off	(6,802)	(1,388)
Balance, end of year	$ 7,786	$ 6,391

8. CASH FOR LOAN LOSS RESERVES

The Organization 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 the Organization against potential credit losses. When an enrolled loan is deemed uncollectable, the Organization can claim up to 100% of the loss to the available CalCAP cash reserves. A significant majority of the Organization'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 years ending June 30, 2023 and 2022, CalCAP withdrew $287 thousand and $0 thousand, respectively.

Cash for loan loss reserves consist of the following:

	2023	2022
Opportunity Fund contributions to CalCAP Reserve	$ 4,831	$ 4,248
State contributions to CalCAP Small Business Reserve (1)	128	161
State contributions to CalCAP ARB Reserve (2)	9,348	8,023
Total cash for loan loss reserves	$ 14,307	$ 12,432

(1) Reserves for small business loans with general purpose. This portion of the reserve is not included in the Organization's consolidated statement of financial position.

(In thousands)

8. CASH FOR LOAN LOSS RESERVES (continued)

(2) State reserves for loans extended to businesses in the trucking industry with the purpose of meeting environmental standards of the State of California. The Organization is not required to contribute to this reserve and it is not included in the consolidated statement of financial position.

9. PROPERTY AND EQUIPMENT, NET

Property and equipment consisted of the following:

	2023	2022
Furniture	$ 121	$ 227
Computers and equipment	362	339
Software	3,377	2,849
Software-in-kind	2,655	2,655
Intangible asset	1,600	1,600
Leasehold improvements	177	177
	8,292	7,847
Accumulated depreciation and amortization	(6,664)	(5,919)
Total property and equipment, net	$ 1,628	$ 1,928

Depreciation and amortization expense for the years ended June 30, 2023 and 2022 were $837 thousand and $924 thousand, respectively.

10. REVOLVING LINES OF CREDIT

The Organization has entered into multiple agreements with banks and other financial institutions for lines of credit totaling $36 million. These lines of credit mature between July 2023 and December 2028 and carry annual interest rates between 3.00% and 6.50%. The aggregate outstanding balances as of June 30, 2023 and 2022, were $13.0 million and $11.0 million, respectively.

11. NOTES PAYABLE

As of June 30, 2023, the Organization has entered into multiple notes payable agreements with various institutions for a total of $125.98 million. These notes payable mature between August 2023 and October 2032 and carry annual interest rates between 0% and 4.5%. As of June 30, 2022, the Organization has entered into multiple notes payable agreements with various institutions for a total of $110.26 million. These notes payable mature between October 2022 and November 2030 and carry annual interest rates between 0% and 4.5%.

(In thousands)

11. NOTES PAYABLE (continued)

As of June 30, 2023, the Organization entered into multiple agreements with individual investors in the amount of $9.70 million. These impact investments mature between August 2023 and May 2028 and carry annual interest rates between 0.78% and 3.39%. As of June 30, 2022, the Organization entered into multiple agreements with individual investors in the amount of $8.25 million. These impact investments mature between August 2022 and May 2027 and carry annual interest rates between 0.64% and 3.39%.

Certain of the notes payable agreements require the Organization to comply with various financial covenants. The Organization was in compliance, or received a temporary waiver, on all covenants as of June 30, 2023 and 2022.

Future maturities of all debts are as follows:

Year ending June 30,	
2024	$ 21,800
2025	8,125
2026	49,057
2027	23,619
2028	26,083
Thereafter	19,999
	148,683
Current portion	(21,800)
Total long-term notes payable	$ 126,883

12. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions were for the following purposes:

	Balance at June 30, 2022	Additions to Restrictions	Releases from Restrictions	Balance at June 30, 2023
Small business operating	$ 9,833	$ 12,826	$ (8,910)	$ 13,749
Time-restricted operating grants	11,744	3,125	(4,377)	10,492
	$ 21,577	$ 15,951	$ (13,287)	$ 24,241

(In thousands)

12. NET ASSETS WITH DONOR RESTRICTIONS (continued)

Net assets with donor restrictions were for the following purposes:

	Balance at June 30, 2021	Additions to Restrictions	Releases from Restrictions	Balance at June 30, 2022
Small business operating	$ 5,716	$ 10,050	$ (5,933)	$ 9,833
Time-restricted operating grants	2,071	13,797	(4,124)	11,744
	$ 7,787	$ 23,847	$ (10,057)	$ 21,577

13. RELATED PARTY TRANSACTIONS

AOFCD provides certain administrative, development and program related services to AOF and receives reimbursement for the associated expenses. For the years ended June 30, 2023 and 2022, AOFCD recorded $1,320 thousand and $673 thousand in reimbursement from AOF, respectively. As of June 30, 2023 and 2022, AOFCD had a receivable of $807 thousand and $315 thousand for the reimbursement, respectively.

In addition, AOFCD will occasionally make cash payments for AOF grants which it subsequently disburses to grantees or makes grants on behalf of AOF in advance of receiving payment from AOF. AOFCD records a corresponding revenue for the cash payments made for AOF. For the years ended June 30, 2023 and 2022, contributions from AOF included in revenue totaled $500 thousand and $150 thousand, respectively.

14. RETIREMENT PLAN

The Organization 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 the Organization's discretion. During the years ended June 30, 2023 and 2022, the Organization contributed approximately $697 thousand and $495 thousand, respectively, to the Plan for participating employees.

15. LEASES

In December 2022, the Organization entered a non-cancelable operating lease for office facilities and office equipment in the City of San Jose effective July 1, 2023, with a monthly rent of $27,954. The lease will expire in July 2026.

The Organization also entered a non-cancelable operating lease for office facilities and office equipment in the city of Commerce effective July 1, 2021, with a monthly rent of $8,012. The lease will expire in November 2026.

(In thousands)

15. LEASES (continued)

Additional information related to the two leases are as follows:

Operating right-of-use obtained in exchange for operating lease liability	$	1,280
Operating lease liabilities		1,316
Discount rate		2.55 %
Weighted average remaining term		3.2 years

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

Year ending June 30,		
2024	$	428
2025		441
2026		454
2027		48
		1,371
Less: imputed interest		(55)
	$	1,316

Future minimum lease payments related to leases as of June 30, 2022, before the adoption ASC842 Leases were as follows:

Year ending June 30,		
2023	$	574
2024		107
2025		111
2026		114
2027		49
	$	955

Lease expenses for the years ended June 30, 2023 and 2022, was $539 thousand and $523 thousand, respectively.

16. NEW MARKETS TAX CREDITS COMMITMENTS

The Organization 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 QEI 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.

16. NEW MARKETS TAX CREDITS COMMITMENTS (continued)

The following recapture events may trigger indemnification by AOFCD: (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 $93 million and future amounts are $43 million. The maturity dates range from April 2024 through February 2034 at which times AOFCD is no longer liable.

17. SUBSEQUENT EVENTS

Subsequent events have been evaluated through the date of the consolidated financial statements, September 28, 2023, which is the date the consolidated financial statements were available to be issued. The Organization did not have subsequent events that required recognition or disclosure in the consolidated financial statements for the year ended June 30, 2023.