



AUDIT REPORT
FOR THE YEAR ENDED DECEMBER 31, 2020

ACCION/Chicago, Inc.
(Allies for Community Business - Effective January 2021)
Audit Report
For the Year Ended December 31, 2020

Table of Contents

Independent Auditor's Report	1 - 2
Financial Statements:	
Statement of Financial Position	3
Statement of Activities	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to the Financial Statements	7 - 30

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
ACCION/Chicago, Inc.
Chicago, Illinois

We have audited the accompanying financial statements of **ACCION/Chicago, Inc.**, which comprise the statement of financial position as of December 31, 2020 and 2019, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of ACCION/Chicago, Inc. as of December 31, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Selden Fox, Ltd.

June 14, 2021

ACCION/Chicago, Inc.
Statement of Financial Position
December 31,

	2020	2019
Assets		
Cash and restricted cash:		
Unrestricted	\$ 2,424,553	\$ 106,064
Restricted cash:		
Temporarily-held pass through grants	43,888,996	-
Loan loss reserve	5,451,679	-
Other	3,237,311	3,201,979
Designated for loan loss reserve	74,854	74,786
Total cash and restricted cash	55,077,393	3,382,829
Contributions receivable	208,500	392,116
Government receivables	1,583,770	8,891
Loans receivable, net	20,171,646	3,506,093
Prepaid expenses and other assets	153,913	98,690
Investment in:		
The Hatchery Title Holding Corporation NFP	430,355	514,537
The Hatchery Master Tenant LLC	4,586,865	4,809,892
Property, equipment, and software, net	257,478	245,361
Total assets	\$ 82,469,920	\$ 12,958,409
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 186,674	\$ 104,892
Accrued expenses	355,313	147,680
Deferred revenue	393,350	27,500
Funds held for others	44,187,996	511,000
Notes payable, less discount of \$2,248,850 (\$851,868 in 2019)	23,949,640	5,139,387
Total liabilities	69,072,973	5,930,459
Net assets:		
Without donor restrictions	1,073,693	2,688,113
With donor restrictions	12,323,254	4,339,837
Total net assets	13,396,947	7,027,950
Total liabilities and net assets	\$ 82,469,920	\$ 12,958,409

See accompanying notes.

ACCION/Chicago, Inc.
Statement of Activities
For the Year Ended December 31,

	2020			2019		
	Without	With	Total	Without	With	Total
	Donor Restrictions			Donor Restrictions		
Public support and revenue:						
Public support:						
Contributions - corporations, foundations, and individuals	\$ 3,451,194	\$ 2,481,500	\$ 5,932,694	\$ 752,257	\$ 2,515,180	\$ 3,267,437
Imputed interest contribution	-	1,601,498	1,601,498	-	175,000	175,000
In-kind support	-	-	-	11,875	-	11,875
Total public support	3,451,194	4,082,998	7,534,192	764,132	2,690,180	3,454,312
Government agencies:						
City of Chicago	1,065,826	5,450,000	6,515,826	-	-	-
U.S. Department of Commerce	-	1,278,770	1,278,770	-	-	-
State of Illinois	1,202,515	-	1,202,515	-	-	-
City of South Bend	-	350,000	350,000	-	-	-
Small Business Administration	13,321	-	13,321	147,016	-	147,016
Total government agencies support	2,281,662	7,078,770	9,360,432	147,016	-	147,016
Special events:						
Contributions and ticket sales	-	-	-	168,837	-	168,837
Less: direct benefit to donors	-	-	-	(4,838)	-	(4,838)
Total special events, net	-	-	-	163,999	-	163,999
Other revenues:						
Loan interest	569,357	43,192	612,549	337,874	69,292	407,166
Administrative services and loan fees	653,280	1,135	654,415	268,288	19,205	287,493
Investment income	11,176	1,839	13,015	684	245	929
Participation income	15,584	-	15,584	6,980	-	6,980
Equity in income (loss) of:						
The Hatchery Title Holding Corporation NFP	(84,182)	-	(84,182)	(30,385)	-	(30,385)
The Hatchery Master Tenant LLC	(223,027)	-	(223,027)	(455,009)	-	(455,009)
Hatchery contribution revenue	-	-	-	1,737,930	-	1,737,930
Loss on disposal of software	-	-	-	-	(297,604)	(297,604)
Loss on loan sale	(21,660)	-	(21,660)	-	-	-
Net assets released from restrictions	3,224,517	(3,224,517)	-	2,402,239	(2,402,239)	-
Total other revenues	4,145,045	(3,178,351)	966,694	4,268,601	(2,611,101)	1,657,500
Total public support and revenue	9,877,901	7,983,417	17,861,318	5,343,748	79,079	5,422,827
Expenses:						
Program services	10,470,978	-	10,470,978	3,608,322	-	3,608,322
Management & general/administrative	718,685	-	718,685	462,776	-	462,776
Fund-raising	302,658	-	302,658	318,921	-	318,921
Total expenses	11,492,321	-	11,492,321	4,390,019	-	4,390,019
Change in net assets	(1,614,420)	7,983,417	6,368,997	953,729	79,079	1,032,808
Net assets, beginning of year	2,688,113	4,339,837	7,027,950	1,734,384	4,260,758	5,995,142
Net assets, end of year	\$ 1,073,693	\$ 12,323,254	\$ 13,396,947	\$ 2,688,113	\$ 4,339,837	\$ 7,027,950

See accompanying notes.

ACCION/Chicago, Inc.
Statement of Functional Expenses
For the Year Ended December 31,

	2020				2019			
	Program	Administrative	Fund-raising	Total	Program	Administrative	Fund-raising	Total
Functional expenses:								
Salaries and wages	\$ 1,911,794	\$ 352,887	\$ 158,993	\$ 2,423,674	\$ 1,579,392	\$ 218,871	\$ 155,946	\$ 1,954,209
Payroll taxes and fringe benefits	301,260	55,008	24,784	381,052	269,447	37,474	26,308	333,229
Credit and collection	176,374	20	-	176,394	90,426	-	-	90,426
Interest	205,720	-	-	205,720	119,859	-	-	119,859
Amortization of imputed interest for notes payable issued below fair value	204,518	-	-	204,518	117,084	-	-	117,084
Amortization of premiums on loans purchased	16,905	-	-	16,905	1,958	-	-	1,958
Provision for loan losses	5,732,458	-	-	5,732,458	470,565	-	-	470,565
Occupancy	330,634	61,220	27,497	419,351	426,322	59,080	42,094	527,496
Professional fees and consultants	329,135	178,261	30,091	537,487	93,054	92,327	9,310	194,691
Telephone	28,110	5,277	2,396	35,783	24,870	3,446	2,456	30,772
Insurance	9,659	8,777	802	19,238	9,163	7,900	906	17,969
Equipment rental and maintenance	14,248	2,755	1,185	18,188	12,136	1,682	1,198	15,016
Supplies	54,798	3,817	939	59,554	24,066	3,009	1,936	29,011
Marketing	35,435	6,253	6,412	48,100	13,313	7	4,256	17,576
Event expense	-	80	645	725	-	576	35,308	35,884
Travel	3,103	149	62	3,314	8,447	4,508	1,172	14,127
Training	9,245	3,101	673	13,019	13,712	1,827	1,930	17,469
Information technology	114,552	22,148	40,687	177,387	78,742	13,959	25,574	118,275
Dues and subscriptions	5,153	1,354	732	7,239	4,488	1,355	3,378	9,221
Depreciation	55,249	10,198	4,595	70,042	55,199	7,650	5,450	68,299
Other	17,618	7,380	2,165	27,163	16,079	9,105	1,699	26,883
Grant expense	915,010	-	-	915,010	180,000	-	-	180,000
Total expenses	\$ 10,470,978	\$ 718,685	\$ 302,658	\$ 11,492,321	\$ 3,608,322	\$ 462,776	\$ 318,921	\$ 4,390,019

See accompanying notes.

ACCION/Chicago, Inc.
Statement of Cash Flows
For the Year Ended December 31,

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Change in net assets	\$ 6,368,997	\$ 1,032,808
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	70,042	68,299
Loss on disposition of software	-	297,604
Amortization of premiums on purchased loans receivable	16,905	1,958
Provision for loan losses	5,732,458	470,565
Contribution revenue on below market interest notes payable	(1,601,498)	(175,000)
Equity in loss of:		
The Hatchery Title Holding Corporation NFP	84,182	30,385
The Hatchery Master Tenant LLC	223,027	455,009
Interest expense on below market interest loans	204,518	117,084
Loss on sale of loans:	21,660	-
Changes in:		
Government receivables	(1,574,879)	742,141
Contributions receivable	183,616	1,423
Prepaid expenses and other assets	(55,223)	79,867
Accounts payable and accrued expenses	289,415	(112,531)
Deferred revenue	365,850	17,500
Funds held for others	43,676,996	440,000
Net cash from operating activities	54,006,066	3,467,112
Cash flows from investing activities:		
Net repayments (originations) of loans	(22,595,850)	319,022
Loans receivable purchased	-	(658,195)
Proceeds from sales of loans	159,274	-
Investment in The Hatchery Master Tenant LLC	-	(1,787,930)
Purchases of property, equipment, and software	(82,159)	(133,838)
Net cash from investing activities	(22,518,735)	(2,260,941)
Cash flows from financing activities:		
Principal repayment of notes payable	(2,622,867)	(52,215)
Proceeds from notes payable	22,830,100	1,322,000
Change in deficit operating cash	-	(450,886)
Net cash from financing activities	20,207,233	818,899
Net change in cash and restricted cash	51,694,564	2,025,070
Cash and restricted cash, beginning of the year	3,382,829	1,357,759
Cash and restricted cash, end of the year	\$ 55,077,393	\$ 3,382,829
Supplemental cash flow information - interest paid	\$ 193,271	\$ 119,781

See accompanying notes.

1. **Nature of Operations and Summary of Significant Accounting Policies**

Organization – ACCION Chicago, Inc. (the Organization, or ACCION Chicago) helps neighborhood entrepreneurs grow by providing the capital, coaching and connections small business owners need to create wealth and jobs in communities most in need throughout Illinois and Indiana. The majority of businesses receiving capital and coaching operate in low to moderate income communities.

In January 2021, the Organization changed its name to Allies for Community Business. ACCION Chicago was a member of the ACCION U.S. Network. In 2020, the Organization did not renew its membership in the network.

Income Tax Status – The Organization was granted an exemption from federal income taxes by the Internal Revenue Service pursuant to the provisions of Internal Revenue Code Section 501(c)(3). Contributions to ACCION Chicago qualify for the charitable contribution deduction under Section 170(b)(1)(A)(vi) and ACCION Chicago has been classified as an organization that is not a private foundation under Section 509(a)(1). The tax-exempt purpose of the Organization and the nature in which it operates is described in the first paragraph of Note 1. Management believes the Organization continues to operate in compliance with its tax-exempt purpose. The Organization had no unrelated business income that management believes is subject to tax in 2020 or 2019.

The Organization's annual informational returns filed with the federal and state governments are generally subject to examination by the Internal Revenue Service (IRS) for three years after filing. Thus, returns for 2017, 2018 and 2019 remain open to IRS examination.

Basis of Accounting – The accounts and financial statements are maintained on the accrual basis of accounting and, accordingly, reflect all significant receivables and payables.

Basis of Presentation – The Organization reports information regarding its financial position and activities according to two classes of net assets: without donor restrictions and with donor restrictions, as required by U.S. Generally Accepted Accounting Principles (GAAP). All contributions, including promises to give, are recognized as unrestricted revenues in the period received, unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes, are reported with donor restrictions, and increases in that net asset class. However, if a restriction is fulfilled in the same reporting period in which the contribution is received, the Organization generally reports the support without donor restrictions. The Organization has no Board designated net assets at December 31, 2020 or 2019.

Gifts of long-lived assets are reported without donor restrictions, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used, and gifts of cash or other assets that must be used to acquire long-lived assets, would be reported with donor restrictions. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

1. **Nature of Operations and Summary of Significant Accounting Policies** (cont'd)

Use of Estimates – The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the financial statements, and reported amounts of revenue and expenses during the reporting period. Significant estimates used in the preparation of these financial statements include the allowance for loan losses, discontinuance of accrual of interest on loans when collection is doubtful, the rate used to estimate the discount for below market rate debt, and allocations of general, administrative and other expenses to individual program activities. Actual results could differ from those estimates.

Cash and Restricted Cash – Cash consists of bank deposits in federally insured accounts. At December 31, 2020 and 2019, cash accounts exceeded federally insured limits by \$54,374,439 and \$2,890,545, respectively.

Contributions Receivable and Government Receivables – Contributions receivable and government receivables consist of grants and other contributions that are considered to be promises to give and are recorded in the year the promise is made and conditions, if any, are met. If considered necessary, an allowance for uncollectible contributions receivable would be determined based on specific pledges and experience. No allowance was deemed necessary as of December 31, 2020 and 2019. Substantially all contributions and government receivables are expected to be received within one year from the date of the statement of financial position and, accordingly, the amounts of the receivables at December 31, 2020 and 2019, have not been discounted.

Loans Receivable – Loans receivable are stated at their unpaid principal balance, less an allowance for loan losses. Interest on loans receivable is recognized over the term of the loan and is generally calculated using the simple-interest method on principal amounts outstanding. A substantial portion of the loan portfolio consists of loans made to entrepreneurs in the Chicagoland area. The ability of borrowers to repay these loans may be dependent upon the general economic conditions in their local community as well as in the general Chicagoland area.

The Organization discontinues the recording of interest when a loan becomes greater than ninety days past due. Accrual of interest is resumed upon the collection of past due amounts. Past due or delinquent status of loans is determined by the paid-through date according to the prescribed loan terms. In all cases, loans may be placed on nonaccrual status at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not collected for loans that are placed on nonaccrual or charge-off status is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to current accrual status. Loans are returned to accrual status when all principal and interest payment amounts contractually due are brought current and future payments are reasonably assured.

Loan origination fees approximate direct loan origination costs and are generally recognized as income upon receipt.

1. **Nature of Operations and Summary of Significant Accounting Policies** (cont'd)

Allowance for Loan Losses – The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when a loan is delinquent more than 180 days, or management believes the uncollectability of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The Organization's allowance for loan losses is that amount considered adequate to absorb probable losses in the portfolio based on management's evaluations of the size and current risk characteristics of the loan portfolio. The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as information becomes available.

General allowances are established for loans that can be grouped into pools based on similar characteristics. In this process, general allowance factors are based on an analysis of historical charge-off experience and expected losses given default derived from the Organization's internal risk rating process. These factors are developed and applied to the portfolio in terms of loan type. The qualitative factors associated with the allowances are subjective and require a high degree of management judgment. These factors include the credit quality statistics, recent economic uncertainty, and losses incurred from recent events.

As a result of the spread of the COVID-19 coronavirus pandemic in 2020, the Organization received grants to participate in the Chicago Small Business Resiliency Loan Fund (CSBRF) and the state of Illinois Small Business Emergency Loan Fund (ISBEL). Both programs provide low-interest loans to support small businesses that are experiencing a temporary loss of revenue due to the COVID-19 outbreak. Accordingly, the loan portfolio has experienced exponential growth in 2020 and economic uncertainties have arisen which are likely to negatively impact the Organization's loan portfolio and allowance for loan losses. The extent of potential negative financial impact is unknown at this time. In addition to certain guarantees from loan loss (Note 6), the Organization has established qualitative and economic allowance for loan loss factors of 25% for loans outstanding under these two programs at December 31, 2020.

Under certain circumstances, the Organization will provide borrowers relief through loan restructuring. A restructuring of debt constitutes a troubled debt restructuring (TDR) if the Organization, for economic or legal reasons related to the borrower's financial difficulties, grants a concession to the borrower that it would not otherwise consider. TDR concessions can include reduction of interest rates, extension of maturity dates, forgiveness of principal and/or interest due, or acceptance of other assets in full or partial satisfaction of the debt. The Organization considers all aspects of the restructuring to determine whether it has granted a concession to the borrower. An insignificant delay in payment resulting from a restructuring is not deemed to be a concession and would not be considered a TDR.

The Organization has concluded that the impairment impact of troubled debt restructurings on its loan portfolio (generally lower balance loans having original maturities of 60 months or less) is insignificant to the financial statements. As such, these impairments are not individually tracked but rather are adequately included in the loss allowance provided on a pooled basis for the loan portfolio.

1. **Nature of Operations and Summary of Significant Accounting Policies** (cont'd)

Allowance for Loan Losses (cont'd) – The Organization maintains general valuation allowances for homogeneous portfolio segments. These portfolio segments and their risk characteristics are described as follows:

Micro Loans: Loans between \$500 and \$50,000 made to small businesses in ACCION Chicago's Illinois and Indiana service areas. These loans represent term, balloon, start-up and credit builder loans, which are primarily unsecured. Economic trends, local unemployment rates, and other key economic indicators are closely related to the credit quality of these loans.

In 2020, Micro Loans include loans originated under the CSBRF and ISBEL programs. CSBRF and ISBEL are one-time emergency programs to provide low-interest loans to support small businesses that are experiencing a temporary loss of revenue due to the COVID-19 pandemic. These loans are deemed high risk due to the uncertainty of the post-pandemic economy (Note 6).

Restructured Micro Loans: Loans originated as micro loans that had some level of difficulty and have subsequently had payment terms adjusted in order to facilitate repayment. As such, they represent greater risk than micro loans.

SBA Community Advantage Pilot Program Loans: Loans between \$25,000 and \$100,000 made to small businesses in ACCION Chicago's Illinois and Indiana service areas. Under this program, the SBA guarantees 85% of the loan balance. The Organization then sells participating interests in the guaranteed portion of loans receivable to institutional investors. At the time the participating interests in the loans are sold, they are removed from the statement of financial position and are recognized in the statement of activities. The only recourse to the Organization is the loan loss reserve against the guaranteed portion that the Organization is required to maintain.

During 2016, FASB issued a new standard relating to the model that is to be used to calculate the allowance for credit losses. The standard introduces a model referred to as the current expected credit losses (CECL) model and it requires an entity to estimate credit losses over the life of the financial instrument or a pool of financial instruments. The standard will also expand disclosure requirements regarding an entity's assumptions, models, and methods for estimating its allowance for credit losses. The standard was delayed for one year and will be effective for the Organization in 2023. The Organization has not determined the effect of adopting the new standard.

Investment in The Hatchery Entities/Hatchery Deposits – ACCION Chicago has a 50% membership interest in The Hatchery Title Holding Corporation NFP and a 50% membership interest in the Hatchery Master Tenant LLC. These investments are accounted for using the equity method of accounting. Profits and losses of the Hatchery entities are allocated in accordance with the Members' respective membership interests.

Property, Equipment, and Software – Property, equipment, and software are stated at cost, if purchased, or fair value, if received by donation. Depreciation and amortization are provided on the straight-line method, over the estimated useful lives of the assets, generally 3 to 5 years. Expenditures for property and equipment in excess of \$500 are generally capitalized.

1. **Nature of Operations and Summary of Significant Accounting Policies** (cont'd)

Funds Held for Others – Funds held for others consist of cash collected from third parties where ACCION Chicago acts as an agent on behalf of the third parties under the terms of various grant agreements. Under these agreements, grantors have either specified the beneficiary for the funds held or select beneficiaries for the funds held from a prequalified list provided by ACCION Chicago. In either case, ACCION Chicago does not have explicit, unilateral power to redirect the use of transferred cash to a beneficiary of its choice, which is referred to as variance power under ASC 958-605. Accordingly, ACCION Chicago does not record contribution revenue for these amounts, but instead records amounts received as funds held for others until ACCION Chicago disburses funds to beneficiaries.

Notes Payable and Debt Discount – The Organization has entered into debt agreements with interest terms that are lower than those that an independent borrower and an independent lender would have negotiated in a similar transaction. The Organization considers the spread between the stated rate of interest for the Organization's debt and the rate of interest that would be available to an independent borrower to represent a contribution to the Organization.

For term notes that are due in more than one year, the Organization records the loan at its inception at face value less a discount, with the discount being recognized with donor restrictions as imputed interest contribution. Over the term of the note, the discount is amortized using the effective interest method and recorded as imputed interest for loans below fair value on the statement of functional expenses.

For demand notes or term notes with maturities of one year or less, the Organization records a contribution each year for the difference between amount of interest that is estimated that would have been paid by an independent borrower for a similar transaction and the actual amount of interest incurred at face value.

The rate used to discount the debt is management's estimate of the interest rate an independent borrower and an independent lender would have negotiated in a similar transaction at origination of the borrowing and ranges from 3.54% - 7.00% at December 31, 2020 (7.00% at December 31, 2019).

Certain Vulnerabilities and Concentrations – At December 31, 2020, 72% of contributions receivable are from three funding sources (63% of contributions receivable were from three funding sources at December 31, 2019). At December 31, 2020, 100% of government receivables are from one funding source (none at December 31, 2019). Any negative change in the economy or political environment could have an impact on contributions, fund-raising efforts, and contracts as well as government grants.

In-Kind Support – In addition to receiving cash contributions, the Organization may receive in-kind contributions from donors. In accordance with generally accepted accounting principles, the Organization records the estimated fair value of certain in-kind donations as an expense or an asset in its financial statements, and corresponding contribution revenue. The Organization did not receive in-kind contributions in 2020 (\$11,875 in 2019).

ACCION Chicago, Inc.
Notes to the Financial Statements

1. **Nature of Operations and Summary of Significant Accounting Policies** (cont'd)

Grant Expense – Included in public support in the year ended December 31, 2020, was \$380,000 (\$220,000 in 2019) received from The Chicago Community Trust to support entrepreneurs in the Neighborhood Entrepreneurship Lab (NEL) Cohorts. During 2020, the Organization expensed \$420,000 (\$180,000 in 2019) of these funds as they were granted to Chicago area entrepreneurs that met the NEL Cohort criteria.

During 2020, the Organization also paid \$375,010 to the Women’s Business Development Center for contractual services associated with the BIG program and \$120,000 to Industrial Council of Nearwest Chicago (ICNC) relating to grants received from Crown Family Philanthropies, Griffith Foods International and PepsiCo for the Hatchery program (Note 4).

Advertising – The Organization expenses the cost of advertising as incurred. Advertising and marketing expenses were \$48,100 in 2020 (\$17,576 in 2019).

Functional Allocation of Expenses – The costs of providing program and other activities have been summarized on a functional basis in the statement of activities. The statement of functional expenses presents the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among programs and supporting services benefited. The expenses that are allocated and consistently applied include salaries and wages, payroll taxes and fringe benefits, occupancy, donated services, equipment rental and maintenance, and depreciation and amortization, which are allocated based on employee hours for specific individuals. The remaining expenses are direct costs of program and other activities.

Other Revenue Recognition – Other revenue that is from a contract with a customer is recognized as earned without future performance obligations. Administrative services and loan fees included in other revenues on the statement of activities includes the following for the years ended December 31:

	<u>2020</u>	<u>2019</u>
Loan origination and restructure fees	\$ 75,854	\$ 89,718
Loan late payment fees	2,874	16,117
Grant administration/consulting fees:		
Chicago Department of Business Affairs & Consumer Protection	305,000	-
Illinois Department of Commerce & Economic Opportunity	48,939	-
South Bend, Indiana	68,000	-
Lake County, Illinois	50,000	-
Will County, Illinois	25,000	-
West Side United	-	75,000
Small Business Live	20,000	-
Fifth Third servicing settlement	-	75,000
Other	58,748	31,658
	<u>\$ 654,415</u>	<u>\$ 287,493</u>

ACCION Chicago, Inc.
Notes to the Financial Statements

2. Restricted Cash

Restricted cash at December 31, is summarized as follows:

<u>Funding Source</u>	<u>Funding Purpose</u>		<u>2020</u>	<u>2019</u>
Temporarily-held Pass Through Grants:				
Illinois Department of Commerce and Economic Opportunity	Funds held for others	(1)	\$40,458,726	\$ -
Will County	Funds held for others	(1)	3,131,820	-
City of Chicago:				
Department of Business Affairs and Consumer Protection (BACP)	Funds held for others	(1)	190,000	-
Department of Cultural Affairs and Special Events (CASE)	Funds held for others	(1)	103,450	-
City of South Bend	Funds held for others	(1)	5,000	-
Total Temporarily-held Pass Through Grants			43,888,996	-
Loan Loss Reserve - BACP	CSBRF loans (Note 6)		5,451,679	-
Other Restricted Cash:				
Economic Development Administration	Lending: Cook County, Illinois and Lake County, Indiana	(2)	455,558	362,613
Bank of America Foundation	SBA loan loss reserve	(3)	60,000	60,000
Accion Chicago	SBA CA loan loss reserve	(4)	25,684	33,975
Various Participations	Lending: Participation loans	(5)	18,832	6,482
Tory Burch	Lending: Women entrepreneurs	(6)	172,465	206,525
Entrepreneurs of Color:	Tech Assistance and Lending:			
JPMorgan Chase Bank	Women and People of Color	(7)	1,141,763	811,956
Fifth Third Chicagoland Foundation		(8)	-	162,000
Coleman Foundation		(8)	150,000	65,687
McCormick Foundation		(8)	-	400,000
US Bank		(8)	-	30,000
The Chicago Community Trust		(8)	75,000	-
Neighborhood Entrepreneurship Lab				
Fund at The Chicago Community Foundation	Support of NEL Cohorts	(9)	125,000	40,000
Food:Land:Opportunity Grant/Searle Funds at The Chicago Community Trust	Capital and Coaching for Chicagoland Food Entrepreneurs	(10)	10,191	447,751
Westside United Grant Pool	Funds held for others	(11)	88,000	500,000
M.R. Bauer Foundation and DRW Foundation	Funds held for others	(12)	200,000	-
Citi Business	Funds held for others	(13)	11,000	11,000
PepsiCo		(14)	-	50,000
City of South Bend	Loan Program	(15)	148,250	-
The Chicago Community Trust	Business Coaches	(16)	240,000	-
The Chicago Community Trust	Community Focus Fund	(17)	237,224	-
Hispanic Chamber of Commerce	Cook County COVID-19 program	(18)	70,580	-
Other			7,764	13,990
Total Other Restricted Cash			3,237,311	3,201,979
			\$52,577,986	\$ 3,201,979

2. **Restricted Cash** (cont'd)

- (1) **Temporarily-Held Pass Through Grants** – During 2020, ACCION Chicago was deemed grant administrator for various COVID-19 grant programs. As administrator, the Organization collected information from grant applicants and used the grantor's criteria to determine eligibility. Once deemed eligible, the grantor approved the application and funds were given to the Organization to disburse to the recipient.

Of the pass through grant funds, the Organization received \$246,245,287 primarily in the last quarter of 2020 from the Illinois Department of Commerce and Economic Opportunity (DCEO) to be an agent for the distribution of grant funds under the Business Interruption Grant (BIG) program. The purpose of the BIG program is to provide economic relief for small businesses in Illinois hit hardest by COVID-19. The BIG program leverages federal funding provided by the CARES Act to help offset COVID-19 related losses for Illinois small businesses. ACCION Chicago funded approximately \$205 Million of grants relating to the BIG program in 2020.

During 2020, \$20,916,600 was received from Will County, Illinois, to be an agent for the distribution of grant funds under the Will County Small Business Assistance Grant (Will County) program. The purpose of the program is to provide financial assistance to Will County small businesses impacted by COVID-19 so they may maintain operations. ACCION Chicago funded approximately \$17.8 million of grants relating to the Will County program in 2020.

During 2020, \$9,950,000 was received from the City of Chicago through its Department of Business Affairs and Consumer Protection as part of the Hospitality Grant Program. Funds are restricted to provide an emergency COVID-19 relief package for restaurants and bars in which ACCION Chicago is acting in the capacity of an agent.

During 2020, \$679,200 was received from the City of Chicago through its Department of Cultural Affairs and Special Events and an additional \$80,000 from Illinois Arts Alliance as part of the Performing Arts Venue Relief Program. Funds are restricted to provide grants to performing arts venues in Chicago that have experienced losses due to COVID-19 in which ACCION Chicago is acting in the capacity of an agent.

During 2020, \$300,000 was received from the City of South Bend to support small businesses affected by COVID-19 in which ACCION Chicago is acting in the capacity of an agent.

The restricted cash balances of the above pass through grant funds represent the portion of amounts received that had not been disbursed to beneficiaries at the date of the statement of financial position.

The remainder of the temporarily-held pass through grant funds were disbursed in early 2021. Accordingly, the statement of financial position is inflated by the temporarily-held pass through grant funds and funds held for others that remain for these programs as of December 31, 2020. A summary of related elements of the statement of financial position without the pass through program activities at December 31, 2020, is as follows:

ACCION Chicago, Inc.
Notes to the Financial Statements

2. **Restricted Cash** (cont'd)

Temporarily-Held Pass Through Grants (cont'd)

	Actual	Less Pass Through Grant Programs	Pro-forma Without Pass Through Grant Programs
Restricted cash – temporarily-held pass through grant funds	\$ 43,888,996	\$ (43,888,996)	\$ -
Total assets	82,419,920	(43,888,996)	38,530,924
Funds held for others	44,187,996	(43,888,996)	299,000
Total liabilities	69,002,393	(43,888,996)	25,113,397

Other Restricted Cash:

- (2) This represents the cash portion of the two revolving loan funds that the Organization administers that were funded by the Economic Development Administration of the U.S. Department of Commerce.
- (3) The Small Business Administration notes payable agreements requires cash to be maintained in a separate, restrictive account to cover 15% of outstanding notes receivable as a loan loss reserve. This restricted cash is intended by the funding source to assist in funding that account.
- (4) As required by the Small Business Administration's Community Advantage Pilot Program, this is an amount in a separate cash account established as a reserve for potential loan losses on loans receivable as required by the Small Business Administration's Community Advantage Pilot Program.
- (5) The Organization collects payments, as a fiscal agent, on behalf of these banks (see Note 6). These funds are payable as directed by these banks and therefore are restricted.
- (6) This amount represents cash available to fund a portion of qualifying loans to female entrepreneurs based on a grant agreement with the funding source.
- (7) During 2019, the Organization received funding of \$750,000 from JPMorgan Chase Bank for one program called Entrepreneurs of Color and another \$1,000,000 was received in 2020. These funds are to be used towards lending to people of color on the west and south sides of the City of Chicago, as well as technical assistance for the program. This restricted cash balance represents the portion of the funds received that had not been disbursed to beneficiaries at the date of the statement of financial position.
- (8) Amount represents cash remaining at year end from the funding source in 2020 to support the Entrepreneurs of Color program.
- (9) During 2019, the Organization received a \$220,000 grant to support its Neighborhood Entrepreneurship Lab (NEL) program. This amount represents the remaining cash from that grant. The cash is restricted to provide grants to businesses in the cohorts of the NEL program.
- (10) Cash on hand that is restricted by the grantor to provide capital and coaching for local food entrepreneurs, including establishing and offering a new line of credit product.
- (11) During 2018, the Organization received funds of \$60,000 from multiple sources where Accion acted in a fiscal agent capacity for the Westside United Grant Program. During 2019 and 2020, additional funding was received for the program.

ACCION Chicago, Inc.
Notes to the Financial Statements

2. **Restricted Cash** (cont'd)

- (12) The Organization received \$200,000 from DRW Foundation and the M.R. Bauer Foundation to assist the opening of a new dining destination for North Lawndale residents. Accion is acting in the capacity of an agent in which funds are payable as directed by the Foundation and therefore are restricted.
- (13) The Organization received funds of \$331,000 from Citi-Business for two separate programs: the Chicago Capital Access Centers and the Chicago Credit Building Initiative. At December 31, 2020 and 2019, the Organization held the remaining funds of \$11,000 for Chicago Capital Access Centers.
- (14) Cash on hand that is restricted by the grantor to provide capital and coaching to local women-run food and beverage businesses. During 2020, restrictions were released.
- (15) During 2020, \$300,000 was received from the City of South Bend to support small businesses affected by the COVID-19 in which Accion was acting in the capacity of an agent.
- (16) Cash on hand that is restricted by the grantor to support the hiring and reassignment of three business coaches.
- (17) The Organization received funds of \$400,000 from The Chicago Community Trust to support technology, staff, and other strategies for increasing capacity to track data and deliver innovative products with the goal of continuously improving outcomes for small business owners.
- (18) The Organization received funds of \$150,000, of which \$70,580 remains in restricted cash at December 31, 2020, from the Illinois Hispanic Chamber of Commerce as part of the Cook County COVID-19 Recovery Small Business Recovery Grant and Technical Assistance Program to help source small businesses in need of training for grants, webinars, and other group curriculum, provide small businesses with additional training and one-on-one consultations, and vet and score grant applications.

3. **Cash Designated for Loan Loss Reserve**

The Organization has designated cash as a reserve of \$74,854 at December 31, 2020 (\$74,786 at December 31, 2019) for potential loan losses on notes receivable associated with the Small Business Administration's Notes Payable. The cash in the reserve that is in addition to the required 15% noted as restricted cash for the Small Business Administration is not restricted.

4. **Investment in The Hatchery Entities**

ACCION Chicago and ICNC (ICNC merged with the former Kinzie Industrial Development Corporation (KIDC)) each have 50% membership interests in The Hatchery Title Holding Corporation NFP and The Hatchery Master Tenant LLC. ACCION Chicago receives \$2,500 per month for accounting and compliance services for the related entities.

The Hatchery Title Holding Company NFP (THTHC) is an Illinois nonprofit public benefit corporation classified by the Internal Revenue Service as tax exempt under 501(c)(25) of the Internal Revenue Code. THTHC's exempt purpose is to a.) acquire and hold title to the real property at 135 North Kinzie, Chicago, Illinois (Property), b.) borrow low-interest funds to improve the Property, c.) lease the Property to The Hatchery Master Tenant LLC (Master Tenant) and the Master Tenant will in turn sublease the Property to The Hatchery Chicago, Illinois, an Illinois nonprofit public benefit corporation and to ACCION Chicago, d.) to collect income from the Master Tenant for the Property, e.) pay certain expenses for the Property including debt service and appropriate reserves, and

4. **Investment in The Hatchery Entities** (cont'd)

f.) remit the entire amount of such income in annual distributions, less such expenses to its members, which must be 501(c)(3) organizations.

The Master Tenant, an Illinois limited liability company, was formed to lease the Property and undertake its obligations under the project financing to operate the Hatchery Project. The Hatchery Project is a 67,000 square foot facility that supports the incubation of food companies in Chicago, Illinois, and provides office space for ACCION Chicago and The Hatchery Chicago.

The Project financing closed on January 18, 2018. At closing, the Master Tenant entered into a six-year sublease with ACCION Chicago for office space with extension options (See Note 9). The Hatchery Chicago (THC) has entered into a six-year sublease with the Master Tenant for the remainder of the space. In 2020, The Hatchery Chicago was dissolved, and the sublease was amended to have KIDC assume that organization's sublease.

At closing, the Master Tenant signed promissory notes with four lenders totaling \$18,922,228, which are guaranteed by ACCION Chicago and KIDC pursuant to the guaranty agreement dated January 18, 2018, and secured by a leasehold mortgage and assignment of rents on the Property. The aggregate balances of the promissory notes totaled \$11,750,000 and \$15,336,114 at December 31, 2020 and 2019, respectively.

At closing, the Master Tenant made a \$20,546,500 leveraged loan to The Hatchery Investment Fund LLC, an unrelated third party, which in turn made qualified equity investments to five unrelated Community Development Entities (CDEs). The CDEs made ten qualified low-income community investment loans totaling \$29,560,000 to THTHC that are secured by a mortgage and assignment of rents of the Property. The aggregate principal balances of the CDE loans as of December 31, 2020 and 2019, was \$29,560,000. The rights of THTHC and the Master Tenant are subordinate to the mortgages securing the debt on both entities.

Environmental Indemnity Agreement – Pursuant to the environmental indemnity agreement dated January 18, 2018 (EI Agreement), between ACCION Chicago, KIDC (together, the Guarantors), the Lender, and the Master Tenant (collectively, the Indemnitors) shall indemnify and hold the Indemnified Parties, as defined in the EI Agreement, harmless from, for and against any and all environmental claims, liabilities, damages losses, fines, penalties judgements, awards, settlements, costs and expenses that directly or indirectly arise out of or relate in any way to Section 5(a)-(1) of the EI Agreement.

QALICB Indemnification Agreement – Pursuant to the QALICB indemnification agreement dated January 18, 2018 (QALICB Agreement), between THTHC, ACCION Chicago, KIDC, Master Tenant and Industrial Council of Nearwest Chicago, an Illinois not-for-profit corporation (collectively, the Indemnitors), for the benefit of PNC New Markets Investment Partners, LLC (PNC NMIP) the indemnitors will be obligated to pay the Credit Reduction Amount, as defined in the QALICB Agreement to PNC NMIP on or before the payment date as defined in the QALICB Agreement. The Indemnitors do not have any right of subrogation as a result of any payment or any other payment made by the Indemnitors under the Loan Documents as defined in the QALICB Agreement, and the Indemnitors have waived and released any claim based on any right or subrogation, any claim for unjust enrichment or any other theory that would entitle any indemnitor to a claim against another Indemnitor based on any payment made hereunder or any other payment made under the Loan Documents.

ACCION Chicago, Inc.
Notes to the Financial Statements

4. **Investment in The Hatchery Entities** (cont'd)

Community Benefits Agreement – Pursuant to the Community Benefits Agreement dated January 18, 2018 (CB Agreement), between THTHC, ACCION Chicago, KIDC, Master Tenant and THC (collectively, the NMTC Beneficiary), and the Lenders, the NMTC Beneficiary will use commercially reasonable efforts to achieve the Community Impacts, as set forth in Section 2 of the CB Agreement, which are based upon data collected and analysis performed by the NMTC Beneficiary and the CDE Lenders.

5. **Property, Equipment, and Software**

Property, equipment, and software by major classification at December 31, is as follows:

	<u>2020</u>	<u>2019</u>
Furniture and equipment	\$ 450,375	\$ 450,375
Leasehold improvements	170,773	170,173
Software	<u>199,917</u>	<u>118,358</u>
	821,065	738,906
Less: accumulated depreciation and amortization	<u>(563,587)</u>	<u>(493,545)</u>
	<u>\$ 257,478</u>	<u>\$ 245,361</u>

6. **Loans Receivable**

Loans receivable at December 31, is as follows:

	<u>2020</u>	<u>2019</u>
Micro loans:		
Term:		
Chicago Small Business Resiliency loans	\$ 18,615,022	\$ -
Illinois Small Business Emergency	3,025,563	-
Other	3,712,713	2,622,954
Start-up	364,507	618,602
Restructured	132,104	131,078
Unrestructured participation loans	<u>182,144</u>	<u>573,196</u>
Total micro loans	26,032,053	3,945,830
SBA Community Advantage loans	<u>77,051</u>	<u>101,926</u>
	26,109,104	4,047,756
Add: premiums on purchased loans	6,278	23,183
Less: allowance for loan losses	<u>(5,943,736)</u>	<u>(564,846)</u>
	<u>\$ 20,171,646</u>	<u>\$ 3,506,093</u>

The weighted average interest rate of the loan portfolio at December 31, 2020, was 2.16% (11.3% at December 31, 2019). The decrease in the weighted average interest rate is attributable to the low-interest rate loans issued under several government loan programs that Accion Chicago participated in during 2020.

ACCION Chicago, Inc.
Notes to the Financial Statements

6. **Loans Receivable** (cont'd)

The allowance for loan losses (ALL) activity is as follows:

	Micro loans	Restructured micro loans	SBA Community Advantage loans	Total
Allowance for Loan Losses				
Balance, January 1, 2019	\$ 490,214	\$ 59,149	\$ 20,556	\$ 569,919
Provision for loans losses	456,379	14,186	-	470,565
Loans charged-off	(457,547)	(55,653)	(11,807)	(525,007)
Recoveries of loans previously charged-off	38,050	7,869	3,450	49,369
Balance, December 31, 2019	527,096	25,551	12,199	564,846
Provision for loans losses	5,704,730	27,728	-	5,732,458
Loans charged-off	(402,553)	(25,821)	-	(428,374)
Recoveries of loans previously charged-off	63,620	11,186	-	74,806
Balance, December 31, 2020	\$ 5,892,893	\$ 38,644	\$ 12,199	\$ 5,943,736

The allowance for loan losses by portfolio segment at December 31, is as follows:

	Micro loans	Restructured micro loans	SBA Community Advantage loans	Total
December 31, 2020:				
Collectively evaluated for impairment	\$ 5,892,893	\$ 38,644	\$ 12,199	\$ 5,943,736
Individually evaluated for impairment	-	-	-	-
Total at December 31, 2020	\$ 5,892,893	\$ 38,644	\$ 12,199	\$ 5,943,736

December 31, 2019:

Collectively evaluated for impairment	\$ 527,096	\$ 25,551	\$ 12,199	\$ 564,846
Individually evaluated for impairment	-	-	-	-
Total at December 31, 2019	\$ 527,096	\$ 25,551	\$ 12,199	\$ 564,846

Loan balances by portfolio segment at December 31, is as follows:

	Micro loans	Restructured micro loans	SBA Community Advantage loans	Total
December 31, 2020:				
Collectively evaluated for impairment	\$ 25,899,949	\$ 132,104	\$ 77,051	\$ 26,109,104
Individually evaluated for impairment	-	-	-	-
Total loans at December 31, 2020	\$ 25,899,949	\$ 132,104	\$ 77,051	\$ 26,109,104

ACCION Chicago, Inc.
Notes to the Financial Statements

6. **Loans Receivable** (cont'd)

	Micro loans	Restructured micro loans	SBA Community Advantage loans	Total
December 31, 2019:				
Collectively evaluated for impairment	\$ 3,814,752	\$ 131,078	\$ 101,926	\$ 4,047,756
Individually evaluated for impairment	-	-	-	-
Total loans at December 31, 2019	\$ 3,814,752	\$ 131,078	\$ 101,926	\$ 4,047,756

An aging analysis of the loan portfolio at December 31, is as follows:

	Accruing Interest			Non-Accrual		Total Loans
	Current	30 - 89 Days Past Due	90 Days or More Past Due	Less than 90 Days Past Due	90 Days or More Past Due	
December 31, 2020:						
Micro loans	\$ 25,325,309	\$ 251,303	\$ -	\$ -	\$ 141,193	\$25,717,805
Restructured loans	118,374	-	-	-	13,730	132,104
Unrestructured Participation Loans	99,660	2,112	-	-	80,372	182,144
SBA Community Advantage loans	73,404	3,647	-	-	-	77,051
Total	\$ 25,616,747	\$ 257,062	\$ -	\$ -	\$ 235,295	\$26,109,104
December 31, 2019:						
Micro loans	\$ 2,914,545	\$ 117,987	\$ -	\$ -	\$ 209,024	\$ 3,241,556
Restructured micro loans	130,626	320	-	-	132	131,078
Participation Loans	517,990	55,206	-	-	-	573,196
SBA Community Advantage loans	101,926	-	-	-	-	101,926
Total	\$ 3,665,087	\$ 173,513	\$ -	\$ -	\$ 209,156	\$ 4,047,756

Substantially all of the Organization's borrowers are unable to obtain credit through a traditional banking relationship. The aging of the receivables is the primary credit quality indicator. Loans that are past due inherently have a greater risk of default than loans that are current.

Chicago Small Business Resiliency Fund (CSBRF) Loans – CSBRF loans cannot exceed \$50,000 or a five-year term. Interest rates are at 1% for the first eighteen months and 5.75% thereafter. A \$10 payment is required in the first six months for account maintenance purposes and interest only payments are due in the second six months. Principal and interest payments begin after one year. As disclosed in Note 3, the Organization has on deposit \$5,451,679 from the City of Chicago Department of Business Affairs and Consumer Protection (BACP) that is restricted for the purposes of providing a loan loss reserve in connection with the CSBRF loan program and paying certain loan origination fees to the Organization. The City is essentially providing 25 – 40% of first loss coverage in the form of cash and guarantees.

6. **Loans Receivable** (cont'd)

Illinois Small Business Emergency Loans (ISBEL) – ISBEL loans cannot exceed \$50,000 or a five-year term. Interest rates cannot exceed 3%. No payments are due for the first six months and principal and interest payments are due monthly beginning in month seven. The State of Illinois has provided the Organization with a 50% first loan loss coverage in the form of a guarantee from this loan program.

Micro Loan Servicing Agreements – The Organization maintains an agreement with a third party to service its micro loan portfolio, including micro loans sold by the Organization. The agreement provides that the third party will be responsible for record keeping, compliance with regulatory requirements, collection and remittance of funds to the Organization. Expense for loan servicing under this agreement is included in credit and collection expense on the statement of functional expenses and was \$98,450 for the year ended December 31, 2020 (\$50,948 for the year ended December 31, 2019).

The Organization maintains an agreement with a bank to service its SBA Community Advantage loan portfolio (see below). The agreement provides that the bank will be responsible for record keeping, compliance with regulatory requirements, collection and remittance of funds to the Organization. In consideration for these services, the Organization pays the bank a fee. The servicing fee was \$5,419 for the year ended December 31, 2020 (\$7,725 for the year ended December 31, 2019).

Small Business Administration (SBA) Community Advantage Pilot Loan Program – The Organization entered into the Community Advantage Pilot Program Loan Guaranty Agreement (SBA CA) with the SBA. Under the terms of the SBA CA program, the SBA provides a guarantee under its 7(a) loan program covering risk of loss against approved loans meeting the program requirements. The Guaranty covers 85% of loans originated for less than \$150,000. The Organization's lending limit is \$100,000, but all loans over \$50,000 must be approved under the SBA CA program to mitigate the risk of loss. The maximum interest rate allowable under these loans is prime plus 6%. The SBA allows the sale of the guaranteed portion of the loan on the secondary market.

During 2020 or 2019, the Organization did not originate nor sell any SBA CA loans. The remaining principal balance of the sold portion of SBA CA loans was \$436,624 at December 31, 2020 (\$557,578 at December 31, 2019). The Organization continues to service the sold participating interests on behalf of those that have purchased the participating interests.

Among other compliance requirements, the SBA CA program requires the establishment of loan reserves equal to at least 5%, of the unguaranteed and guaranteed portion of the SBA CA portfolio. At December 31, 2020, the Organization was in compliance with the loan loss reserve requirements.

ACCION Chicago, Inc.
Notes to the Financial Statements

7. Availability and Liquidity

Liquidity expected to be available to meet cash needs for general expenditures within one year, without contractual or donor restrictions consist of the following:

	<u>2020</u>	<u>2019</u>
Unrestricted cash	\$ 2,424,553	\$ 106,064
Contributions and government receivables	1,792,270	401,007
Loans receivable, net	<u>20,171,646</u>	<u>3,506,093</u>
	24,388,469	4,013,164
Less:		
Receivables with donor restrictions	(1,378,770)	(255,680)
Revolving loan fund receivables, net	(579,882)	(732,274)
Other micro loan receivables, net	(19,526,912)	(2,684,092)
SBA Community Advantage loan receivables, net	(64,852)	(89,727)
Plus:		
Principal and interest expected to be collected in one year:		
Other micro loan receivables	2,002,266	1,983,086
SBA Community Advantage loan receivables	<u>20,455</u>	<u>26,720</u>
	<u>\$ 4,860,774</u>	<u>\$ 2,261,197</u>

ACCION Chicago is committed to its mission of providing access to credit and technical assistance for micro-entrepreneurs. The Organization continues to solicit operating grants from new sources and maintains a line of credit for liquidity. The Organization strives to be self-reliant for training the lending staff and facilitating underwriting decisions. The Organization has been successful in its ability to refinance debt and extend maturities while converting certain debts to equity equivalent debt (Note 10). In summary, the Organization relies on grants and contributions from donors, loan repayments, and calls on the equity equivalent debt to fund operating expenses, as necessary, during the year.

Restricted cash is not considered to be available, as there are various contractual restrictions that govern what it can be used for, as described in Note 2.

Receivables with donor restrictions are receivables from contributions and governments that have donor restrictions.

Revolving loan fund (RLF) receivables are loans receivable where principal and interest repayments are required per the donor to be held in the RLF and are therefore not considered to be available to meet the general cash needs of the Organization.

Principal and interest expected to be collected in one year for other Micro Loan receivables and SBA Community Advantage Loan receivables are based on amortization schedules of the detail respective loan portfolios.

As of the date these financial statements were available to be issued, due to economic uncertainties that exist associated with the COVID-19 coronavirus outbreak, the availability and liquidity of loans receivable may be impacted but is not quantifiable.

ACCION Chicago, Inc.
Notes to the Financial Statements

8. Funds Held for Others

Funds held for others at December 31, are as follows:

	<u>2020</u>	<u>2019</u>
Temporarily-held Pass Through Grants:		
Illinois Department of Commerce and Economic Opportunity	\$ 40,458,726	\$ -
Will County	3,131,820	-
City of Chicago:		
BACP	190,000	-
CASE	103,450	-
City of South Bend	5,000	-
Total Temporarily-held Pass Through Grants	43,888,996	-
Westside United Grant Pool	88,000	500,000
M.R. Bauer Foundation and DRW Trading	200,000	-
Citi Business	11,000	11,000
Total Other	299,000	511,000
	\$ 44,187,996	\$ 511,000

9. Leases

The Organization has a lease agreement with The Hatchery Master Tenant, LLC (Landlord) (Note 4). The ‘Hatchery’ lease commenced on January 1, 2019 and ends on December 31, 2024. Future base rentals are contingent on the space that the Organization actually occupies each year and are subject to negotiation. The Organization has the option to extend the term of the lease for three consecutive terms of five years each, with 3% annual escalation in base rent or current market rent. In addition to base rent, the Organization is charged for common area maintenance costs and parking. Base rental expense for the Hatchery lease was \$166,413 in 2020 (\$134,529 in 2019). In addition, the Organization expensed \$247,605 for common area maintenance costs and \$4,680 for parking related to the Hatchery lease during 2020 (\$221,637 and \$4,542, respectively, during 2019). These costs are included in occupancy expense.

The Organization also had operating leases for its former Randolph facility that were terminated during 2019, and certain office equipment that expires through December 2024. Rental expense for the Randolph facility and parking was \$154,097 in 2019, which included a \$91,000 early termination fee. Rental expense for office equipment was \$18,063 in 2020 (\$14,828 in 2019).

ACCION Chicago, Inc.
Notes to the Financial Statements

9. **Leases** (cont'd)

Future minimum lease payments for the above-mentioned leases are as follows:

	Hatchery Facility	Office Equipment	Total
2021	\$ 195,311	\$ 19,542	\$ 214,853
2022	199,217	13,152	212,369
2023	203,201	13,152	216,353
2024	207,265	13,152	220,417
	<u>\$ 804,994</u>	<u>\$ 58,998</u>	<u>\$ 863,992</u>

In 2016, the Financial Accounting Standards Board issued a new standard relating to lease accounting. The new standard will require the Organization to recognize on its statement of financial position, the asset and liability of the land lease relating to the rights and obligations created by the lease. The standard will be effective for the Organization in calendar 2022. The Organization has not determined the effect of adopting the new standard.

10. **Notes Payable**

Notes payable at December 31, are summarized as follows:

Lender		Interest Rate		Interest Terms	Maturity at		Balance at December 31,	
		12/31/20	12/31/19		12/31/20	12/31/19	2020	2019
Secured Debt								
Small Business Resiliency Loan Fund (SBRLF)	(1)	1.00%	N/A	Monthly	04/30/26	N/A	\$ 2,500,000	\$ -
Shelf Note SBRLF	(1)	1.00%	N/A	Monthly	05/18/26	N/A	2,500,000	-
Shelf Note SBRLF	(1)	1.00%	N/A	Monthly	06/01/26	N/A	5,000,000	-
CIBC	(2)	1.50%	N/A	Annually	12/29/25	N/A	1,000,000	-
Fifth Third Bank line of credit	(3)	2.737%	4.486%	Monthly	06/15/21	09/15/20	1,382,805	1,382,805
Small Business Administration	(4)	0.500%	0.500%	Monthly	05/13/24	05/13/24	107,652	136,019
							<u>12,490,457</u>	<u>1,518,824</u>
Unsecured Debt								
CDFI Fund	(5)	0.00%	0.00%	Quarterly	12/31/57	12/31/57	466,200	478,800
Federal Home Loan Bank of Chicago	(6)	2.13%	2.13%	Quarterly	07/08/26	07/08/26	500,000	500,000
Starbucks	(7)	2.00%	N/A	Annually	09/04/27	N/A	2,350,000	-
Rush University Medical Center		2.00%	N/A	Quarterly	12/31/24	N/A	250,000	-
The Northern Trust		2.00%	N/A	Semiannual	04/08/25	N/A	500,000	-
The Northern Trust		1.50%	N/A	Semiannual	05/01/25	N/A	1,500,000	-
The Northern Trust		1.50%	N/A	Semiannual	04/29/25	N/A	100,000	-
Burling Bank		1.50%	N/A	Quarterly	04/24/25	N/A	250,000	-
Republic Bank		1.50%	N/A	Quarterly	07/06/25	N/A	981,481	-
Adrian Dominican Sisters		0.00%	N/A	N/A	10/26/25	N/A	250,000	-
MacArthur Foundation	(8)	0.00%	N/A	N/A	12/15/25	N/A	3,000,000	-
Community Savings Bank		0.00%	0.00%	Semiannual	12/31/57	12/31/57	74,000	76,000
Manaaki Foundation		N/A	1.50%	Annual	N/A	11/02/20	-	52,000
							<u>10,221,681</u>	<u>1,106,800</u>

ACCION Chicago, Inc.
Notes to the Financial Statements

10. Notes Payable (cont'd)

Lender	Interest Rate		Interest Terms	Maturity at		Balance at December 31,	
	12/31/20	12/31/19		12/31/20	12/31/19	2020	2019
Unsecured Subordinated Debt							
Amalgamated Bank of Chicago	3.00%	3.00%	Quarterly	11/30/21	11/30/20	50,000	50,000
Devon Bank	2.00%	2.00%	Quarterly	03/26/22	03/27/20	80,100	75,000
First Midwest Bank	2.00%	2.00%	Quarterly	11/30/21	11/30/20	50,000	50,000
						<u>180,100</u>	<u>175,000</u>
Equity Equivalent Debt							
Bank Financial	2.00%	2.00%	Monthly	01/01/22	01/01/21	40,000	40,000
Bank of America	0.00%	0.00%	N/A	07/01/57	07/01/57	54,750	56,250
Byline Bank	2.00%	2.00%	Semiannual	10/27/21	10/27/20	100,000	100,000
Byline Bank	2.00%	2.00%	Semiannual	01/01/22	01/01/21	100,000	100,000
Fifth Third Bank	0.00%	0.00%	N/A	06/30/57	06/30/57	141,880	145,767
First Bank of Highland Park	2.00%	2.00%	Semiannual	12/21/21	12/21/21	75,000	75,000
First Bank/Illinois	2.00%	2.00%	Semiannual	04/01/22	04/01/21	250,000	250,000
First Eagle Bank	2.00%	2.00%	Semiannual	09/30/21	09/30/20	100,000	100,000
First Eagle Bank	2.00%	2.00%	Semiannual	09/02/21	09/02/20	100,000	100,000
First National Bank of Omaha	2.00%	2.00%	Quarterly	05/31/26	05/31/26	250,000	250,000
First Savings Bank of Hegewisch	2.00%	2.00%	Semiannual	01/01/24	01/01/24	600,000	600,000
Inland Bank	2.00%	2.00%	Semiannual	11/30/21	11/30/20	100,000	100,000
Leaders Bank	2.00%	2.00%	Semiannual	01/01/22	01/01/21	75,000	75,000
Marquette Bank	2.00%	2.00%	Semiannual	05/31/22	05/31/21	75,000	75,000
Fifth Third (MB Financial) Bank	0.00%	0.00%	N/A	06/01/57	06/01/57	72,683	74,675
Northern Trust Company	0.00%	0.00%	N/A	12/31/56	12/31/56	72,000	74,000
Oxford Bank & Trust	2.00%	2.00%	Semiannual	01/01/22	01/01/21	25,000	25,000
Pan American Bank	2.00%	2.00%	Semiannual	04/01/22	04/01/22	75,000	75,000
Republic Bank	2.00%	2.00%	Monthly	01/01/22	01/01/21	24,939	24,939
US Bancorp	3.00%	3.00%	Monthly	04/19/24	04/19/21	250,000	250,000
MUFG Union Bank	2.00%	2.00%	Quarterly	01/01/24	01/01/24	500,000	500,000
Country Mutual Insurance Company	1.50%	N/A	Semiannual	04/30/25	N/A	125,000	-
International Bank of Chicago	2.00%	2.00%	Semiannual	06/14/24	06/14/24	100,000	100,000
						<u>3,306,252</u>	<u>3,190,631</u>
Total						<u>26,198,490</u>	<u>5,991,255</u>
Less: Present value discount						<u>(2,248,850)</u>	<u>(851,868)</u>
Net long-term debt						<u>\$ 23,949,640</u>	<u>\$ 5,139,387</u>

- (1) The Organization has debt, pledge and security agreements with Chicago Community Catalyst Fund LLC. All proceeds of the debt must be used to fund loans under the CSBRF program. Interest at 1.00% is payable monthly. Monthly principal payments begin at various times in 2021 and will total \$175,926 on an annual basis. One of the notes is expected to have a balloon payment of \$500,000 due at its maturity on April 30, 2026. The notes are collateralized by the program deposit account, the loan loss reserve account (Note 3) and the loan documents and notes of the ultimate borrowers.
- (2) The Organization has a loan with CIBC Bank, USA. Annual principal payments of \$250,000 are payable December 29, 2022 through 2025. Interest at 1.50% is payable annually beginning December 29, 2021. The proceeds of the debt must be used to fund loans under the ISBEL program and is subject to an intermediary agreement, where the Illinois Department of Commerce and Economic Opportunity will provide the Organization with a guarantee for 50% of the principal amount of ISBEL program loans funded by the Organization. The note is collateralized by all assets not collateralized by Fifth Third Bank (Bank) pursuant to an intercreditor agreement with the Bank and the Organization.

10. **Notes Payable** (cont'd)

- (3) The Organization has a revolving line of credit with Fifth Third Bank with a maximum borrowing base of the lesser of \$1,500,000 or 80% of eligible accounts as defined in the business loan agreement associated with the line of credit. The line of credit is collateralized by the assets of the Organization, excluding any rights to the CSBRF program loans and related loan loss reserve accounts. Interest on the line of credit is payable at LIBOR plus 2.50%. The line of credit is subject to financial covenants, including maintaining a minimum debt service coverage ratio of 1.2 to 1 and tangible net worth of \$3,000,000. The Organization was in compliance with the financial covenants at December 31, 2020 and 2019.
- (4) The Organization has a loan with the Small Business Administration (SBA). Principal and interest are payable monthly at a rate based upon average size of micro loans made, collateralized by micro loans receivable totaling \$44,151 and \$196,833 at December 31, 2020 and 2019, respectively, as well as cash of \$320,888 and \$183,645 at December 31, 2020 and 2019, respectively. The Organization is required to maintain a minimum ratio of 1.15:1 in collateralized cash plus collateralized notes receivable to SBA debt outstanding. The Organization was in compliance with the covenant at December 31, 2020.
- (5) The Department of the Treasury, Community Development Financial Institutions (CDFI) Fund had financial covenants, defined in their original agreement, relating to net assets, net revenue, and operating and capital ratios. However, the Organization has been informed by the CDFI Fund that the repayment of this debt will not be accelerated, and they are no longer required to submit reports to the CDFI Fund. In 2007, the Organization further restructured the debt agreement with the CDFI Fund, capitalizing the balance of \$30,000 for past interest, reducing the interest rate to 0%, extending the maturity to 2057, and requiring quarterly payments of \$3,150.
- (6) In January of 2016, the Organization entered into a term note with the Federal Home Loan Bank Chicago (FHLB) for a maximum amount of \$1,250,000. The term note is to be disbursed in two disbursements. The first disbursement of \$500,000 was drawn in 2016. The second disbursement is contingent upon the Organization achieving specified ratios under the credit agreement as defined therein. The note has a maturity date of 10 years from initial disbursement and the funds are to be used for loan capital. The note bears interest at 2.13% and is unsecured, but contains covenants related to the Organization's maintenance as a Community Development Financial Institution, maintaining a level of use of lent funds, maintaining minimum financial ratios related to net assets, self-sufficiency, loan performance, among others. At December 31, 2020, the Organization was not in compliance with the covenants related to net asset and self-sufficiency ratios. The FHLB did not waive the noncompliance for the waiver, but also did not call a default. The debt maturity schedule on the following pages assumes that the debt with the FHLB will not be called based on noncompliance with debt covenants.
- (7) The Organization has a loan with Starbucks Corporation. All proceeds of the debt must be used to provide financing to micro- and small business owners serving low to moderate income businesses in a designated Chicagoland area. Annual principal payments of \$783,333 are payable on September 4, 2025 and 2026, with the remaining balance due in 2027. Interest at 2.00% is payable annually, each September. The agreement is subject to certain financial covenants including a minimum adjusted net assets (as defined) to adjusted assets (as defined) ratio of 40% (minimum capital) and, a maximum ratio of non-performing assets (loans 120 days or more past due) to loans outstanding of 15%. In addition, the Organization cannot increase the line of credit with Fifth Third Bank without the lender's approval. The Organization was not in compliance with the minimum capital covenant at December 31, 2020. However, Starbucks waived the event of noncompliance.

ACCION Chicago, Inc.
Notes to the Financial Statements

10. **Notes Payable** (cont'd)

(8) The Organization has a loan with John D. and Catherine T. MacArthur Foundation. All proceeds of the debt must be used to fund loans under the CSBRF program. The \$3 million loan is interest free for eighteen months and will accrue interest at 1.00%, payable quarterly, thereafter. All principal and unpaid interest is due on December 15, 2025. However, an amount not to exceed \$1.5 million is eligible for forgiveness if the Organization certifies that a total of \$3.7 million in loan loss reserve grant funds from the City of Chicago has been allocated to offset charged-off CSBRF program loans originated by the Organization and an additional \$1.5 million of CSBRF program loans have been charged-off.

Equity Equivalent Debt, or EQ2, is a capital product for Community Development Financial Institutions and their investors. This special debt investment allows organizations like ACCION Chicago to strengthen their capital structure and increase lending and investing in economically disadvantaged communities. It is a long-term subordinated loan, offered by regulated financial institutions to fulfill their investment requirements by meeting the credit needs of the communities in which they do business. Like permanent capital, EQ2 enhances the Organization's lending flexibility and increases its debt capacity by protecting lenders from losses. Unlike permanent capital, it must eventually be repaid. To qualify as an EQ2, the obligation is not secured, is fully subordinated, essentially cannot have accelerated repayment, carries an interest rate not tied to income received by the Organization, and has a rolling term and, therefore, a relatively indeterminate maturity.

The total interest incurred and expensed on all notes payable outstanding, other than imputed interest, for the year ended December 31, 2020, was \$205,720 (\$119,859 in 2019).

Maturities of debt and the present value discount for imputed interest rate on below market interest and interest-free loans at December 31, 2020, are as follows:

Future Principal Payments (Face Value)

	Secured Debt	Unsecured Debt	Unsecured Subordinated Debt	Equity Equivalent Debt	Total
2021	\$ 1,568,723	\$ 236,822	\$ 100,000	\$ 999,319	\$ 2,904,864
2022	2,389,764	236,822	80,100	409,380	3,116,066
2023	2,389,908	236,822	-	9,380	2,636,110
2024	2,382,803	486,822	-	1,459,380	4,329,005
2025	2,361,111	6,490,526	-	134,380	8,986,017
2026 - 2030	1,398,148	2,139,667	-	46,900	3,584,715
2031 - 2035	-	73,000	-	46,900	119,900
2036 - 2040	-	73,000	-	46,900	119,900
2041 - 2045	-	73,000	-	46,900	119,900
2046 - 2050	-	73,000	-	46,900	119,900
2051 - 2055	-	73,000	-	46,900	119,900
2056 - 2057	-	29,200	-	13,013	42,213
	<u>\$ 12,490,457</u>	<u>\$ 10,221,681</u>	<u>\$ 180,100</u>	<u>\$ 3,306,252</u>	<u>\$ 26,198,490</u>

ACCION Chicago, Inc.
Notes to the Financial Statements

10. **Notes Payable** (cont'd)

Debt Discount Amortization

	Secured Debt	Unsecured Debt	Unsecured Subordinated Debt	Equity Equivalent Debt	Total
2021	\$ (209,864)	(194,405)	\$ -	\$ (54,689)	\$ (458,958)
2022	(167,593)	(192,872)	-	(50,962)	(411,427)
2023	(127,990)	(191,280)	-	(50,984)	(370,254)
2024	(89,384)	(189,664)	-	(13,371)	(292,419)
2025	(50,356)	(161,542)	-	(9,914)	(221,812)
2026 - 2030	(7,755)	(98,515)	-	(40,563)	(146,833)
2031 - 2035	-	(59,326)	-	(37,959)	(97,285)
2036 - 2040	-	(53,692)	-	(33,400)	(87,092)
2041 - 2045	-	(45,650)	-	(29,091)	(74,741)
2046 - 2050	-	(34,314)	-	(21,757)	(56,071)
2051 - 2055	-	(18,286)	-	(11,403)	(29,689)
2056 - 2058	-	(1,463)	-	(806)	(2,269)
	<u>(652,942)</u>	<u>(1,241,009)</u>	<u>-</u>	<u>(354,899)</u>	<u>(2,248,850)</u>
Total debt, net	<u>\$ 11,837,515</u>	<u>\$ 8,980,672</u>	<u>\$ 180,100</u>	<u>\$ 2,951,353</u>	<u>\$ 23,949,640</u>

11. **Commitments and Contingencies**

Financial Instruments with Concentration of Credit Risk – Loans range in size from \$500 to \$100,000, while their terms generally range from 2 to 60 months, with the exception of SBA CA loans that have a maximum term of 120 months. Collateral and cosigners may be required, depending upon the loan amount and the perceived credit risk. While the Organization serves all of Illinois and Indiana, most of the Organization's business activity is with borrowers located throughout Illinois, with the majority of these borrowers concentrated in the Chicagoland area. Geographic concentration risk on the Organization's borrowers arises largely from the influence of economic conditions in the Midwest region, and particularly, the Chicagoland area. The Organization's lending limit is \$100,000 with the SBA CA program. Under that program, the SBA provides an 85% guarantee of the loan balance if the loan is underwritten and monitored in accordance with program standards.

Fees and Grants Received – The Organization has received significant financial assistance from federal, state and local government agencies. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and may be subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Organization. The Organization is in the process of working with a grantor regarding disbursements made in error under a grant program for which the Organization was acting as an agent. The amount, if any, of liability to the Organization is not determinable. Management does not believe the risk related to disallowed claims is probable.

ACCION Chicago, Inc.
Notes to the Financial Statements

12. Restrictions and Limitations on Net Assets

Net assets with donor restrictions at December 31, consisted of the following:

	<u>2020</u>	<u>2019</u>
EDA revolving loan funds	\$ 2,152,833	\$ 948,398
CSBRF loan loss reserve	5,451,679	-
City of South Bend - loan funds	148,250	-
Bank of America - funds for SBA loan loss reserve	60,000	60,000
Imputed Interest on below market and interest-free loans	2,248,849	851,868
Entrepreneurs of Color funds	1,366,763	1,494,643
Tory Burch - loan funds	172,465	206,525
Hatchery Joint Venture funds	50,000	100,000
Chicago Community Trust grant funds	662,415	487,751
Other purpose restricted contributions	10,000	60,000
Other time restricted contributions	-	130,652
	<u>\$ 12,323,254</u>	<u>\$ 4,339,837</u>

13. Employee Benefit Plan

The Organization has a SIMPLE Individual Retirement Account Plan that covers all full-time employees. The plan calls for the Organization to match employee contributions to the plan dollar-for-dollar up to a maximum of 3% of employee compensation. Benefit plan expense was \$37,905 for the year ended December 31, 2020 (\$32,385 in 2019).

14. Related Parties

From time to time, the Organization procures grants, financial products, and services from members of the Board of Directors or the organizations that employ them.

15. Subsequent Events

Subsequent events have been evaluated through June 14, 2021, which is the date the financial statements were available to be issued.

Subsequent to December 31, 2020, the Organization received various grants for restricted purposes, as follows:

- PepsiCo Foundation - \$2 million to provide \$1.5 million in grant funds and coaching for Hispanic small business owners in thirteen cities across the United States through February 2022.
- Wells Fargo – A total of \$2 million to provide \$1.6 million of loan capital at a maximum of 3% and \$400,000 for related administrative costs, in accordance with Wells Fargo’s Open for Business Fund Program for Community Reinvestment Act compliance.
- Chicago Community Trust - \$150,000 to support the Neighborhood Entrepreneurship Lab and \$100,000 to support the Hatchery Phase II Program.
- Morrison Family - \$100,000 to support projects on the South side of Chicago.

15. **Subsequent Events** (cont'd)

- Polk Bros - \$120,000 over two years to support the Small Business Development Program and the Chicago Inclusive Growth Coalition through small business lending and an ecosystem builder.
- Accion Opportunity Fund - \$75,000 subgrant from Coca-Cola Foundation for capital, coaching and education resources for women entrepreneurs; and \$182,000 to support small food and beverage business lending, coaching and networking under the Samuel Adams Brewing the American Dream Program (BTAD).

In May 2021, the Organization entered into a loan agreement for \$428,140 under the SBA Payroll Protection Program (PPP loan). The note is subject to the terms of the Small Business Act, the CARES Act and the Economic Aid Act. The note incurs interest at 1% per year and the note matures in five years. The Organization may be eligible for forgiveness of all principal and interest on the note by submitting a loan forgiveness application within 10 months of the covered period as defined in the PPP rules. No principal or interest payments are due until the loan is forgiven or notification is received that forgiveness was not allowed.