

**WORKING CAPITAL FOR
COMMUNITY NEEDS, INC.**

Madison, Wisconsin

CONSOLIDATED FINANCIAL STATEMENTS
Including Independent Auditors' Report

As of December 31, 2018 and 2017
and for the Years Ended December 31, 2018, 2017 and 2016

WORKING CAPITAL FOR COMMUNITY NEEDS, INC.

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Working Capital for Community Needs, Inc.
Madison, Wisconsin

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Working Capital for Community Needs, Inc. (the "Organization"), which comprise the consolidated statement of financial position as of December 31, 2018, and the related consolidated statements of activities, cash flows and functional expenses for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Organization as of December 31, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Period Financial Statements

The consolidated financial statements of the Organization as of December 31, 2017 and for the years ended December 31, 2017 and 2016, were audited by other auditors whose report dated June 4, 2018, expressed an unmodified opinion on those statements.

Other Matters

Report on Consolidating Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating statements of financial position and activities are presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, changes in net assets, and cash flows of the individual organizations, and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Baker Tilly Virchow Krause, LLP

Milwaukee, Wisconsin
April 24, 2019

WORKING CAPITAL FOR COMMUNITY NEEDS, INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As of December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 578,445	\$ 1,597,530
Investments	-	343,754
Accrued interest receivable	170,002	148,528
Notes receivable - current portion	4,887,218	5,045,816
Prepaid expenses	19,052	15,991
Total Current Assets	<u>5,654,717</u>	<u>7,151,619</u>
OTHER ASSETS		
Notes receivable less current portion	5,469,170	4,693,490
Property and equipment	-	2,439
Total Other Assets	<u>5,469,170</u>	<u>4,695,929</u>
TOTAL ASSETS	<u>\$ 11,123,887</u>	<u>\$ 11,847,548</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Notes payable - current portion	\$ 2,745,080	\$ 2,476,263
Accounts payable	7,043	18,950
Cross-currency interest rate swap liability	2,841	5,817
Deferred revenue	-	564
Accrued interest payable	143,644	149,028
Grant payable	-	7,500
Total Current Liabilities	<u>2,898,608</u>	<u>2,658,122</u>
LONG-TERM LIABILITIES		
Notes payable less current portion	<u>7,730,090</u>	<u>9,025,077</u>
Total Liabilities	<u>10,628,698</u>	<u>11,683,199</u>
NET ASSETS		
Net assets without donor restrictions	495,189	159,496
Net assets with donor restrictions	-	4,853
Total Net Assets	<u>495,189</u>	<u>164,349</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 11,123,887</u>	<u>\$ 11,847,548</u>

See accompanying notes to the consolidated financial statements.

WORKING CAPITAL FOR COMMUNITY NEEDS, INC.

CONSOLIDATED STATEMENTS OF ACTIVITIES For the Years Ended December 31, 2018, 2017 and 2016

	2018	2017	2016
NET ASSETS WITHOUT DONOR RESTRICTIONS			
SUPPORT AND REVENUE			
Portfolio income	\$ 956,997	\$ 979,782	\$ 1,017,998
Contributions	403,108	119,224	290,848
Loan fees	58,686	70,423	68,191
Loss on disposal of property and equipment	-	(5,278)	(81,711)
Other	817	11,813	20
Net assets released from restrictions	<u>4,853</u>	<u>33,000</u>	<u>-</u>
Total support and revenue	<u>1,424,461</u>	<u>1,208,964</u>	<u>1,295,346</u>
EXPENSES AND LOSSES			
Program services			
Microfinance	778,123	1,832,932	1,151,142
Educational and other	31,944	48,396	23,766
Supporting activities			
Management and general	266,568	261,921	259,287
Fundraising	<u>12,133</u>	<u>49,063</u>	<u>86,654</u>
Total Expenses	<u>1,088,768</u>	<u>2,192,312</u>	<u>1,520,849</u>
Change in net assets without donor restrictions	<u>335,693</u>	<u>(983,348)</u>	<u>(225,503)</u>
NET ASSETS WITH DONOR RESTRICTIONS			
Contributions	-	4,853	33,000
Net assets released from restrictions	<u>(4,853)</u>	<u>(33,000)</u>	<u>-</u>
Change in net assets with donor restrictions	<u>(4,853)</u>	<u>(28,147)</u>	<u>33,000</u>
CHANGE IN NET ASSETS	330,840	(1,011,495)	(192,503)
NET ASSETS - Beginning of Year	<u>164,349</u>	<u>1,175,844</u>	<u>1,368,347</u>
NET ASSETS - END OF YEAR	<u>\$ 495,189</u>	<u>\$ 164,349</u>	<u>\$ 1,175,844</u>

See accompanying notes to the consolidated financial statements.

WORKING CAPITAL FOR COMMUNITY NEEDS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS For the Years Ended December 31, 2018, 2017 and 2016

	2018	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Change in Net Assets	\$ 330,840	\$ (1,011,495)	\$ (192,503)
Adjustments to reconcile change in net assets to net cash flows from operating activities			
Depreciation	2,439	7,203	30,248
Unrealized loss (gain) on cross-currency interest rate swap	(2,976)	5,817	4,791
Interest reserve	-	-	10,351
Provision for loan losses	105,983	920,239	181,966
Net realized and unrealized loss on investments	3,804	1,376	4,602
Loss on disposal of equipment	-	5,278	81,711
Forgiveness of notes payable	(302,349)	(13,030)	(222,085)
Changes in assets and liabilities			
Accrued interest receivable	(21,474)	67,958	(65,672)
Notes receivable	(723,065)	(324,758)	648,775
Prepaid expenses	(3,061)	12,837	(9,995)
Inventory	-	-	1,067
Other receivables	-	26,045	(19,510)
Accounts payable	(11,907)	(12,925)	(3,739)
Deferred revenue	(564)	564	-
Accrued interest payable	(5,384)	799	(21,637)
Grants payable	(7,500)	7,500	-
Net Cash Flows from Operating Activities	<u>(635,214)</u>	<u>(306,592)</u>	<u>428,370</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of investments	-	-	(450,000)
Reinvestment of interest in investments	-	(5,653)	(2,470)
Proceeds from sale of investments	339,950	108,391	-
Proceeds from sale of equipment	-	642	-
Purchases of property and equipment	-	-	(8,148)
Net Cash Flows from Investing Activities	<u>339,950</u>	<u>103,380</u>	<u>(460,618)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from notes payable	2,562,564	745,657	883,475
Payment of notes payable	(3,286,385)	(518,555)	(573,441)
Proceeds on short-term note payable	-	140,000	50,000
Payments on short-term note payable	-	(140,000)	(50,000)
Net Cash Flows from Financing Activities	<u>(723,821)</u>	<u>227,102</u>	<u>310,034</u>
Net Change in Cash and Cash Equivalents	(1,019,085)	23,890	277,786
CASH AND CASH EQUIVALENTS - Beginning of Year	<u>1,597,530</u>	<u>1,573,640</u>	<u>1,295,854</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 578,445</u>	<u>\$ 1,597,530</u>	<u>\$ 1,573,640</u>
SUPPLEMENTAL CASH FLOW DISCLOSURES			
Cash paid for interest on notes payable	<u>\$ 342,454</u>	<u>\$ 343,848</u>	<u>\$ 369,175</u>

See accompanying notes to the consolidated financial statements.

WORKING CAPITAL FOR COMMUNITY NEEDS, INC.

STATEMENTS OF FUNCTIONAL EXPENSES For the Years Ended December 31, 2018, 2017 and 2016

	Program Services		Supporting Services		2018 Total
	Microfinance	Educational and Other	Management and General	Fundraising	
2018					
Personnel and consulting	\$ 219,561	\$ -	\$ 197,093	\$ 4,186	\$ 420,840
Interest on investor loans	337,070	-	-	-	337,070
Legal	45,155	-	6,015	-	51,170
Grants and allocations	-	30,143	-	-	30,143
Office expenses	10,364	1,761	8,621	1,945	22,691
Accounting	-	-	33,321	-	33,321
Occupancy	11,940	-	5,024	1,478	18,442
Travel and training	30,439	-	2,621	190	33,250
Provision for loan losses	105,983	-	-	-	105,983
Depreciation	1,579	-	665	195	2,439
Other	16,032	40	13,208	4,139	33,419
Total Expenses	<u>\$ 778,123</u>	<u>\$ 31,944</u>	<u>\$ 266,568</u>	<u>\$ 12,133</u>	<u>\$ 1,088,768</u>
	Program Services		Supporting Services		2017 Total
	Microfinance	Educational and Other	Management and General	Fundraising	
2017					
Personnel and consulting	\$ 391,115	\$ 4,097	\$ 192,480	\$ 26,953	\$ 614,645
Interest on investor loan	344,647	-	-	-	344,647
Legal	62,774	-	620	-	63,394
Grants and allocations	-	38,617	-	-	38,617
Office expenses	24,278	1,499	13,224	4,882	43,883
Accounting	-	-	20,884	-	20,884
Occupancy	12,266	-	8,656	1,693	22,615
Travel and training	55,959	2,033	7,555	1,616	67,163
Provision for loan losses	920,239	-	-	-	920,239
Depreciation	3,295	612	2,757	539	7,203
Other	18,359	1,538	15,745	13,380	49,022
Total Expenses	<u>\$ 1,832,932</u>	<u>\$ 48,396</u>	<u>\$ 261,921</u>	<u>\$ 49,063</u>	<u>\$ 2,192,312</u>
	Program Services		Supporting Services		2016 Total
	Microfinance	Educational and Other	Management and General	Fundraising	
2016					
Personnel and consulting	\$ 400,087	\$ 8,045	\$ 181,548	\$ 48,432	\$ 638,112
Interest on investor loans	347,538	-	-	-	347,538
Legal	69,434	-	11,027	4,425	84,886
Grants and allocations	-	2,505	-	-	2,505
Office expenses	10,782	3,895	7,815	6,114	28,606
Accounting	-	-	21,852	-	21,852
Occupancy	11,208	2,083	2,951	2,431	18,673
Travel and training	63,724	855	7,036	4,532	76,147
Provision for loan losses	181,966	-	-	-	181,966
Provision for interest losses	10,351	-	-	-	10,351
Depreciation	18,155	3,375	4,781	3,937	30,248
Other	37,897	3,008	22,277	16,783	79,965
Total Expenses	<u>\$ 1,151,142</u>	<u>\$ 23,766</u>	<u>\$ 259,287</u>	<u>\$ 86,654</u>	<u>\$ 1,520,849</u>

See accompanying notes to the consolidated financial statements.

WORKING CAPITAL FOR COMMUNITY NEEDS, INC.

NOTES TO FINANCIAL STATEMENTS

As of December 31, 2018 and 2017 and for the Years Ended December 31, 2018, 2017 and 2016

NOTE 1 - Summary of Significant Accounting Policies

Nature of Activities

Founded in 1984, Working Capital for Community Needs, Inc. ("WCCN") is a 501(c)(3) nonprofit impact investing fund whose mission is to create opportunities for access to microfinance, services and markets to improve the lives and communities of the working poor in Latin America. WCCN empowers low-income Latin American entrepreneurs by sustaining partnerships with microfinance organizations and fair trade coffee organizations in Ecuador, El Salvador, Honduras, Guatemala, Nicaragua and Peru. To facilitate its activities in the greater Latin America area, WCCN formed a separate limited liability company, Community Needs, LLC, (the "LLC"). The LLC may further WCCN's purposes by participating in models that differ from WCCN's traditional avenues for promoting economic development.

Located in Madison, Wisconsin, WCCN and the LLC (collectively referred to as the "Organization") is supported primarily through interest from its loan fund and donor contributions.

Principles of Consolidation

The consolidated financial statements include the accounts of WCCN and its wholly owned subsidiary, LLC. All intercompany transactions have been eliminated.

Basis of Presentation

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

Net Assets Without Donor Restrictions: Net assets that are not restricted by donors.

Net Assets With Donor Restrictions: Net assets whose use has been limited by donor-imposed time restrictions, purpose restrictions, or have been restricted by donors to be maintained by the Organization in perpetuity.

Board Designated Net Assets

The Organization's Board of Directors has the ability to designate identified amounts of net assets without donor restrictions to be used by management for specific future projects or activities. These designations can be modified or removed by the Board of Directors at any time. The Organization's Board of Directors has not designated any amounts as of December 31, 2018 and 2017.

Cash and Cash Equivalents

The Organization defines cash and cash equivalents as highly liquid, short-term investments with a maturity at the date of acquisition of three months or less.

WORKING CAPITAL FOR COMMUNITY NEEDS, INC.

NOTES TO FINANCIAL STATEMENTS

As of December 31, 2018 and 2017 and for the Years Ended December 31, 2018, 2017 and 2016

NOTE 1 - Summary of Significant Accounting Policies (continued)

Investments

Investments are carried at fair value based on quoted market prices, and realized and unrealized gains and losses are reflected in the consolidated statements of activities. Donated investments are recorded at fair value at the date of donation. The Organization records the change of ownership of bonds on the day the trade settles. Investment income or loss and unrealized gains or losses are included in the consolidated statements of activities as increases or decreases in net assets without donor restrictions unless the income or loss is restricted by donor or law.

Accrued Interest Receivable

Interest is accrued on a monthly basis and is stated at the invoice amount. The Organization provides an allowance for doubtful accounts for accrued interest receivable equal to the estimated uncollectible amounts. The allowance for doubtful accounts is based on historical collection experience and a review of the current status of accrued interest receivable. The allowance for accrued interest receivable at December 31, 2018 and 2017 was \$0 and \$8,603, respectively.

Notes Receivable

Notes receivable consist of amounts due from microfinance organizations and producer cooperatives/associations in Latin America. The allowance for loan loss reserve is a valuation allowance for probable incurred credit losses. Management regularly evaluates the allowance for loan losses taking into consideration such factors as historical experience, a review of the current status of notes receivable, changes in the nature and volume of the loan portfolio, review of specific problem loans and current economic and credit conditions that may affect the borrower's ability to pay. The allowance consists of specific and general components. The general component covers loans that are collectively evaluated for potential impairment. The specific component relates to loans that are individually evaluated for impairment due to current events or information being available making it more probable that the Organization will be unable to collect all amounts due according to the contractual terms of the loan agreements. The Organization provides an allowance for loan losses equal to the total estimated uncollectible notes. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that should be charged off. When an account is determined uncollectible, the account is written off against the allowance. It is reasonably possible that the Organization's estimate of the allowance for loan losses will change. The loan loss reserve at December 31, 2018 and 2017 was \$1,563,137 and \$1,457,154, respectively. The Organization considers any loans 90 days or more past due delinquent and puts them in non-accrual status. Interest received on such loans is accounted for on a cash basis until qualifying for return to accrual. Loans are returned to accrual status when all of the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Accounting for Foreign Currency Denominated Transactions

The books and records of the Organization are maintained in U.S. dollars. Transactions denominated in foreign currencies are translated into U.S. dollars at the consolidated statements of financial position date rate of exchange. Changes in foreign currency denominated transactions are recorded in the consolidated statements of activities in the period the change occurs. The gain or loss on currency translation is included in Portfolio income in the consolidated statements of activities.

WORKING CAPITAL FOR COMMUNITY NEEDS, INC.

NOTES TO FINANCIAL STATEMENTS

As of December 31, 2018 and 2017 and for the Years Ended December 31, 2018, 2017 and 2016

NOTE 1 - Summary of Significant Accounting Policies (continued)

Property and Equipment

Acquisitions of property and equipment in excess of \$2,500 are capitalized. Property and equipment is carried at cost or, if donated, at the approximate fair value at the date of donation. Depreciation is computed using the straight-line method.

Revenue Recognition

Interest on loans receivable is recognized when earned.

Contributions are recognized in the period received. Conditional promises are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met. The Organization reports gifts of cash and other assets as contributions with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified as net assets without donor restrictions and reported in the consolidated statements of activities as net assets released from restrictions. In the absence of donor specification or law that income and gains on donated funds are restricted, such income and gains are reported as without donor restrictions. The Organization recognizes as revenue without donor restrictions all donor-restricted contributions made to the Organization whose restrictions are substantially met in the same year.

Expense Allocation

The costs of providing various programs and other activities have been summarized on a functional basis in the consolidated statements of activities. Expenses directly attributable to a specific functional activity of the Organization are reported as expenses of those functional activities. Certain personnel and consulting expenses, office expenses, occupancy expenses and depreciation are allocated to functional activities based on time and effort.

Income Tax Status

WCCN is exempt from federal income tax under Section 501(c)(3) of the U.S. Internal Revenue Code and corresponding provisions of state law and accordingly is not subject to federal or state income taxes. However, any unrelated business income may be subject to taxation.

Community Needs, LLC is treated as a disregarded entity for federal tax purposes and its operations are reported on WCCN's federal exempt organization return.

Estimates

The preparation of financial statements in conformity 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

WORKING CAPITAL FOR COMMUNITY NEEDS, INC.

NOTES TO FINANCIAL STATEMENTS

As of December 31, 2018 and 2017 and for the Years Ended December 31, 2018, 2017 and 2016

NOTE 1 - Summary of Significant Accounting Policies (continued)

Reclassification

For comparability, certain 2017 and 2016 amounts have been reclassified to conform with classifications adopted in 2018. The reclassifications have no effect on reported amounts of net assets or change in net assets.

New Accounting Pronouncements

The Financial Accounting Standards Board ("FASB") has issued Accounting Standards Update ("ASU") 2016-14, "Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities." The Organization has adopted the provisions of this standard during the year ending December 31, 2018, with retrospective application for the years ending December 31, 2017 and 2016, as applicable. In addition to changes in terminology used to describe categories of net assets throughout the financial statements, there are enhanced disclosures added related to the functional allocation of expenses (Note 1) and disclosures regarding the liquidity and availability of financial assets (Note 14). The adoption of ASU 2016-14 did not cause a reclassification or restatement of net assets balances or to change in net assets. The Organization opted not to disclose liquidity and availability of financial assets information for the year ended December 31, 2017 as permitted under the ASU in the year of adoption.

FASB issued ASU 2014-09, "Revenue from Contracts with Customers (Topic 606) ("ASU 2014-09)." ASU 2014-09 establishes principles for recognizing revenue upon the transfer of promised goods or services to customers, in an amount that reflects the expected consideration received in exchange for those goods or services. The amendments defer the effective date of ASU 2014-09, clarify the implementation guidance on principal versus agent considerations, and clarify the identification of performance obligations and the licensing implementation guidance. ASU 2014-09 (as amended) is effective for fiscal years beginning after December 15, 2018 (2019). The amendments may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of initial application. The Organization is currently assessing the effect that ASU 2014-09 (as amended) will have on its consolidated financial statements.

FASB issued ASU 2018-08, "Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made" ("ASU 2018-08"). The new guidance is intended to clarify and improve accounting guidance for contributions received and contributions made. The amendments in this ASU should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. ASU 2018-08 is effective for contributions received during fiscal years beginning after December 15, 2018 (2019) and contributions made during fiscal years beginning after December 15, 2019 (2020). The Organization is currently assessing the effect that ASU 2018-08 will have on its consolidated financial statements.

FASB issued ASU 2016-02, "Leases (Topic 842)" ("ASU 2016-02") that amends the treatment for leases. The new accounting model for leases capitalizes all leases greater than twelve months, both capital and operating, as assets and liabilities on the statement of financial position. The Organization will be required to apply the standard for fiscal years and reporting periods beginning after December 15, 2019 (2020). Early adoption is permitted. The Organization is currently assessing the effect that ASU 2016-02 will have on its consolidated financial statements.

WORKING CAPITAL FOR COMMUNITY NEEDS, INC.

NOTES TO FINANCIAL STATEMENTS

As of December 31, 2018 and 2017 and for the Years Ended December 31, 2018, 2017 and 2016

NOTE 1 - Summary of Significant Accounting Policies (continued)

New Accounting Pronouncements (continued)

FASB issued ASU 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments" ("ASU 2016-13"). ASU 2016-13 requires financial assets measured at amortized cost to be presented at the net amount expected to be collected, through an allowance for credit losses that is deducted from the amortized cost basis. The measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. During 2018, an update was issued which clarifies the effective date for nonpublic entities and clarifies that receivables arising from operating leases are not within the scope of Subtopic 326-20. ASU 2016-13, as amended, is effective for annual periods beginning after December 15, 2021 (2022). Early adoption is permitted for annual and interim periods beginning after December 15, 2018 (2019). The Organization is currently assessing the effect that ASU 2016-13 will have on its consolidated financial statements.

Subsequent Events

Management has evaluated subsequent events through April 24, 2019, the date which the consolidated financial statements were available to be issued.

NOTE 2 - Notes Receivable

The Organization considers its loans in one distinct category. Notes receivable are from various partners in Latin America and the United States. Interest rates vary from 8.6% to 11.50% payable typically in monthly, quarterly, semi-annual or annual installments including principal and interest. In specific cases, interest rates are reduced. Some notes are collateralized by assets to mitigate further risk, especially if restructured due to a default.

A summary of the activity in the allowance for loan losses by class of loan is as follows at December 31:

	<u>2018</u>	<u>2017</u>
<u>Allowance:</u>		
Balance January 1	\$ 1,457,154	\$ 994,415
Charge offs	-	(457,500)
Provision for loan losses	105,983	920,239
Balance December 31	<u>\$ 1,563,137</u>	<u>\$ 1,457,154</u>
Ending balance individually evaluated for impairment	<u>\$ 1,468,722</u>	<u>\$ 1,408,548</u>
Ending balance collectively evaluated for impairment	<u>\$ 94,415</u>	<u>\$ 48,606</u>

WORKING CAPITAL FOR COMMUNITY NEEDS, INC.

NOTES TO FINANCIAL STATEMENTS

As of December 31, 2018 and 2017 and for the Years Ended December 31, 2018, 2017 and 2016

NOTE 2 - Notes Receivable (continued)

Loans:

Balance December 31	\$ 11,919,525	\$ 11,196,460
Allowance for loan losses	(1,563,137)	(1,457,154)
Notes receivable - net	<u>\$ 10,356,388</u>	<u>\$ 9,739,306</u>
Ending balance individually evaluated for impairment	<u>\$ 2,478,070</u>	<u>\$ 1,475,262</u>
Ending balance collectively evaluated for impairment	<u>\$ 9,441,455</u>	<u>\$ 9,721,198</u>

Components of notes receivable at December 31 are as follows:

	2018	2017
Notes receivable	\$ 11,919,525	\$ 11,196,460
Allowance for loan losses	(1,563,137)	(1,457,154)
Notes receivable - net	10,356,388	9,739,306
Less current portion	(4,887,218)	(5,045,816)
Notes receivable less current portion	<u>\$ 5,469,170</u>	<u>\$ 4,693,490</u>

Notes receivable are stated at the amount of unpaid principal. The Organization assesses a 1% allowance on all loans within the loan portfolio based on the overall allowance factors as of December 31, 2018. For 2017, the allowance was .5%. In addition, the Organization reviews the risk factors and performance of each individual loan and may assess an additional allowance if deemed appropriate.

The Organization's internal risk rating is based on a Capital adequacy, Asset quality, Management, Earnings, and Liquidity ("CAMEL") analysis. Under the internal policy, financial statements, budgets and quarterly updates are regularly reviewed and result in the assignment of a partner rating to help monitor the risk associated with the various partners.

Provisioning Criteria:

The Organization follows guidance from the Office of the Comptroller of the Currency ("OCC") to stratify its receivables in determining the reserve level.

<u>Classification</u>	<u>Days in Arrears</u>	<u>Reserve Level</u>
Current	n/a	1% (.5% for 2017)
Special Mention	30	5%
Substandard	90	50%

When a loan balance is 270 days or more in arrears it is considered doubtful and is separately assessed for collectibility.

WORKING CAPITAL FOR COMMUNITY NEEDS, INC.

NOTES TO FINANCIAL STATEMENTS

As of December 31, 2018 and 2017 and for the Years Ended December 31, 2018, 2017 and 2016

NOTE 2 - Notes Receivable (continued)

Below is a breakdown of the notes receivable by provision criteria and the associated allowance calculations as of December 31:

Classification	2018				
	Number of Agencies	Loans Outstanding	Net of Collateral	Percentage Applied	Allowance Needed
Current	23	\$ 9,441,455	\$ 9,441,455	1 %	\$ 94,415

Classification	2017				
	Number of Agencies	Loans Outstanding	Net of Collateral	Percentage Applied	Allowance Needed
Current	23	\$ 9,721,198	\$ 9,721,198	0.50 %	\$ 48,606

In addition to the above allowance calculation, the Organization assessed some borrowers separately from the classifications above due to their unique financial condition.

The assessment is as follows as December 31:

	2018			
	Loans Outstanding	Net of Collateral	Percentage Applied	Allowance Needed
Separately identified borrowers:				
Restructured	\$ 730,219	\$ 730,219	100 %	\$ 730,219
Loans greater than 270 days in arrears	728,267	699,171	100 %	699,171
Rescheduled	894,667	894,667	3 %	26,840
Rescheduled	58,250	58,250	10 %	5,825
Other	66,667	66,667	10 %	6,667
Total	\$ 2,478,070	\$ 2,448,974		\$ 1,468,722

	2017			
	Loans Outstanding	Net of Collateral	Percentage Applied	Allowance Needed
Separately identified borrowers:				
Loans greater than 270 days in arrears	\$ 1,373,820	\$ 1,373,820	100 %	\$ 1,373,820
Restructured	30,112	27,595	100 %	27,595
Restructured	71,330	71,330	10 %	7,133
Total	\$ 1,475,262	\$ 1,472,745		\$ 1,408,548

New loans that replace an outstanding balance on an older loan that have either a lower interest rate or longer payment term are considered restructured loans. Rescheduled loans are loans that have no change in the loan agreement or interest rate, but have allowed for the extension of at least one principal loan payment.

WORKING CAPITAL FOR COMMUNITY NEEDS, INC.

NOTES TO FINANCIAL STATEMENTS

As of December 31, 2018 and 2017 and for the Years Ended December 31, 2018, 2017 and 2016

NOTE 2 - Notes Receivable (continued)

A summary of loans past due at December 31:

	2018			Total
	30-59 Days Past Due	60-90 Days Past Due	90 Days & Over (nonaccrual)	
Notes receivable	\$ -	\$ -	\$ 728,267	\$ 728,267
	2017			
	30-59 Days Past Due	60-90 Days Past Due	90 Days & Over (nonaccrual)	Total
Notes receivable	\$ -	\$ -	\$ 1,373,820	\$ 1,373,820

Interest income is recognized when earned on these loans. Any loans that become greater than 90 days past due enter into a nonaccrual status. The Organization no longer accrues interest income associated with these loans. Once the loan is brought into a status such that it is less than 90 days past due, interest is again accrued on these loans.

Portfolio income at December 31, 2018, 2017 and 2016 consisted of the following:

	2018	2017	2016
Interest and dividends	\$ 977,683	\$ 993,731	\$ 1,027,391
Gain (loss) on cross-currency interest rate swaps	2,976	(5,817)	(4,791)
Loss on currency translations	(19,858)	(6,756)	-
Net realized and unrealized losses on investments	(3,804)	(1,376)	(4,602)
Portfolio income	\$ 956,997	\$ 979,782	\$ 1,017,998

NOTE 3 - Property and Equipment

Property and equipment at December 31, 2018 and 2017 consisted of the following:

	2018	2017
Equipment	\$ 10,814	\$ 26,042
Leasehold improvements	5,000	64,937
Less accumulated depreciation	(15,814)	(88,540)
Property and equipment	\$ -	\$ 2,439

WORKING CAPITAL FOR COMMUNITY NEEDS, INC.

NOTES TO FINANCIAL STATEMENTS

As of December 31, 2018 and 2017 and for the Years Ended December 31, 2018, 2017 and 2016

NOTE 4 - Notes Payable

The Organization has entered into loan agreements with various lenders in the United States. The proceeds from these notes payable are used to create the pool of funds available to issue notes receivable to partners in Latin America that operate loan programs serving low-income borrowers.

As of December 31, 2018 and 2017, there were approximately 500 notes executed with recurring and new lenders. Interest rates on the notes range from 0% to 4.25% with maturities due over the next month to seven years.

Notes payable at December 31, 2018 and 2017 consisted of the following:

	<u>2018</u>	<u>2017</u>
Notes payable	\$ 10,475,170	\$ 11,501,340
Less current portion	<u>(2,745,080)</u>	<u>(2,476,263)</u>
Notes payable less current portion	<u>\$ 7,730,090</u>	<u>\$ 9,025,077</u>

Principal maturities of the notes payable for the years ending December 31 are as follows:

2019	\$ 2,745,080
2020	4,072,981
2021	1,707,586
2022	1,252,693
2023	183,236
Thereafter	<u>513,594</u>
Total	<u>\$ 10,475,170</u>

Occasionally, lenders will forgive their note payable, which becomes a contribution to the Organization and is removed from notes payable at the date of the donation. For the years ending December 31, 2018, 2017 and 2016, amounts forgiven totaled \$302,349, \$13,030 and \$222,085, respectively, and are included in contributions in the consolidated statements of activities.

Notes payable are subject to various state filing requirements and various covenants. As of December 31, 2018, the Organization represents that it is in compliance with all filing requirements and covenants.

WORKING CAPITAL FOR COMMUNITY NEEDS, INC.

NOTES TO FINANCIAL STATEMENTS

As of December 31, 2018 and 2017 and for the Years Ended December 31, 2018, 2017 and 2016

NOTE 5 - Lines of Credit

WCCN has an unsecured line of credit in the amount of \$75,000 that is held with Wells Fargo Bank. It has an interest rate of PRIME + 6.75% annually and expires in February 2021. As of December 31, 2018 and 2017, this line of credit was unused.

WCCN also had a short-term unsecured promissory note with Settlers Bank for the amount of \$65,000 issued in March 2017. Interest annually was 7% on this balance. WCCN settled this note in full in March 2017.

In June 2018, WCCN obtained an unsecured line of credit in the amount of \$500,000 from Settlers Bank at PRIME +3% APR interest and expires in June 2019. As of December 31, 2018, this line of credit was unused.

NOTE 6 - Net Assets

Net assets with donor restrictions consisted of \$4,853 restricted for the Proyecto Washu Ecuador grant as of December 31, 2017. During 2018, these amounts were expended and released to net assets without donor restrictions. There are no net assets with donor restrictions as of December 31, 2018.

NOTE 7 - Conditional Promises to Give

The Organization is occasionally notified that they are named as a beneficiary by donors. These gifts do not meet the criteria to be recognized as contribution revenue until the the gift is unconditional. The total of these conditional pledges at December 31, 2018 and 2017 was \$863,088 and \$920,557, respectively. Amounts received in contributions from gifts becoming unconditional and recognized in the consolidated statements of activities for 2018, 2017 and 2016 were \$0 and \$28,394, and \$0, respectively.

NOTE 8 - Operating Lease

WCCN rented office space in Madison, Wisconsin under an annual lease agreement that required monthly payments of \$1,557 that ended in December 2017. In October 2017, WCCN entered into a five-year lease agreement for office space in Madison, Wisconsin that requires monthly payments beginning at \$1,463 and provides for an annual increase of 2.5%, with an expiration date of December 2022. Lease expense in 2018, 2017, and 2016 was \$18,442, \$19,781, and \$18,673, respectively.

Future minimum lease payments are as follows:

2019	\$	17,989
2020		18,438
2021		18,899
2022		19,372
Total	\$	<u>74,698</u>

WORKING CAPITAL FOR COMMUNITY NEEDS, INC.

NOTES TO FINANCIAL STATEMENTS

As of December 31, 2018 and 2017 and for the Years Ended December 31, 2018, 2017 and 2016

NOTE 9 - Retirement Plan

The Organization sponsors a SIMPLE IRA plan in which employees with prior year earnings of \$5,000 or more are eligible to participate. The Organization matches contributions to the plan up to 3% of the employee's deferrals. Retirement expense for 2018, 2017, and 2016 was \$5,821, \$10,429, and \$10,963, respectively.

NOTE 10 - Related Party Transactions

The Organization has notes payable to board members and employees totaling \$59,916 and \$95,836 at December 31, 2018 and 2017, respectively. The interest rates on the notes range from 1.50% to 3.00% and the notes mature on various dates between March 2020 and December 2025. The Organization also received donations from board members and employees totaling \$62,510, \$10,894 and \$9,228, for the years ended December 31, 2018, 2017 and 2016, respectively.

NOTE 11 - Derivative Financial Instruments

To manage fluctuations of foreign currency values related to loans denominated in foreign currencies, the Organization entered into three cross-currency interest rate swap agreements, which mature in concert with the outstanding foreign currency notes receivable. The Organization does not enter into derivative financial instrument agreements for trading or speculative purposes.

A cross-currency interest rate swap is a foreign exchange agreement between two parties to exchange principal and fixed rate interest payments in one currency for principal and fixed rate interest payments in another currency. As a result of the currency swap agreements, the Organization has eliminated its currency risk that the principal and interest payments would be less or greater than the U.S. dollar value of the amounts.

The following represents the notional amount hedged, fair value of the cross-currency interest rate swap outstanding at December 31, 2018 and 2017 and the amount of exposure recorded in the change in net assets for the years ending December 31, 2018 and 2017, respectively.

	<u>Notional Amount</u>	<u>Liability as of December 31</u>	<u>Year Ended December 31 Gain (loss)</u>	<u>Classification of Gain (loss)</u>
2018				
Cross-currency interest rate swap	\$ 737,333	\$ (2,841)	\$ 2,976	Portfolio income
2017				
Cross-currency interest rate swap	\$ 236,000	\$ (5,817)	\$ (5,817)	Portfolio income

WORKING CAPITAL FOR COMMUNITY NEEDS, INC.

NOTES TO FINANCIAL STATEMENTS

As of December 31, 2018 and 2017 and for the Years Ended December 31, 2018, 2017 and 2016

NOTE 12 - Concentrations of Credit Risk

The amounts loaned by the Organization to partners in Latin America ("borrowing agencies") are in turn lent to small enterprises and individuals in Latin America. The Organization has disbursed such loans in Nicaragua, El Salvador, Guatemala, Ecuador, Honduras and Peru. Notes executed between the Organization and the borrowing agencies are often not collateralized by assets of any material value, unless the notes are restructured due to a default. In such cases, the Organization seeks collateral from the borrower to mitigate further risk.

The nature of the loans and the fact that the loans have limited to no value of collateral constitutes a significant concentration of credit risk for the Organization. Since this portion of the Organization's assets is concentrated outside of the United States, it is reasonably possible that operations could be interrupted in the near term. Substantially all notes payable and notes receivable, other than those identified in Note 11, are denominated solely in United States dollars, so there is minimal currency risk to the Organization from these financial instruments.

Notes receivable by country at December 31, 2018, and 2017 are as follows:

	2018	2017
Ecuador	\$ 2,087,500	\$ 2,239,167
El Salvador	255,667	765,000
Honduras	1,919,788	2,418,276
Guatemala	1,796,231	1,125,836
Nicaragua	3,536,519	2,757,694
Peru	1,690,487	940,487
United States	<u>633,333</u>	<u>950,000</u>
Notes receivable	11,919,525	11,196,460
Less loan loss reserves	<u>(1,563,137)</u>	<u>(1,457,154)</u>
Notes receivable - net	<u>\$ 10,356,388</u>	<u>\$ 9,739,306</u>

The Organization's ability to repay lenders depends on its ability to obtain repayment from partner agencies to which loans have been issued.

The Organization maintains cash balances in one institution which exceeds the federally insured limit of \$250,000. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash.

WORKING CAPITAL FOR COMMUNITY NEEDS, INC.

NOTES TO FINANCIAL STATEMENTS

As of December 31, 2018 and 2017 and for the Years Ended December 31, 2018, 2017 and 2016

NOTE 13 - Fair Value Measurements

Current authoritative guidance defines fair value as 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. In determining fair value, the Organization uses various valuation methods including the market, income and cost approaches. The assumptions used in the application of these valuation methods are developed from the perspective of market participants pricing the asset or liability. Inputs used in the valuation methods can be either readily observable, market corroborated, or generally unobservable inputs. Whenever possible, the Organization attempts to utilize valuation methods that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used in the valuation methods the Organization is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Assets and liabilities measured, reported and/or disclosed at fair value will be classified and disclosed in one of the following three categories:

- Level 1 - Quoted market prices in active markets for identical assets or liabilities.
- Level 2 - Observable market based inputs or unobservable inputs that are corroborated by market data.
- Level 3 - Unobservable inputs that are not corroborated by market data.

Fair values of assets and liabilities measured on a recurring basis at December 31, 2018 and 2017 are as follows:

	2018			
	Total	Level 1	Level 2	Level 3
Cross-currency interest rate swap liability	\$ (2,841)	\$ -	\$ -	\$ (2,841)
	2017			
	Total	(Level 1)	Level 2	Level 3
Cross-currency interest rate swap liability	\$ (5,817)	\$ -	\$ -	\$ (5,817)
Investments	343,754	-	343,754	-
Total	\$ 337,937	\$ -	\$ 343,754	\$ (5,817)

Following is a description of the valuation methodologies used for assets and liabilities measured at fair value. There have been no changes in the valuation methodologies used at December 31, 2018 and 2017:

Investments: These investments consist of bonds and are measured at fair value using multiple sources of information that are corroborated by market data and are considered Level 2 items.

Cross-currency interest rate swap: The interest rate swap valuation is based on unobservable inputs including expected cash flow, maturity date, notional amount, interest rates, and risk of non-performance through the duration of the agreement and is considered a Level 3 item.

WORKING CAPITAL FOR COMMUNITY NEEDS, INC.

NOTES TO FINANCIAL STATEMENTS

As of December 31, 2018 and 2017 and for the Years Ended December 31, 2018, 2017 and 2016

NOTE 13 - Fair Value Measurements (continued)

For fair value measurements using Level 3 inputs, a reconciliation of the beginning and ending balances are as follows:

	<u>Cross-currency interest rate swap liability</u>
Balance - December 31, 2016	\$ -
Loss included in change in net assets	<u>(5,817)</u>
Balance - December 17, 2017	(5,817)
Gain included in change in net assets	<u>2,976</u>
Balance - December 31, 2018	<u>\$ (2,841)</u>

NOTE 14 - Availability and Liquidity of Financial Assets

Financial assets available as of December 31, 2018 for general expenditures consist of the following:

Total assets	\$ 11,123,887
Less non-financial assets:	
Prepaid expenses	<u>(19,052)</u>
Total financial assets	11,104,835
Less those unavailable for general expenditure :	
Notes receivable less current portion	<u>(5,469,170)</u>
Assets available for general expenditures	<u>\$ 5,635,665</u>

As of December 31, 2018, the Organization has approximately \$575,000 in liquid assets to cover operating expenses and other general expenditures, liabilities, and other obligations as they come due. The Organization's practice is to keep current CC Fund notes receivable as fully deployed as possible in the Fund. The Organization invests cash in excess of daily requirements in various interest-bearing accounts. In addition, there are an additional \$575,000 in lines of credit that can be drawn upon to cover short-term liquidity needs, should they arise.

SUPPLEMENTAL INFORMATION

WORKING CAPITAL FOR COMMUNITY NEEDS, INC.

CONSOLIDATING STATEMENT OF FINANCIAL POSITION As of December 31, 2018

	WCCN	Community Needs, LLC	Eliminations	Consolidated Totals
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	\$ 573,656	\$ 4,789	\$ -	\$ 578,445
Accrued interest receivable	152,761	17,241	-	170,002
Notes receivable - current portion	4,875,218	12,000	-	4,887,218
Prepaid expenses	19,052	-	-	19,052
Intercompany receivables	494,923	364,017	(858,940)	-
Total Current Assets	6,115,610	398,047	(858,940)	5,654,717
OTHER ASSETS				
Notes receivable less current portion	4,749,982	719,188	-	5,469,170
Investment in Community Needs, LLC	619,261	-	(619,261)	-
Total Other Assets	5,369,243	719,188	(619,261)	5,469,170
TOTAL ASSETS	\$ 11,484,853	\$ 1,117,235	\$ (1,478,201)	\$ 11,123,887
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Notes payable - current portion	\$ 2,745,080	\$ -	\$ -	\$ 2,745,080
Accounts payable	6,833	210	-	7,043
Cross-currency interest rate swap liability	-	2,841	-	2,841
Accrued interest payable	143,644	-	-	143,644
Intercompany payables	364,017	494,923	(858,940)	-
Total Current Liabilities	3,259,574	497,974	(858,940)	2,898,608
LONG-TERM LIABILITIES				
Notes payable less current portion	7,730,090	-	-	7,730,090
Total Liabilities	10,989,664	497,974	(858,940)	10,628,698
NET ASSETS				
Net assets without donor restrictions	495,189	619,261	(619,261)	495,189
TOTAL LIABILITIES AND NET ASSETS	\$ 11,484,853	\$ 1,117,235	\$ (1,478,201)	\$ 11,123,887

WORKING CAPITAL FOR COMMUNITY NEEDS, INC.

CONSOLIDATING STATEMENT OF ACTIVITIES For the Year Ended December 31, 2018

	WCCN	Community Needs, LLC	Eliminations	Consolidated Totals
NET ASSETS WITHOUT DONOR RESTRICTIONS				
SUPPORT AND REVENUE				
Portfolio income	\$ 948,663	\$ 37,480	\$ (29,146)	\$ 956,997
Contributions	403,108	-	-	403,108
Loan fees	52,886	5,800	-	58,686
Other	817	-	-	817
Net assets released from restrictions	<u>4,853</u>	<u>-</u>	<u>-</u>	<u>4,853</u>
Total support and revenue	<u>1,410,327</u>	<u>43,280</u>	<u>(29,146)</u>	<u>1,424,461</u>
EXPENSES AND LOSSES				
Personnel and consulting	418,362	2,478	-	420,840
Interest on investor loans	336,970	100	-	337,070
Legal	51,124	46	-	51,170
Grants and allocations	30,143	-	-	30,143
Office expenses	22,662	29	-	22,691
Accounting	33,321	-	-	33,321
Occupancy	14,293	4,149	-	18,442
Travel and training	33,238	12	-	33,250
Provision for loan losses	100,091	5,892	-	105,983
Depreciation	2,439	-	-	2,439
Other	<u>31,991</u>	<u>1,428</u>	<u>-</u>	<u>33,419</u>
Total expenses	<u>1,074,634</u>	<u>14,134</u>	<u>-</u>	<u>1,088,768</u>
Change in net assets without donor restrictions	335,693	29,146	(29,146)	335,693
NET ASSETS WITH DONOR RESTRICTIONS				
Net assets released from donor restrictions	<u>(4,853)</u>	<u>-</u>	<u>-</u>	<u>(4,853)</u>
Change in net assets	330,840	29,146	(29,146)	330,840
NET ASSETS - Beginning of year	<u>164,349</u>	<u>590,115</u>	<u>(590,115)</u>	<u>164,349</u>
NET ASSETS - End of year	<u>\$ 495,189</u>	<u>\$ 619,261</u>	<u>\$ (619,261)</u>	<u>\$ 495,189</u>