

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

Madison, Wisconsin

CONSOLIDATED FINANCIAL STATEMENTS
Including Independent Auditors' Report

As of December 31, 2019 and 2018
and for the Years Ended December 31, 2019, 2018 and 2017

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 statements of financial position as of December 31, 2019 and 2018, and the related consolidated statements of activities, cash flows, and functional expenses for the years 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 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 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, 2019 and 2018, 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.

Prior Period Financial Statements

The consolidated financial statements of the Organization as of and for the year ended December 31, 2017, 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 audits were 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 it is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The 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 22, 2020

WORKING CAPITAL FOR COMMUNITY NEEDS, INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION As of December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 896,728	\$ 578,445
Pledges receivable	9,500	-
Accrued interest receivable	224,162	170,002
Notes receivable - current portion	4,562,006	4,887,218
Prepaid expenses	21,917	19,052
Total Current Assets	<u>5,714,313</u>	<u>5,654,717</u>
OTHER ASSETS		
Notes receivable less current portion	5,824,019	5,469,170
Operating lease right-of-use asset	50,753	-
Total Other Assets	<u>5,874,772</u>	<u>5,469,170</u>
TOTAL ASSETS	<u>\$ 11,589,085</u>	<u>\$ 11,123,887</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Notes payable - current portion	\$ 3,865,793	\$ 2,745,080
Accounts payable	17,215	7,043
Cross-currency interest rate swap liability	7,990	2,841
Operating lease liability - current portion	23,136	-
Accrued interest payable	144,021	143,644
Total Current Liabilities	<u>4,058,155</u>	<u>2,898,608</u>
LONG-TERM LIABILITIES		
Notes payable less current portion	6,715,364	7,730,090
Operating lease liability less current portion	27,953	-
Total Liabilities	<u>10,801,472</u>	<u>10,628,698</u>
NET ASSETS		
Net assets without donor restrictions	<u>787,613</u>	<u>495,189</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 11,589,085</u>	<u>\$ 11,123,887</u>

See accompanying notes to consolidated financial statements.

WORKING CAPITAL FOR COMMUNITY NEEDS, INC.

CONSOLIDATED STATEMENTS OF ACTIVITIES
For the Years Ended December 31, 2019, 2018 and 2017

	2019	2018	2017
NET ASSETS WITHOUT DONOR RESTRICTIONS			
SUPPORT AND REVENUE			
Portfolio income	\$ 931,793	\$ 956,997	\$ 979,782
Contributions	371,232	403,108	119,224
Loan fees	57,165	58,686	70,423
Loss on disposal of property and equipment	-	-	(5,278)
Other	17,521	817	11,813
Net assets released from restrictions	-	4,853	33,000
Total support and revenue	1,377,711	1,424,461	1,208,964
EXPENSES AND LOSSES			
Program services			
Microfinance	781,584	778,123	1,832,932
Educational and other	9,290	31,944	48,396
Supporting activities			
Management and general	227,706	266,568	261,921
Fundraising	66,707	12,133	49,063
Total Expenses	1,085,287	1,088,768	2,192,312
Change in net assets without donor restrictions	292,424	335,693	(983,348)
NET ASSETS WITH DONOR RESTRICTIONS			
Contributions	-	-	4,853
Net assets released from restrictions	-	(4,853)	(33,000)
Change in net assets with donor restrictions	-	(4,853)	(28,147)
CHANGE IN NET ASSETS	292,424	330,840	(1,011,495)
NET ASSETS - Beginning of Year	495,189	164,349	1,175,844
NET ASSETS - END OF YEAR	\$ 787,613	\$ 495,189	\$ 164,349

See accompanying notes to consolidated financial statements.

WORKING CAPITAL FOR COMMUNITY NEEDS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS For the Years Ended December 31, 2019, 2018 and 2017

	2019	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Change in Net Assets	\$ 292,424	\$ 330,840	\$ (1,011,495)
Adjustments to reconcile change in net assets to net cash flows from operating activities			
Depreciation	-	2,439	7,203
Unrealized loss (gain) on cross-currency interest rate swap	5,149	(2,976)	5,817
Provision for loan losses	263,378	105,983	920,239
Net realized and unrealized loss on investments	-	3,804	1,376
Lease costs	336	-	-
Loss on disposal of equipment	-	-	5,278
Forgiveness of notes payable	(96,189)	(302,349)	(13,030)
Changes in assets and liabilities			
Pledges receivable	(9,500)	-	-
Accrued interest receivable	(54,160)	(21,474)	67,958
Notes receivable	(293,015)	(723,065)	(324,758)
Prepaid expenses	(2,865)	(3,061)	12,837
Other receivables	-	-	26,045
Accounts payable	10,172	(11,907)	(12,925)
Deferred revenue	-	(564)	564
Accrued interest payable	63,271	48,220	45,911
Grants payable	-	(7,500)	7,500
Net Cash Flows from Operating Activities	179,001	(581,610)	(261,480)
CASH FLOWS FROM INVESTING ACTIVITIES			
Reinvestment of interest in investments	-	-	(5,653)
Proceeds from sale of investments	-	339,950	108,391
Proceeds from sale of equipment	-	-	642
Net Cash Flows from Investing Activities	-	339,950	103,380
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from notes payable	546,396	255,200	700,545
Payment of notes payable	(407,114)	(1,032,625)	(518,555)
Proceeds on short-term note payable	-	-	140,000
Payments on short-term note payable	-	-	(140,000)
Net Cash Flows from Financing Activities	139,282	(777,425)	181,990
Net Change in Cash and Cash Equivalents	318,283	(1,019,085)	23,890
CASH AND CASH EQUIVALENTS - Beginning of Year	578,445	1,597,530	1,573,640
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 896,728	\$ 578,445	\$ 1,597,530
SUPPLEMENTAL CASH FLOW DISCLOSURES:			
Cash paid for interest on notes payable	\$ 312,253	\$ 342,454	\$ 343,848
NONCASH OPERATING AND FINANCING ACTIVITIES:			
Right-of-use asset financed with operating lease	\$ 61,973	\$ -	\$ -
Accrued interest payable converted to notes payable	\$ 62,894	\$ 53,604	\$ 45,112
Matured notes payable reinvested	\$ 2,000,512	\$ 2,849,625	\$ 2,746,648

See accompanying notes to consolidated financial statements.

WORKING CAPITAL FOR COMMUNITY NEEDS, INC.

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES For the Years Ended December 31, 2019, 2018 and 2017

	Program Services		Supporting Services		2019 Total
	Microfinance	Educational and Other	Management and General	Fundraising	
2019					
Personnel and consulting	\$ 220,240	\$ 375	\$ 157,855	\$ 26,058	\$ 404,528
Interest on investor loans	312,630	-	-	-	312,630
Legal	33,589	-	6,757	-	40,346
Grants and allocations	27,000	6,300	-	-	33,300
Office expenses	9,432	1,278	9,655	5,395	25,760
Accounting	300	-	26,220	-	26,520
Occupancy	14,579	-	11,931	2,199	28,709
Travel and training	38,143	-	2,847	10,379	51,369
Provision for loan losses	97,251	-	-	-	97,251
Other	28,420	1,337	12,441	22,676	64,874
Total Expenses	\$ 781,584	\$ 9,290	\$ 227,706	\$ 66,707	\$ 1,085,287
	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	\$ 778,123	\$ 31,944	\$ 266,568	\$ 12,133	\$ 1,088,768
	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 loans	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	\$ 1,832,932	\$ 48,396	\$ 261,921	\$ 49,063	\$ 2,192,312

See accompanying notes to consolidated financial statements.

WORKING CAPITAL FOR COMMUNITY NEEDS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2019 and 2018 and for the Years Ended December 31, 2019, 2018 and 2017

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. The Organization did not have any net assets with donor restrictions as of December 31, 2019 and 2018.

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, 2019 and 2018.

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 CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2019 and 2018 and for the Years Ended December 31, 2019, 2018 and 2017

NOTE 1 - Summary of Significant Accounting Policies (continued)

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. No allowance for doubtful accounts is considered necessary for the accrued interest receivable as of December 31, 2019 and 2018.

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, global health concerns, political climate, 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, 2019 and 2018 was \$1,533,454 and \$1,563,137, 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 CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2019 and 2018 and for the Years Ended December 31, 2019, 2018 and 2017

NOTE 1 - Summary of Significant Accounting Policies (continued)

Revenue Recognition

Interest on loans receivable is recognized on a monthly basis based on the loan receivable balance outstanding and the interest rate established in the loan agreements. Loan fees are earned based on a 1% administrative fee for every loan issued, which is recognized on the date of loan issuance.

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 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.

Reclassification

For comparability, certain 2018 and 2017 amounts have been reclassified to conform with classifications adopted in 2019. The reclassifications have no effect on reported amounts of net assets or change in net assets.

WORKING CAPITAL FOR COMMUNITY NEEDS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2019 and 2018 and for the Years Ended December 31, 2019, 2018 and 2017

NOTE 1 - Summary of Significant Accounting Policies (continued)

Adopted Accounting Pronouncements

In 2019, the Organization adopted Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* and all related amendments (ASU No. 2014-09). ASU No. 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. ASU No. 2014-09 specifically excludes financial contracts from this standard. As such, adopting ASU No. 2014-09 did not have a significant impact on the consolidated financial statements of the Organization.

In 2019, the Organization adopted ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* (ASU No. 2018-08). The new guidance is intended to clarify and improve accounting guidance for contributions received and contributions made. The amendments in this ASU 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. Adopting ASU No. 2018-08 did not have a significant impact on the consolidated financial statements of the Organization.

In 2019, the Organization adopted ASU No. 2016-02, *Leases (Topic 842)* and all related amendments (ASU No. 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. Accordingly, leases have been shown as assets and liabilities on the consolidated statements of financial position. The cumulative effect of leases in effect prior to January 1, 2019 was not material. As a result, no cumulative effect was recorded.

New Accounting Pronouncements

FASB issued ASU No. 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* (ASU No. 2016-13). ASU No. 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 No. 2016-13, as amended, is effective for annual periods beginning after December 15, 2022 (2023). The Organization is currently assessing the effect that ASU No. 2016-13 will have on its consolidated financial statements.

WORKING CAPITAL FOR COMMUNITY NEEDS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2019 and 2018 and for the Years Ended December 31, 2019, 2018 and 2017

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 7.87% to 11% 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 for loans considered to be higher risk in nature.

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

	2019	2018
<u>Allowance:</u>		
Balance January 1	\$ 1,563,137	\$ 1,457,154
Charge offs	(126,934)	-
Recoveries	(166,127)	-
Provision for loan losses	263,378	105,983
Balance December 31	<u>\$ 1,533,454</u>	<u>\$ 1,563,137</u>
Ending balance individually evaluated for impairment	<u>\$ 1,223,573</u>	<u>\$ 1,468,722</u>
Ending balance collectively evaluated for impairment	<u>\$ 309,881</u>	<u>\$ 94,415</u>
	2019	2018
<u>Loans:</u>		
Balance December 31	\$ 11,919,479	\$ 11,919,525
Allowance for loan losses	(1,533,454)	(1,563,137)
Notes receivable - net	<u>\$ 10,386,025</u>	<u>\$ 10,356,388</u>
Ending balance individually evaluated for impairment	<u>\$ 1,590,101</u>	<u>\$ 2,478,070</u>
Ending balance collectively evaluated for impairment	<u>\$ 10,329,378</u>	<u>\$ 9,441,455</u>

Components of notes receivable at December 31 are as follows:

	2019	2018
Notes receivable	\$ 11,919,479	\$ 11,919,525
Allowance for loan losses	(1,533,454)	(1,563,137)
Notes receivable - net	10,386,025	10,356,388
Less current portion	(4,562,006)	(4,887,218)
Notes receivable less current portion	<u>\$ 5,824,019</u>	<u>\$ 5,469,170</u>

Notes receivable are stated at the amount of unpaid principal. The Organization assesses a 3% allowance on all loans within the loan portfolio based on the overall allowance factors as of December 31, 2019. For 2018, the allowance was 1%. In addition, the Organization reviews the risk factors and performance of each individual loan and may assess an additional allowance if deemed appropriate.

WORKING CAPITAL FOR COMMUNITY NEEDS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2019 and 2018 and for the Years Ended December 31, 2019, 2018 and 2017

NOTE 2 - Notes Receivable (continued)

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	3% (1% for 2018)
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.

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

Classification	2019				
	Number of Agencies	Loans Outstanding	Net of Collateral	Percentage Applied	Allowance Needed
Current	18	\$ 10,329,378	\$ 10,329,378	3 %	\$ 309,881

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

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:

	2019			
	Loans Outstanding	Net of Collateral	Percentage Applied	Allowance Needed
Separately identified borrowers:				
Restructured	\$ 662,250	\$ 662,250	100 %	\$ 662,250
Loans greater than 270 days in arrears	544,268	544,268	100 %	544,268
Accelerated	304,333	304,333	3 %	9,130
Rescheduled	54,250	54,250	10 %	5,425
Other	25,000	25,000	10 %	2,500
Total	\$ 1,590,101	\$ 1,590,101		\$ 1,223,573

WORKING CAPITAL FOR COMMUNITY NEEDS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2019 and 2018 and for the Years Ended December 31, 2019, 2018 and 2017

NOTE 2 - Notes Receivable (continued)

	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

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. The accelerated loan had a change of the loan agreement to consolidate loans and adjust the interest rate. The payment terms were also changed to require accelerated repayment of principal.

A summary of loans past due at December 31:

	2019			
	30-59 Days Past Due	60-90 Days Past Due	90 Days & Over (nonaccrual)	Total
Notes receivable	\$ -	\$ -	\$ 544,268	\$ 544,268

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

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. No interest income was recognized on past due loans for the years ended December 31, 2019, 2018 and 2017.

Portfolio income at December 31, 2019, 2018 and 2017 consisted of the following:

	2019	2018	2017
Interest and dividends	\$ 936,276	\$ 977,683	\$ 993,731
Gain (loss) on cross-currency interest rate swaps	(5,149)	2,976	(5,817)
Gain (loss) on currency translations	666	(19,858)	(6,756)
Net realized and unrealized losses on investments	-	(3,804)	(1,376)
Portfolio income	\$ 931,793	\$ 956,997	\$ 979,782

WORKING CAPITAL FOR COMMUNITY NEEDS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2019 and 2018 and for the Years Ended December 31, 2019, 2018 and 2017

NOTE 3 - 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, 2019 and 2018, there were approximately 550 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, 2019 and 2018 consisted of the following:

	<u>2019</u>	<u>2018</u>
Notes payable	\$ 10,581,157	\$ 10,475,170
Less current portion	<u>(3,865,793)</u>	<u>(2,745,080)</u>
Notes payable less current portion	<u>\$ 6,715,364</u>	<u>\$ 7,730,090</u>

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

2020	\$ 3,865,793
2021	2,895,994
2022	1,747,312
2023	587,828
2024	566,955
Thereafter	<u>917,275</u>
Total	<u>\$ 10,581,157</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, 2019, 2018 and 2017, amounts forgiven totaled \$96,189, \$302,349 and \$13,030, 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, 2019, the Organization represents that it is in compliance with all filing requirements and covenants.

NOTE 4 - 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. The line of credit automatically renews annually. As of December 31, 2019 and 2018, this line of credit was unused.

WCCN has an unsecured line of credit in the amount of \$500,000 from Settlers Bank. It has an interest rate of PRIME + 3% APR interest and expires in June 2020. The line of credit was accessed twice in 2019, once in October for \$250,000 and once in November for \$100,000. As of December 31, 2019 the outstanding balance on the line of credit was \$0.

WORKING CAPITAL FOR COMMUNITY NEEDS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2019 and 2018 and for the Years Ended December 31, 2019, 2018 and 2017

NOTE 5 - 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, 2019 and 2018 was \$856,806 and \$863,088, respectively. Amounts received in contributions from gifts becoming unconditional and recognized in the consolidated statements of activities for 2019, 2018, and 2017 were \$0, \$0, and \$28,394, respectively.

NOTE 6 - Leases

In October 2017, the Organization 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. The lease was terminated as of May 31, 2019 when the office space was sold.

The Organization entered into a three-year lease agreement for office space in Madison, Wisconsin as of June 1, 2019 which requires monthly payments beginning at \$1,900 and provides for an annual increase of 3%. The lease expires May 31, 2022. There is a two-year extension option with the annual 3% increase with an expiration date of May 31, 2024. As it is not reasonably certain that the option will be exercised, it has not been included in the calculation of the operating lease right-of-use asset.

The lease is accounted for as an operating lease under authoritative accounting guidance. The operating lease right-of-use asset and the operating lease liability of \$61,973 were recognized based on the present value of the future lease payments over the lease term at commencement date. The Organization elected to use a rate of PRIME + 3% for a period comparable to the lease term, 8.6%.

Future minimum lease payments are as follows:

2020	\$	23,136
2021		23,712
2022		<u>9,980</u>
Total		56,828
Less: Present value discount		<u>(5,739)</u>
Operating lease liability		51,089
Less: current portion		<u>(23,136)</u>
Long-term operating lease liability	\$	<u>27,953</u>

Total lease expense in 2019, 2018 and 2017 was \$21,665, \$18,442, and \$19,781, respectively.

NOTE 7 - 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 2019, 2018, and 2017 was \$6,687, \$5,821, and \$10,429, respectively.

WORKING CAPITAL FOR COMMUNITY NEEDS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2019 and 2018 and for the Years Ended December 31, 2019, 2018 and 2017

NOTE 8 - Related Party Transactions

The Organization has notes payable to board members and employees totaling \$58,203 and \$59,916 at December 31, 2019 and 2018, respectively. The interest rates on the notes range from 2% to 3% and the notes mature on various dates between March 2020 and December 2025. The Organization also received donations from board members and employees totaling \$16,235, \$62,510, and \$10,894, for the years ended December 31, 2019, 2018, and 2017, respectively.

NOTE 9 - Derivative Financial Instruments

To manage fluctuations of foreign currency values related to loans denominated in foreign currencies, the Organization entered into five 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, 2019 and 2018 and the amount of exposure recorded in the change in net assets for the years ending December 31, 2019 and 2018, 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>
2019				
Cross-currency interest rate swap	\$ 1,411,000	\$ (7,990)	\$ (5,149)	Portfolio income
2018				
Cross-currency interest rate swap	\$ 737,333	\$ (2,841)	\$ 2,976	Portfolio income

WORKING CAPITAL FOR COMMUNITY NEEDS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2019 and 2018 and for the Years Ended December 31, 2019, 2018 and 2017

NOTE 10 - 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, Colombia 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 9, 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, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Ecuador	\$ 3,277,313	\$ 2,087,500
El Salvador	975,500	255,667
Honduras	2,398,981	1,919,788
Guatemala	921,667	1,796,231
Nicaragua	2,683,352	3,536,519
Colombia	183,750	-
Peru	1,162,250	1,690,487
United States	<u>316,666</u>	<u>633,333</u>
Notes receivable	11,919,479	11,919,525
Less loan loss reserves	<u>(1,533,454)</u>	<u>(1,563,137)</u>
Notes receivable - net	<u>\$ 10,386,025</u>	<u>\$ 10,356,388</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 CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2019 and 2018 and for the Years Ended December 31, 2019, 2018 and 2017

NOTE 11 - 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 liabilities measured on a recurring basis at December 31, 2019 and 2018 are as follows:

	2019			
	Total	Level 1	Level 2	Level 3
Cross-currency interest rate swap liability	\$ (7,990)	\$ -	\$ -	\$ (7,990)
	2018			
	Total	Level 1	Level 2	Level 3
Cross-currency interest rate swap liability	\$ (2,841)	\$ -	\$ -	\$ (2,841)

Following is a description of the valuation methodologies used for liabilities measured at fair value. There have been no changes in the valuation methodologies used at December 31, 2019 and 2018:

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.

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

	Cross-currency interest rate swap liability
Balance - December 31, 2017	\$ (5,817)
Gain included in change in net assets	2,976
Balance - December 17, 2018	(2,841)
Loss included in change in net assets	(5,149)
Balance - December 31, 2019	\$ (7,990)

WORKING CAPITAL FOR COMMUNITY NEEDS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2019 and 2018 and for the Years Ended December 31, 2019, 2018 and 2017

NOTE 12 - Availability and Liquidity of Financial Assets

Financial assets available as of December 31, 2019 and 2018 for general expenditures consist of the following:

	<u>2019</u>	<u>2018</u>
Total assets	\$ 11,589,085	\$ 11,123,887
Less non-financial assets:		
Prepaid expenses	(21,917)	(19,052)
Operating lease right-of-use asset	<u>(50,753)</u>	<u>-</u>
Total financial assets	11,516,415	11,104,835
Less those unavailable for general expenditure:		
Notes receivable less current portion	<u>(5,824,019)</u>	<u>(5,469,170)</u>
Assets available for general expenditures	<u>\$ 5,692,396</u>	<u>\$ 5,635,665</u>

As of December 31, 2019, the Organization has approximately \$896,000 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 notes receivable as fully deployed as possible. 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, \$500,000 of which expires in June 2020, that can be drawn upon to cover short-term liquidity needs, should they arise.

NOTE 13 - Subsequent Events

Management has evaluated subsequent events through April 22, 2020, the date which the consolidated financial statements were available to be issued.

In March 2020, the Organization accessed \$300,000 on the line of credit with Settlers Bank for short term financing needs in order to disburse money to a partner in Ecuador. The Organization anticipates paying off the line of credit balance in May 2020.

As a result of the spread of the COVID-19 coronavirus, economic uncertainties have arisen in both the United States and Latin America which are likely to impact the Organization's portfolio quality. Due to the delayed impact of COVID-19 in Latin America, the Organization expects to receive principal and interest payments through the second quarter, helping the Organization to maintain an excellent cash position. Both cash flow and budget pro formas show a limited impact in the short and medium term on the Organization's income and/or capacity to pay its investors. As of April 22, 2020, the Organization has agreed to reschedule approximately \$194,000 in principal payments for terms between 30 and 180 days at the current interest rate. If the virus continues over the long-term other financial impact could occur though such potential impact is unknown at this time.

SUPPLEMENTAL INFORMATION

WORKING CAPITAL FOR COMMUNITY NEEDS, INC.

CONSOLIDATING STATEMENT OF FINANCIAL POSITION As of December 31, 2019

	WCCN	Community Needs, LLC	Eliminations	Consolidated Totals
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	\$ 880,488	\$ 16,240	\$ -	\$ 896,728
Pledges receivable	9,500	-	-	9,500
Accrued interest receivable	181,563	42,599	-	224,162
Notes receivable - current portion	4,550,006	12,000	-	4,562,006
Prepaid expenses	21,917	-	-	21,917
Intercompany receivables	<u>1,001,860</u>	<u>617,582</u>	<u>(1,619,442)</u>	<u>-</u>
Total Current Assets	<u>6,645,334</u>	<u>688,421</u>	<u>(1,619,442)</u>	<u>5,714,313</u>
OTHER ASSETS				
Notes receivable less current portion	4,816,387	1,007,632	-	5,824,019
Operating lease right-of-use asset	50,753	-	-	50,753
Investment in Community Needs, LLC	<u>686,203</u>	<u>-</u>	<u>(686,203)</u>	<u>-</u>
Total Other Assets	<u>5,553,343</u>	<u>1,007,632</u>	<u>(686,203)</u>	<u>5,874,772</u>
TOTAL ASSETS	<u>\$ 12,198,677</u>	<u>\$ 1,696,053</u>	<u>\$ (2,305,645)</u>	<u>\$ 11,589,085</u>
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Notes payable - current portion	\$ 3,865,793	\$ -	\$ -	\$ 3,865,793
Accounts payable	17,215	-	-	17,215
Cross-currency interest rate swap liability	-	7,990	-	7,990
Operating lease liability - current portion	23,136	-	-	23,136
Accrued interest payable	144,021	-	-	144,021
Intercompany payables	<u>617,582</u>	<u>1,001,860</u>	<u>(1,619,442)</u>	<u>-</u>
Total Current Liabilities	<u>4,667,747</u>	<u>1,009,850</u>	<u>(1,619,442)</u>	<u>4,058,155</u>
LONG-TERM LIABILITIES				
Notes payable less current portion	6,715,364	-	-	6,715,364
Operating lease liability less current portion	<u>27,953</u>	<u>-</u>	<u>-</u>	<u>27,953</u>
Total Liabilities	<u>11,411,064</u>	<u>1,009,850</u>	<u>(1,619,442)</u>	<u>10,801,472</u>
NET ASSETS				
Net assets without donor restrictions	<u>787,613</u>	<u>686,203</u>	<u>(686,203)</u>	<u>787,613</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 12,198,677</u>	<u>\$ 1,696,053</u>	<u>\$ (2,305,645)</u>	<u>\$ 11,589,085</u>

WORKING CAPITAL FOR COMMUNITY NEEDS, INC.

CONSOLIDATING STATEMENT OF ACTIVITIES For the Year Ended December 31, 2019

	WCCN	Community Needs, LLC	Eliminations	Consolidated Totals
NET ASSETS WITHOUT DONOR RESTRICTIONS				
SUPPORT AND REVENUE				
Portfolio income	\$ 842,050	\$ 89,743	\$ -	\$ 931,793
Contributions	371,232	-	-	371,232
Loan fees	51,215	5,950	-	57,165
Other	17,521	-	-	17,521
Community Needs, LLC change in net assets	<u>66,942</u>	<u>-</u>	<u>(66,942)</u>	<u>-</u>
Total support and revenue	<u>1,348,960</u>	<u>95,693</u>	<u>(66,942)</u>	<u>1,377,711</u>
EXPENSES AND LOSSES				
Personnel and consulting	403,485	1,043	-	404,528
Interest on investor loans	312,630	-	-	312,630
Legal	40,336	10	-	40,346
Grants and allocations	33,300	-	-	33,300
Office expenses	25,760	-	-	25,760
Accounting	26,520	-	-	26,520
Occupancy	27,232	1,477	-	28,709
Travel and training	51,369	-	-	51,369
Provision for loan losses	72,088	25,163	-	97,251
Other	<u>63,816</u>	<u>1,058</u>	<u>-</u>	<u>64,874</u>
Total expenses	<u>1,056,536</u>	<u>28,751</u>	<u>-</u>	<u>1,085,287</u>
Change in net assets without donor restrictions	292,424	66,942	(66,942)	292,424
NET ASSETS WITH DONOR RESTRICTIONS				
Net assets released from donor restrictions	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in net assets	<u>\$ 292,424</u>	<u>\$ 66,942</u>	<u>\$ (66,942)</u>	<u>\$ 292,424</u>