Accion Opportunity Fund, Inc.

Consolidated Financial Statements

June 30, 2023 and 2022

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INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the accompanying consolidated financial statements of Accion Opportunity Fund, Inc. (a California nonprofit corporation) (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, Inc. 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, Inc. 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, Inc.'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, Inc.'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, Inc.'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, Inc.
Consolidated Statements of Financial Position
June 30, 2023 and 2022
(In thousands)

	2023	2022
ASSETS		
Cash and cash equivalents	$ 28,474	$ 24,540
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
Contributions receivable, net (Note 6)	20,496	18,438
Due from related parties	-	16
Small business interest and fees receivable	1,188	1,031
Prepaid expenses and other	650	726
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	$ 233,658	$ 204,063
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	$ 5,986	$ 5,607
Notes payable (Notes 10 and 11)	148,683	118,513
Operating lease liabilities	1,316	-
Total liabilities	155,985	124,120
Net assets		
Without donor restrictions	52,769	54,332
With donor restrictions (Note 12)	24,904	25,611
Total net assets	77,673	79,943
Total liabilities and net assets	$ 233,658	$ 204,063

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, 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, net	1,812	-	1,812
Total interest income	18,522	-	18,522
Less: interest expense	3,107	-	3,107
Net interest margin	15,415	-	15,415
Provision 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
Total other earned revenues	8,407	-	8,407
Net earned revenue	15,625	-	15,625
Contributions and grants			
Contributions	4,055	14,311	18,366
Government contracts and grants	1,918	1,651	3,569
In-kind contributions	680	-	680
Net assets released from restriction	16,669	(16,669)	-
Total contributions and grants	23,322	(707)	22,615
Total earned revenue and contributions	38,947	(707)	38,240
Expenses			
Program services	30,488	-	30,488
Support services			
Management and general	6,867	-	6,867
Fundraising	3,155	-	3,155
Total support services	10,022	-	10,022
Total expenses	40,510	-	40,510
Change in net assets	(1,563)	(707)	(2,270)
Net assets, beginning of year	54,332	25,611	79,943
Net assets, end of year	$ 52,769	$ 24,904	$ 77,673

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, 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, net	173	-	173
Total interest income	16,203	-	16,203
Less: interest expense	2,831	-	2,831
Net interest margin	13,372	-	13,372
Provision for loan losses	2,450	-	2,450
Other earned revenues			
Loan and other program income	5,755	-	5,755
Income from sale of portfolio	1,059	-	1,059
NMTC program income	2,395	-	2,395
Total other earned revenues	9,209	-	9,209
Net earned revenue	20,131	-	20,131
Contributions and grants			
Contributions	6,678	16,814	23,492
Contributions from related parties	480	9,504	9,984
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	12,611	(12,611)	-
Total contributions and grants	24,017	14,397	38,414
Total revenue and contributions	44,148	14,397	58,545
Expenses			
Program services	25,856	-	25,856
Support services			
Management and general	8,024	-	8,024
Fundraising	2,517	-	2,517
Total support services	10,541	-	10,541
Total expenses	36,397	-	36,397
Change in net assets	7,751	14,397	22,148
Net assets, beginning of year	46,581	11,214	57,795
Net assets, end of year	$ 54,332	$ 25,611	$ 79,943

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, 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	3,422	-	-	3,422
Information technology	3,222	869	178	4,269
Interest expense	3,107	-	-	3,107
Provision for loan losses	8,197	-	-	8,197
Professional services	868	1,005	217	2,090
Depreciation and amortization	500	278	59	837
Other	381	408	59	848
Marketing	553	164	112	829
Occupancy	321	181	37	539
Parking and travel	154	82	24	260
Special events	5	-	6	11
Total	41,792	6,867	3,155	51,814
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	$ 30,488	$ 6,867	$ 3,155	$ 40,510
Percentage of total	75.2 %	17.0 %	7.8 %	100.0 %

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, 2022
(In thousands)

	Program Services	Management and General	Fundraising	Total
Personnel expenses	$ 13,024	$ 4,129	$ 1,735	$ 18,888
Program operating	6,215	3	5	6,223
Donations	3,400	-	-	3,400
Information technology	1,044	2,136	39	3,219
Interest expense	2,831	-	-	2,831
Provision for loan losses	2,450	-	-	2,450
Professional services	556	712	528	1,796
Depreciation and amortization	529	331	64	924
Other	299	340	41	680
Marketing	433	125	1	559
Occupancy	302	185	36	523
Parking and travel	52	58	15	125
Special events	2	5	53	60
Total	31,137	8,024	2,517	41,678
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	$ 25,856	$ 8,024	$ 2,517	$ 36,397
Percentage of total	71.1 %	22.0 %	6.9 %	100.0 %

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

Accion Opportunity Fund, Inc.
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	$ (2,270)	$ 22,148
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	(2,058)	(12,418)
(Increase) decrease in due from related parties	16	-
(Increase) decrease in small business interest and fees receivable	(157)	298
(Increase) decrease in prepaid expenses and other	76	(279)
Increase (decrease) in accounts payable and accrued expenses	416	1,150
Net cash provided by operating activities	3,716	11,232
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
Purchases of property & 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	43,775	(22,044)
Cash, cash equivalents and restricted cash, beginning of year	35,196	57,240
Cash, cash equivalents and restricted cash, end of year	$ 78,971	$ 35,196
Cash, cash equivalents and restricted cash consisted of the following:		
Cash and cash equivalents	$ 28,474	$ 24,540
Restricted cash	50,497	10,656
	$ 78,971	$ 35,196

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

Accion Opportunity Fund, Inc.
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. 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 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).

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. As of June 30, 2023, substantially all PPP loans have been fully repaid.

AOFCD sells participations in its loan portfolio. 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.

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, 2023, AOFCD has received a cumulative total of $498 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, 2023 and 2022, AOFCD has deployed $471.5 million and $424 million in Qualified Equity Investments ("QEIs"), respectively.

1. NATURE OF OPERATIONS (continued)

Ratings

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

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

Because AOF and AOFCD share the same board membership, 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, 2023 and 2022 , and the statements of activities, statements of functional expenses, statements of cash flows and related notes for the years then ended. All material intercompany balances and transactions have been eliminated in consolidation. The supplementary information is presented for standalone financial statements of AOF.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Principles of consolidation (continued)

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.

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.

Investments in NMTC entities

There are 15 NMTC entities, over which AOFCD 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 AOFCD's proportionate share of undistributed earnings or losses (see Note 15 - COMMITMENTS). AOFCD has a 0.01% financial interest in each of these entities. As of June 30, 2023 and 2022, AOFCD has related-party receivables from certain of these entities related to asset management fees and operating advances totaling $0 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 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 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. 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.

Restricted cash

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

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 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 processing 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, AOFCD received legal pro-bono services valued at $0 thousand and $68 thousand, respectively, and referral broker's fees valued at $680 thousand and $791 thousand, respectively. AOFCD values these in-kind professional services based on estimated current rates for similar legal and referral services.

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 $1,250 thousand and $861 was recorded to the consolidated financial statements, respectively. The Organization annually evaluates contributions receivable for collectability. 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.

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 years ended June 30, 2023 and 2022, 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, 2023 and 2022, 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.

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 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.

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 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.

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 AOFCD's right to use an underlying asset for the lease term and lease liabilities represent AOFCD'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, AOFCD uses an incremental borrowing rate based on the information available at the lease commencement date in determining the present value of lease payments.

AOFCD 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)

AOFCD 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, AOFCD 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 AOFCD's statement of financial position, but did not have a material impact on AOFCD's statement of activities, nor 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

AOF and AOFCD are exempt from federal income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code. In addition, AOF and AOFCD 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, 2023.

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, 2023, 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.

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

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, 2020, and forward. The State of California and New York tax jurisdictions are subject to potential examination for years ended June 30, 2019 and forward. As of June 30, 2023, 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.

(In thousands)

3. LIQUIDITY

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	$ 28,474	$ -	$ 24,540	$ -
Loan funds	-	45,667	-	6,408
Investments	7,145	-	2,983	-
Total available cash and investments	35,619	45,667	27,523	6,408
Receivables - current				
Loans receivable	-	41,281	-	31,250
Contributions receivable	1,130	11,961	520	7,567
Due from related parties	-	-	16	-
Small business interest and fees receivable	1,188	-	1,031	-
Total receivables - current	2,318	53,242	1,567	38,817
Total financial assets available for use within one year	$ 37,937	$ 98,909	$ 29,090	$ 45,225

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 years ended June 30, 2023 and 2022, AOFCD was in compliance with this loan covenant. To help manage unanticipated liquidity needs, AOFCD has operating lines of credit in the amount of $13 million, of which $0 was drawn and also 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 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:

	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 years consisted of the following:

	2023	2022
Interest income	$ 1,820	$ 50
Net realized and unrealized income/(losses)	(8)	123
Total investment earnings	$ 1,812	$ 173

Interest income consisted of interest earned from cash, cash equivalent and restricted cash in the amount of $1,600 thousand.

5. RESTRICTED CASH

Restricted cash consisted of the following:

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

(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.

(In thousands)

6. CONTRIBUTIONS RECEIVABLE

Future maturities of these receivables are as follows:

Year ending June 30,		
2024	$	13,091
2025		3,945
2026		3,590
2027		1,620
		22,246
Less: discount and allowance		(1,750)
Total contributions receivable, net of discount and allowance	$	20,496

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

AOFCD offers loans product 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, AOFCD also offers lower cost loans with interest rates ranging from 4.0 to 4.25%. During the year ended June 30, 2023 and 2022, AOFCD disbursed $71.7 million to 2,322 borrowers and $113.2 million to 2,450 borrowers in the Small Business Program, respectively.

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. During the year ended June 30, 2021, AOFCD disbursed $23.1 million among 1,367 PPP loans, 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, AOFCD 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.

(In thousands)

7. LOANS RECEIVABLE AND LOAN LOSS RESERVE (continued)

Small business loans (continued)

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, AOFCD 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, AOFCD may modify the terms of a loan that AOFCD 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.

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	40
Total loans receivable	$ 129,231	$ 122,142	$ 2,190	$ 1,666	$ 935	$ 1,577	$ 720
		94.52 %	1.69 %	1.29 %	0.72 %	1.22 %	0.56 %

(In thousands)

7. LOANS RECEIVABLE AND LOAN LOSS RESERVE (continued)

Aging schedule (continued)

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, AOFCD 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, 2023, AOFCD 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, AOFCD extended forgiveness totaling $1.2 million on 1,419 payments for 620 unique clients. As of June 30, 2022, AOFCD 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

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:

	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

(In thousands)

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 up to 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 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 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 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.

(In thousands)

9. PROPERTY AND EQUIPMENT, NET

Property and equipment consisted of the following:

	2023	2022
Furniture	$ 121	$ 227
Computer 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 was $837 thousand and $924 thousand, respectively.

10. REVOLVING LINES OF CREDIT

AOFCD entered into multiple lines of credit agreements with multiple banks and other financial institutions in a total amount of $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

AOFCD 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, AOFCD 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%.

AOFCD 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, AOFCD 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%.

(In thousands)

11. NOTES PAYABLE (continued)

The organization acts as guarantor to a significant portion of the debt held by AOFCD. Certain of the notes payable agreements require AOFCD to comply with various financial covenants. AOFCD 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
Time-restricted operating grants - AOF	$ 4,034	$ 11	$ (3,382)	$ 663
Small business operating - AOFCD	9,833	12,826	(8,910)	13,749
Time-restricted operating grants - AOFCD	11,744	3,125	(4,377)	10,492
	$ 25,611	$ 15,962	$ (16,669)	$ 24,904

(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
Time-restricted operating grants - AOF	$ 3,427	$ 3,161	$ (2,554)	$ 4,034
Small business operating - AOFCD	5,716	10,050	(5,933)	9,833
Time-restricted operating grants - AOFCD	2,071	13,797	(4,124)	11,744
	$ 11,214	$ 27,008	$ (12,611)	$ 25,611

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 years ended June 30, 2023 and 2022 , AOFCD contributed approximately $697 thousand and $495 thousand, respectively, to the Plan for participating employees.

14. LEASES

In December 2022, AOFCD 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.

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

(In thousands)

14. LEASES (continued)

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.

15. COMMITMENTS

New Markets Tax Credits commitments

AOFCD 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.

15. COMMITMENTS (continued)

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.

16. TRADEMARK AGREEMENT

The Organization entered into a trademark agreement with Accion International Inc. effective February 28, 2020 with an initial three-year term. The two parties renewed for another 3-year term in February 2023 and agreed that the agreement will auto-renew for 3 years at a time until one of the parties terminates it. The agreement provides for the legal use of the 'Accion' brand name by the Organization.

17. SUBSEQUENT EVENTS

Subsequent events have been evaluated through the date of the 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.