ACCION

AUDIT REPORT
FOR THE YEAR ENDED DECEMBER 31, 2018

Selden Fox
Accounting for your future

ACCION/Chicago, Inc.
Audit Report
For the Year Ended December 31, 2018

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of **ACCION/Chicago, Inc.**, which comprise the statement of financial position as of December 31, 2018 and 2017, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of ACCION/Chicago, Inc. as of December 31, 2018 and 2017, 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.

Effect of Adopting a New Accounting Standard

As discussed in Note 1, the Organization adopted the Financial Accounting Standard Board's Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities* as of and for the year ended December 31, 2018. Our opinion is not modified with respect to this matter.

Selden Fox, Ltd.

May 31, 2019

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

		2018		2017
Assets				
Cash:				
Unrestricted	$	69,983	$	676,526
Designated for loan loss reserve		74,734		74,667
Restricted cash		1,213,042		3,023,117
Total cash		1,357,759		3,774,310
Contributions receivable		393,539		675,804
Government receivables		751,032		80,246
Loans receivable, less allowance for loan losses of $569,919 ($477,909 in 2017)		3,639,443		3,479,484
Prepaid expenses and other assets		178,557		108,003
Investment in:				
The Hatchery Title Holding Corporation NFP		544,922		-
The Hatchery Master Tenant LLC		3,476,971		-
Hatchery deposits		-		1,076,857
Property, equipment, and software, less accumulated depreciation and amortization		477,426		423,427
Total assets	$	10,819,649	$	9,618,131
Liabilities and Members' Equity				
Liabilities:				
Deficit operating cash	$	450,886	$	-
Accounts payable		167,120		190,792
Accrued expenses		197,983		216,680
Deferred revenue		10,000		-
Refundable advances		-		1,022,612
Funds held for others		71,000		11,000
Notes payable, less discount of $793,952 ($893,137 in 2017)		3,927,518		4,455,657
Total liabilities		4,824,507		5,896,741
Net assets:				
Without donor restrictions		1,734,384		(243,848)
With donor restrictions		4,260,758		3,965,238
Total net assets		5,995,142		3,721,390
Total liabilities and net assets	$	10,819,649	$	9,618,131

See accompanying notes.

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

	2018			2017		
	Without	With		Without	With	
	Donor Restrictions		Total	Donor Restrictions		Total
Public support and revenue:						
Public support:						
Contributions - corporations, foundations, and individuals	**$ 1,256,623**	**$ 850,000**	**$ 2,106,623**	$ 1,242,689	$ 190,000	$ 1,432,689
Institute sponsorship	**-**	**-**	**-**	5,000	-	5,000
Imputed interest contribution	**-**	**25,000**	**25,000**	-	31,750	31,750
Donated services	**10,000**	**-**	**10,000**	89,778	-	89,778
Total public support	**1,266,623**	**875,000**	**2,141,623**	1,337,467	221,750	1,559,217
Government agencies:						
Community Development	**-**	**700,000**	**700,000**	-	-	-
Small Business Administration	**74,244**	**-**	**74,244**	46,340	-	46,340
U.S. Department of Commerce	**-**	**60,224**	**60,224**	-	358,614	358,614
Other	**-**	**-**	**-**	-	591	591
Total government agencies support	**74,244**	**760,224**	**834,468**	46,340	359,205	405,545
Special events:						
Contributions and ticket sales	**240,485**	**-**	**240,485**	173,240	-	173,240
Less: direct benefit to donors	**(5,249)**	**-**	**(5,249)**	(11,188)	-	(11,188)
Total special events revenue, net	**235,236**	**-**	**235,236**	162,052	-	162,052
Other revenues:						
Loan interest	**391,990**	**87,874**	**479,864**	312,114	69,818	381,932
Administrative loan fees	**128,735**	**27,035**	**155,770**	162,281	194,386	356,667
Investment income	**606**	**197**	**803**	1,864	351	2,215
Participation income	**89,619**	**-**	**89,619**	223,026	-	223,026
Equity in income (loss) of:						
The Hatchery Title Holding Corporation NFP	**544,922**	**-**	**544,922**	-	-	-
The Hatchery Master Tenant LLC	**(436,422)**	**-**	**(436,422)**	-	-	-
Hatchery contribution revenue	**2,006,483**	**-**	**2,006,483**	-	1,935,000	1,935,000
Net assets released from restrictions	**1,454,810**	**(1,454,810)**	**-**	1,554,360	(1,554,360)	-
Total other revenues	**4,180,743**	**(1,339,704)**	**2,841,039**	2,253,645	645,195	2,898,840
Total public support and revenue	**5,756,846**	**295,520**	**6,052,366**	3,799,504	1,226,150	5,025,654
Expenses:						
Program services	**3,090,390**	**-**	**3,090,390**	3,567,641	-	3,567,641
Management & general/administrative	**385,054**	**-**	**385,054**	781,385	-	781,385
Fund-raising	**303,170**	**-**	**303,170**	616,692	-	616,692
Total expenses	**3,778,614**	**-**	**3,778,614**	4,965,718	-	4,965,718
Change in net assets	**1,978,232**	**295,520**	**2,273,752**	(1,166,214)	1,226,150	59,936
Net assets, beginning of year	**(243,848)**	**3,965,238**	**3,721,390**	922,366	2,739,088	3,661,454
Net assets, end of year	**$ 1,734,384**	**$ 4,260,758**	**$ 5,995,142**	$ (243,848)	$ 3,965,238	$ 3,721,390

See accompanying notes.

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

	2018				2017			
	Program	Administrative	Fund-raising	**Total**	Program	Administrative	Fund-raising	Total
Functional expenses:								
Salaries and wages	$ 1,683,868	$ 216,613	$ 168,408	**$ 2,068,889**	$ 1,829,818	$ 476,278	$ 375,775	$ 2,681,871
Payroll taxes and fringe benefits	296,824	39,195	29,715	**365,734**	332,380	86,114	67,356	485,850
Credit and collection	234,020	-	-	**234,020**	234,637	-	-	234,637
Interest	109,003	-	-	**109,003**	87,029	-	-	87,029
Amortization of imputed interest for notes payable issued below fair value	124,183	-	-	**124,183**	149,774	-	-	149,774
Provision for loan losses	241,156	-	-	**241,156**	337,862	-	-	337,862
Occupancy	149,492	19,231	14,951	**183,674**	117,001	30,354	23,849	171,204
Professional fees and consultants	33,684	67,830	6,207	**107,721**	26,647	85,896	4,541	117,084
Professional fees and consultants - Hatchery	13,892	-	-	**13,892**	42,441	-	-	42,441
Donated services	8,139	1,047	814	**10,000**	61,354	15,918	12,506	89,778
Telephone	13,448	2,810	820	**17,078**	16,362	4,458	2,369	23,189
Insurance	9,433	7,787	941	**18,161**	8,769	8,830	1,781	19,380
Equipment rental and maintenance	14,987	1,964	1,490	**18,441**	12,571	3,311	2,562	18,444
Supplies	16,264	2,415	1,633	**20,312**	15,568	3,904	3,474	22,946
Marketing	7,323	209	3,402	**10,934**	9,782	534	12,414	22,730
Event expense	608	26	37,318	**37,952**	91,916	3,500	43,466	138,882
Travel	11,957	1,430	1,060	**14,447**	26,195	7,759	12,158	46,112
Training	16,312	1,413	1,174	**18,899**	29,951	8,453	7,118	45,522
Information technology	51,040	6,664	26,977	**84,681**	80,999	20,767	32,743	134,509
Dues and subscriptions	4,816	1,613	1,767	**8,196**	2,436	2,505	1,973	6,914
Depreciation and amortization	44,888	5,774	4,489	**55,151**	45,572	11,823	9,289	66,684
Other	5,053	9,033	2,004	**16,090**	8,577	10,981	3,318	22,876
Total expenses	$ 3,090,390	$ 385,054	$ 303,170	**$ 3,778,614**	$ 3,567,641	$ 781,385	$ 616,692	$ 4,965,718

See accompanying notes.

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

		2018		2017
Cash flows from operating activities:				
Change in net assets	**$**	**2,273,752**	$	59,936
Adjustments to reconcile change in net assets to net cash from operating activities:				
Depreciation and amortization		**55,151**		66,684
Provision for loan losses		**241,156**		337,862
Contribution revenue on below market interest loans		**(25,000)**		(31,750)
Equity in (income) loss of:				
The Hatchery Title Holding Corporation NFP		**(544,922)**		-
The Hatchery Master Tenant LLC		**436,422**		-
Interest expense on below market interest loans		**124,183**		149,774
Gain on sale of loans:				
SBA Community Advantage loans		**(37,943)**		-
Other loans		**(30,952)**		(179,186)
Changes in:				
Government receivables		**(670,786)**		410,456
Contributions receivable		**282,265**		(284,292)
Prepaid expenses and other assets		**(70,554)**		36,050
Accounts payable and accrued expenses		**(42,369)**		(68,013)
Deferred revenue		**10,000**		-
Refundable advances		**(1,022,612)**		592,406
Funds held for others		**60,000**		(245,275)
Net cash from operating activities		**1,037,791**		844,652
Cash flows from investing activities:				
Purchase of certificates of deposit		**-**		(451,448)
Maturities of certificates of deposit		**-**		956,334
Net originations of loans		**(863,528)**		(1,480,104)
Proceeds from sales of loans:				
SBA Community Advantage loans		**405,349**		-
Other loans		**125,959**		842,838
Investment in The Hatchery Master Tenant LLC		**(3,913,393)**		-
Hatchery deposits		**1,076,857**		(912,487)
Purchases of property, equipment, and software		**(109,150)**		(47,381)
Net cash from investing activities		**(3,277,906)**		(1,092,248)
Cash flows from financing activities:				
Principal repayment of notes payable		**(1,278,168)**		(375,925)
Proceeds from notes payable		**650,846**		825,599
Deficit operating cash		**450,886**		-
Net cash from financing activities		**(176,436)**		449,674
Net change in cash		**(2,416,551)**		202,078
Cash, beginning of the year		**3,774,310**		3,572,232
Cash, end of the year	**$**	**1,357,759**	$	3,774,310
Supplemental cash flow information - interest paid	**$**	**108,117**	$	92,998

See accompanying notes.

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

Organization – ACCION/Chicago, Inc. (the Organization, or ACCION Chicago) provides credit and other valued assistance services to small business owners that do not have access to traditional sources of financing. By encouraging the economic self-reliance of micro-entrepreneurs throughout Illinois and Northwest Indiana, the Organization strives to help small business owners increase their incomes, create new jobs and strengthen their communities. The majority of businesses receiving credit and other technical assistance services are located in regions of low to moderate income levels.

Income Tax Status – The Organization was granted an exemption from federal income taxes by the Internal Revenue Service pursuant to the provisions of Internal Revenue Code Section 501(c)(3). The Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A)(vi) and has been classified as an organization that is not a private foundation under Section 509(a)(1). The tax-exempt purpose of the Organization and the nature in which it operates is described in the first paragraph of Note 1. Management believes the Organization continues to operate in compliance with its tax-exempt purpose. The Organization had no unrelated business income that management believes is subject to tax in 2018 or 2017.

The Organization's annual informational returns filed with the federal and state governments are generally subject to examination by the Internal Revenue Service (IRS) for three years after filing. Thus, returns for 2015, 2016 and 2017 remain open to IRS examination.

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

Basis of Presentation – The Organization reports information regarding its financial position and activities according to two classes of net assets: without donor restrictions and with donor restrictions, as required by U.S. Generally Accepted Accounting Principles (GAAP). All contributions, including promises to give, are recognized as unrestricted revenues in the period received, unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes, are reported with donor restrictions, and increases in that net asset class. However, if a restriction is fulfilled in the same reporting period in which the contribution is received, the Organization generally reports the support without donor restrictions. The Organization has no board designated net assets at December 31, 2018 or 2017.

Gifts of long-lived assets are reported without donor restrictions, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used, and gifts of cash or other assets that must be used to acquire long-lived assets, would be reported with donor restrictions.

Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Reclassifications – Certain reclassifications were made to the statement of activities for the year ended December 31, 2017, to conform to the current year presentation. There was no effect on the change in net assets as a result of the reclassifications.

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

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

Cash – Cash consists of bank deposits in federally insured accounts. At December 31, 2018 and 2017, cash accounts exceeded federally insured limits by $511,397 and $3,385,622, respectively.

Contributions Receivable and Government Receivables – Contributions receivable and government receivables consist of grants and other contributions that are considered to be promises to give and are recorded in the year the promise is made and conditions, if any, are met. If considered necessary, an allowance for uncollectible contributions receivable would be determined based on specific pledges and experience. No allowance was deemed necessary as of December 31, 2018 and 2017. Substantially all contributions receivable are expected to be received within one year from the date of the statement of financial position and, accordingly, the amounts of the receivables at December 31, 2018 and 2017, have not been discounted.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Investment in The Hatchery Entities/Hatchery Deposits – At December 31, 2018, ACCION/Chicago has a 50% membership interest in The Hatchery Title Holding Corporation NFP and a 50% membership interest in the Hatchery Master Tenant LLC. These investments are accounted for using the equity method of accounting. Profits and losses of the Hatchery entities are allocated in accordance with the Members' respective membership interests.

Hatchery deposits of $1,076,857 at December 31, 2017, represent pre-development, development, and pre-closing costs and escrow deposits associated with various agreements as discussed in Note 5 between ACCION Chicago, Kinzie Industrial Development Corporation (KIDC), Illinois Facilities Fund (IFF), IFF Hatchery, LLC, among others, related to the development of a food incubator that is now owned by The Hatchery Title Holding Corporation, NFP, and leased to The Hatchery Master Tenant LLC, upon closing in January 2018.

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

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

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

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

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

The rate used to discount the debt is management's estimate of the interest rate an independent borrower and an independent lender would have negotiated in a similar transaction and is 7% at December 31, 2018 and 2017.

Certain Vulnerabilities and Concentrations – At December 31, 2018, 93% of government receivables are due from the Community Development Financial Institution and 7% are due from the Small Business Administration (69% of government receivables were due from the Economic Development Administration and 31% were due from the Small Business Administration at December 31, 2017). At December 31, 2018, 85% of contributions receivable are from three funding sources (74% of contributions receivable were from three funding sources at December 31, 2017). Any negative change in the economy or political environment could have an impact on contributions, fund-raising efforts, and contracts as well as government grants.

Donated Services – Contributions of services are required to be recognized if the services received (a) create or enhance non-financial assets or (b) require specialized skills and are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. The Organization received donated professional services of $10,000 during the year ended December 31, 2018 ($89,778 during 2017).

In-Kind Support – In addition to receiving cash contributions, the Organization may receive in-kind contributions from donors. In accordance with generally accepted accounting principles, the Organization records the estimated fair value of certain in-kind donations as an expense or an asset in its financial statements, and corresponding contribution revenue. The Organization did not receive such in-kind support during the years ended December 31, 2018 and 2017.

Advertising – The Organization expenses the cost of advertising as incurred. Advertising and marketing expenses were $10,934 in 2018 ($22,729 in 2017).

Functional Allocation of Expenses – The costs of providing program and other activities have been summarized on a functional basis in the statement of functional expenses. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated and consistently applied include salaries and wages, payroll taxes and fringe benefits, occupancy, donated services, equipment rental and maintenance, and depreciation and amortization, which are allocated based on employee hours for specific individuals. The remaining expenses are direct costs of program and other activities.

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

New Accounting Pronouncement – The Financial Accounting Standards Board (FASB) issued ASU 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements for Not-for-Profit Entities.* This update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Organization was required to implement this new standard in 2018. A key change required by ASU 2016-14 is that transactions and balances previously reported as unrestricted and temporarily restricted are now being reported as without donor restrictions and with donor restrictions. The ASU also required the Organization to add disclosure about the liquidity and availability of funds. The Organization has adjusted the presentation of these statements accordingly and elected not to retrospectively apply the changes for Note 8 to all periods presented. These changes had no impact on the amount of previously reported net assets.

2. **Restricted Cash**

Restricted cash is summarized at December 31, as follows:

Funding Source	Funding Purpose		**2018**	2017
Economic Development Administration	Lending: Cook County, Illinois and Lake County, Indiana	(1)	**$ 175,403**	$ 247,106
Bank of America Foundation	SBA loan loss reserve	(1),(2)	**60,000**	60,000
Accion Chicago	SBA CA loan loss reserve	(3)	**40,431**	52,281
Various Participations	Lending: Participation loans	(4)	**39,956**	105,456
City of Chicago	Lending: Chicago residents	(5)	**136,871**	400,849
Citi Business	Funds held for others	(6)	**11,000**	11,000
Tory Burch	Lending: Women entreprenue	(1)	**222,388**	158,005
Hatchery Joint Venture	Hatchery	(7)	**-**	1,951,724
Westside United Grant Pool	Funds held for others	(8)	**60,000**	-
Entreprenuers of Color/ Chase Bank	Tech Assistance and Lending: Women and People of Color	(9)	**453,205**	-
Other			**13,788**	36,696
			$ 1,213,042	$ 3,023,117

(1) This represents the cash portion of net assets with donor restrictions.
(2) The Small Business Administration notes payable agreements requires cash to be maintained in a separate, restrictive account to cover 15% of outstanding notes receivable as a loan loss reserve.
(3) The Organization has established a cash account as a reserve for potential loan losses on notes receivable as required by the Small Business Administration's Community Advantage Pilot Program. At December 31, 2018, the amount maintained in the cash account was $40,431 ($52,281 at December 31, 2017).
(4) The Organization collects payments, as a fiscal agent, on behalf of these banks (see Note 7). These funds are payable as directed by these banks and therefore are restricted.

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

(5) The Organization received funds of $400,000 from the City of Chicago to provide a revolving loan fund program under special lending restrictions. At December 31, 2017, the Organization received $849 of loan principal and interest that was deposited into the separate, restricted cash account. The amount remaining in restricted cash was $136,871 at December 31, 2018.

(6) The Organization received funds of $331,000 from Citi-Business for two separate programs; the Chicago Capital Access Centers and the Chicago Credit Building Initiative. At December 31, 2018 and 2017, the Organization held the remaining funds of $11,000 for Chicago Capital Access Centers.

(7) The Hatchery received funds towards the development of the program (see Note 5). $3,179,500 of funds were received in 2017, of which $1,227,776 was transferred to escrow funds in the project, leaving $1,951,724 in restricted cash at December 31, 2017. These remaining funds were used in the closing of the Hatchery development in January 2018. Accordingly, there are no funds remaining in restricted cash at December 31, 2018.

(8) The Organization received funds of $60,000 from multiple sources for one program: the Westside United Grant Program. At December 31, 2018, the Organization held the remaining funds of $60,000 for this grant program.

(9) The Organization received funds of $750,000 from Chase Bank for one program called Entrepreneurs of Color. Of these funds received, $296,795 was used towards lending to women entrepreneurs and people of color, and technical assistance for the program, leaving $453,205 in restricted cash at December 31, 2018.

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

The Organization has designated cash as a reserve for potential loan losses on notes receivable associated with the Small Business Administration's Notes Payable. The cash in the reserve that is in addition to the required 15% noted as restricted cash for the Small Business Administration is not restricted. At December 31, 2018 and 2017, the amount maintained in the designated cash account was $74,734 and $74,667, respectively.

4. **Conditional Promises to Give**

The Organization has received the following conditional promises to give that are not recognized as assets in the statement of financial position as of December 31, 2018:

	Term	Grant Amount	Earned or Advanced as of 12/31/2018	Funding Available
U.S. Small Business Administration - Microloan Program	7/1/18 to 6/30/19	$ 48,665	$ 15,037	$ 33,628
U.S. Small Business Administration SBA PRIME program	9/30/18 to 9/29/19	150,000	35,995	114,005
		$ 198,665	$ 51,032	$ 147,633

5. **Investment in The Hatchery Entities**

ACCION Chicago and Kinzie Industrial Development Corporation (KIDC) each have 50% membership interests in The Hatchery Title Holding Corporation NFP and The Hatchery Master Tenant LLC.

The Hatchery Title Holding Company NFP (THTHC), is an Illinois nonprofit public benefit corporation classified by the Internal Revenue Service as tax exempt under 501(c)25 of the Internal Revenue Code. THTHC's exempt purpose is to a.) acquire and hold title to the real property at 135 North Kinzie, Chicago, Illinois (Property), b.) borrow low-interest funds to improve the Property, c.) lease the Property to The Hatchery Master Tenant LLC (Master Tenant) and the Master Tenant will in turn sublease the Property to The Hatchery Chicago, Illinois, an Illinois nonprofit public benefit corporation and to ACCION Chicago, d.) to collect income from the Master Tenant for the Property, e.) pay certain expenses for the Property including debt service and appropriate reserves, and f.) remit the entire amount of such income in annual distributions, less such expenses to its members, which must be 501(c)3 organizations.

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

The Project financing closed on January 18, 2018. At closing, the Master Tenant entered into a six-year sublease with ACCION Chicago for office space with extension options (See Note 11). The Hatchery Chicago (THC) has entered into a six-year sublease with the Master Tenant for the remainder of the space. THC intends to sublease space to small food entrepreneurs.

5. **<u>Investment in The Hatchery Entities</u>** <u>(cont'd)</u>

At closing, the Master Tenant signed promissory notes with four lenders totaling $18,922,228, which are guaranteed by ACCION Chicago and KIDC pursuant to the guaranty agreement dated January 18, 2018, and secured by a leasehold mortgage and assignment of rents on the Property. The aggregate balances of the promissory notes as of December 31, 2018, totaled $15,336,114. The Master Tenant made a $20,546,500 leveraged loan to The Hatchery Investment Fund LLC, an unrelated third party, which in turn made qualified equity investments to five unrelated Community Development Entities (CDEs). The CDEs made ten qualified low-income community investment loans totaling $29,560,000 to THTHC that are secured by a mortgage and assignment of rents of the Property. The aggregate principal balances of the CDE loans as of December 31, 2018, totaled $29,560,000. The rights of THTHC and the Master Tenant are subordinate to the mortgages securing the debt on both entities.

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

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

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

<u>Hatchery Deposits</u> – In 2016, ACCION Chicago entered into an agreement with IFF Hatchery, LLC (IFF Hatchery) and KIDC for the Hatchery Project. ACCION Chicago had procured predevelopment financing in the form of multiple notes payable with a balance of $433,333 at December 31, 2017, to fund predevelopment and development costs authorized under the terms of the agreement for the Hatchery Project. The Hatchery Project had additional development stage financing as a result of joint fund-raising efforts with KIDC.

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

On January 18, 2018, IFF Hatchery was reimbursed for its portion of Project costs incurred and transferred the real property to THTHC. The notes payable procured with predevelopment financing were repaid at closing. ACCION Chicago's initial capital contribution to The Master Tenant was valued at $3,913,393. Included in 2018 Hatchery contribution revenue is $1,793,057 of TIF funds from the City of Chicago that financed part of ACCION Chicago's investment contribution in the Master Tenant.

6. **Property, Equipment, and Software**

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

	2018	2017
Furniture and equipment	**$ 310,367**	$ 307,927
Leasehold improvements	**70,308**	70,308
Software	**415,962**	415,287
Construction in process	**106,035**	-
	902,672	793,522
Less: accumulated depreciation and amortization	**(425,246)**	(370,095)
	$ 477,426	$ 423,427

Depreciation and amortization expense for the years ended December 31, 2018 and 2017, were $55,151 and $66,684, respectively.

Included in the 2017 and 2018 software total is $297,604 of software development costs, which are external software development costs that were donated to the Organization by the ACCION U.S. Network in 2016 (Note 17). At December 31, 2018 and 2017, the software was being developed and has not been depreciated.

7. **Loans Receivable**

Loans receivable consist of the following at December 31:

	2018	2017
Micro loans:		
Existing business	**$ 3,009,221**	$ 2,723,315
Start-up business	**835,072**	571,499
Balloon	**-**	24,628
Restructured	**203,937**	233,994
Total micro loans	**4,048,230**	3,553,436
SBA Community Advantage loans	**161,132**	403,957
	4,209,362	3,957,393
Less: allowance for loan losses	**(569,919)**	(477,909)
	$ 3,639,443	$ 3,479,484

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

The weighted average interest rate of the loan portfolio at December 31, 2018, was 12.0% (11.9% at December 31, 2017).

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

	Micro loans	Restructured micro loans	Community Advantage loans	Total
Allowance for Loan Losses				
Balance, January 1, 2017	$ 288,479	$ 110,743	$ 37,431	$ 436,653
Provision for loans losses	248,793	74,220	14,849	337,862
Loans charged-off	(213,650)	(113,569)	-	(327,219)
Recoveries of loans previously charged-	18,080	12,533	-	30,613
Balance, December 31, 2017	341,702	83,927	52,280	477,909
Provision for loans losses	286,229	(13,349)	(31,724)	241,156
Loans charged-off	(187,905)	(26,553)	-	(214,458)
Recoveries of loans previously charged-	50,188	15,124	-	65,312
Balance, December 31, 2018	**$ 490,214**	**$ 59,149**	**$ 20,556**	**$ 569,919**

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

	Micro loans	Restructured micro loans	SBA Community	Total
December 31, 2018:				
Collectively evaluated for impairment	**$ 490,214**	**$ 59,149**	**$ 20,556**	**$ 569,919**
Individually evaluated for impairment	**-**	**-**	**-**	**-**
Total at December 31, 2018	**$ 490,214**	**$ 59,149**	**$ 20,556**	**$ 569,919**
December 31, 2017:				
Collectively evaluated for impairment	$ 341,702	$ 83,927	$ 52,280	$ 477,909
Individually evaluated for impairment	-	-	-	-
Total at December 31, 2017	$ 341,702	$ 83,927	$ 52,280	$ 477,909

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

The loan balances in relation to the portfolio breakdown for the allowance for loan losses at December 31, is as follows:

	Micro loans	Restructured micro loans	SBA Community	Total
December 31, 2018:				
Collectively evaluated for impairment	**$3,844,293**	**$ 203,937**	**$ 161,132**	**$4,209,362**
Individually evaluated for impairment	**-**	**-**	**-**	**-**
Total loans at December 31, 2018	**$3,844,293**	**$ 203,937**	**$ 161,132**	**$4,209,362**

	Micro loans	Restructured micro loans	Community Advantage loans	Total
December 31, 2017:				
Collectively evaluated for impairment	$3,319,442	$ 233,994	$ 403,957	$3,957,393
Individually evaluated for impairment	-	-	-	-
Total loans at December 31, 2017	$3,319,442	$ 233,994	$ 403,957	$3,957,393

The following table shows an aging analysis of the loan portfolio at December 31:

	Accruing Interest			Non-Accrual		
	Current	30 - 89 Days Past Due	90 Days or More Past Due	Less than 90 Days Past Due	90 Days or More Past Due	Total Loans
December 31, 2018:						
Micro loans	**$3,505,169**	**$ 193,114**	**$ -**	**$ -**	**$ 146,009**	**$3,844,292**
Restructured micro loans	**179,441**	**11,250**	**-**	**-**	**13,247**	**203,938**
SBA Community Advantage	**149,325**	**-**	**-**	**-**	**11,807**	**161,132**
Total	**$3,833,935**	**$ 204,364**	**$ -**	**$ -**	**$ 171,063**	**$4,209,362**
December 31, 2017						
Micro loans	$3,227,024	$ 52,903	$ -	$ -	$ 39,515	$3,319,442
Restructured micro loans	213,608	16,228	-	-	4,158	233,994
SBA Community Advantage	403,957	-	-	-	-	403,957
Total	$3,844,589	$ 69,131	$ -	$ -	$ 43,673	$3,957,393

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

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

Micro Loan Participation and Servicing Agreements – During 2018, the Organization sold 100% non-recourse participation interests in micro loans with a carrying value at the time of sale of $95,007 for $125,959, resulting in a gain on the sale of the participation interest of $30,952. During 2017, the Organization sold 100% non-recourse participation interests in micro loans with a carrying value at the time of sale of $663,652 for $842,838, resulting in a gain on the sale of the participation interest of $179,186. The gain of the sale of these participations is reflected as part of participation income on the statement of activities.

The Organization has outstanding loan participation agreements with multiple banks. The banks acquired a 100% non-recourse participation interest in the underlying loan accounts. Accordingly, the loan balances are excluded from the financial records of the Organization, but the accounts are serviced by the Organization. As of December 31, 2018, the outstanding loan participation balances totaled $217,235 ($862,686 at December 31, 2017). Management has determined there is no significant risk of loss to the Organization as a result of these participation agreements.

The Organization maintains an agreement with a bank to service its micro loan portfolio, including micro loans sold by the Organization. The agreement provides that the bank will be responsible for record keeping, compliance with regulatory requirements, collection and remittance of funds to the Organization. In consideration for these services, the Organization pays the bank a fee for each loan, based upon certain classifications as defined in the agreement. Expense for loan servicing under this agreement is included in credit and collection expense on the statement of functional expenses and was $170,882 for the year ended December 31, 2018 ($168,661 for the year ended December 31, 2017).

The Organization maintains an agreement with a bank to service its SBA Community Advantage loan portfolio (see below). The agreement provides that the bank will be responsible for record keeping, compliance with regulatory requirements, collection and remittance of funds to the Organization. In consideration for these services, the Organization pays the bank a fee. The servicing fee was $10,659 for the year ended December 31, 2018 ($10,751 for the year ended December 31, 2017).

Since the Organization effectively outsources the servicing of its loans, no servicing rights are recorded by the Organization.

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

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

During 2018, the Organization originated loans totaling $158,000 and sold participating interests of the guaranteed portion of the loans with a carrying value at the time of sale of $367,406 for $405,349, resulting in a gain on the sale of the participated interest of $37,943. During 2017, the Organization originated loans totaling $195,000 and did not sell any participating interests of the guaranteed portion of loans. The participations in 2018 were sold to institutional investors in the secondary market. The remaining principal balance of the sold portion of the loans was $913,082 at December 31, 2018 ($678,652 at December 31, 2017). The Organization continues to service the sold participating interests on behalf of those that have purchased the participating interests.

Among other compliance requirements, the SBA CA program requires the establishment of loan reserves equal to at least 5% and 3%, respectively, of the unguaranteed and guaranteed portion of the SBA CA portfolio. At December 31, 2018, the Organization was in compliance with the loan loss reserve requirements.

8. **Availability and Liquidity**

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

	2018
Unrestricted cash	**$ 69,983**
Contributions and government receivables	**1,144,571**
Loans receivable, net	**3,639,443**
	4,853,997
Less:	
Receivables with donor restrictions	**(850,000)**
Revolving loan fund receivables, net	**(1,799,151)**
Other micro loan receivables, net	**(1,699,716)**
SBA Community Advantage loan receivables, net	**(140,576)**
Deficit funding of restricted cash	**(450,886)**
Plus:	
Principal and interest expected to be collected in one year:	
Other micro loan receivables	**1,521,397**
SBA Community Advantage loan receivables	**38,928**
	$ 1,473,993

ACCION Chicago is committed to its mission of providing access to credit and technical assistance for micro-entrepreneurs. The Organization continues to solicit operating grants from new sources and maintains a line of credit for liquidity. The Organization strives to be self-reliant for training the lending staff and facilitating underwriting decisions. The Organization has been successful in its ability to refinance debt and extend maturities while converting certain debts to equity equivalent debt (Note 12). In summary, the Organization relies on grants and contributions from donors, loan repayments, draws on the line of credit, and calls on the equity equivalent debt to fund operating expenses, as necessary, during the year.

8. **Availability and Liquidity** (cont'd)

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

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

Revolving loan fund receivables are assets that are required to be used for specific loan purposes and are therefore not considered to be available to meet the general cash needs of the Organization.

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

9. **Refundable Advances**

Refundable advances consist of the following as of December 31:

	2018	2017
KIDC - Share of Hatchery Chicago grant donations	**$ -**	$ 996,112
Hatchery Chicago not-for-profit donations	**-**	26,500
Total refundable advances	**$ -**	$ 1,022,612

10. **Funds Held for Others**

The Organization received net funds of $60,000 from three different sources at December 31, 2018, for a program with West Side United that will invest in small business owners on Chicago's West Side. At December 31, 2018 and 2017, the Organization also held remaining funds of $11,000 for Chicago Capital Access Centers.

11. **Leases**

On January 18, 2018, the Organization entered into a lease agreement with The Hatchery Master Tenant, LLC (Landlord) (Note 5). The 'Hatchery' lease commences on the date of substantial completion of construction of the Property and issuance of a certificate of occupancy from City of Chicago, Illinois, allowing for the permitted use of the Property and ends on the 7th anniversary of the lease agreement. On December 21, 2018, the Landlord received a partial certificate of occupancy and the lease commenced on January 1, 2019. The Organization has the option to extend the term of the lease for three consecutive terms of five years each, with 3% annual escalation in base rent or current market rent. As of December 31, 2018, no rent was due or expensed.

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

The Organization also has operating leases for its Randolph facility that expires in 2022, and certain office equipment that expires through June 2021. Rental expense for the Randolph facility and parking was $157,917 in 2018 ($146,600 in 2017) and rental expense for office equipment was $18,301 in 2018 ($17,842 in 2017). The Organization also maintains a refundable security deposit related to the facility lease in the amount of $48,228 at December 31, 2018 ($47,703 at December 31, 2017), and is included in prepaid expenses and other assets on the statement of financial position.

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

	Hatchery Facility	Randolph Facility and Parking	Office Equipment	Total
2019	$ 109,347	$ 152,878	$ 14,293	$ 276,518
2020	111,534	145,958	14,293	271,785
2021	113,765	161,458	6,390	281,613
2022	116,040	69,484	-	185,524
2023	118,361	-	-	118,361
2024	120,728	-	-	120,728
	$ 689,775	$ 529,778	$ 34,976	$ 1,254,529

In May 2019, the Organization negotiated a lease termination agreement for the Randolph Facility and parking. Total settlement for this lease was $91,000.

In 2016, the Financial Accounting Standards Board issued a new standard relating to lease accounting. The new standard will require the Organization to recognize on its statement of financial position, the asset and liability of the land lease relating to the rights and obligations created by the lease. The standard will be effective for the Organization in calendar 2020. The Organization has not determined the effect of adopting the new standard.

12. **Notes Payable**

Notes payable at December 31, are summarized as follows:

Lender		Interest Rate 12/31/18	Interest Rate 12/31/17	Interest Payment Terms	Maturity at 12/31/18	Maturity at 12/31/17	Balance at December 31, 2018	Balance at December 31, 2017
Secured Debt								
MB Financial Bank line of credit	(1)	**4.936%**	3.858%	Monthly	**09/15/19**	09/15/18	**$ 760,805**	$ 999,805
Small Business Administration	(2)	**0.500%**	0.500%	Monthly	**05/13/24**	05/13/24	**164,243**	192,329
							925,048	1,192,134
Unsecured Debt								
CDFI Fund	(3)	**0.00%**	0.00%	Quarterly	**12/31/57**	12/31/57	**491,400**	504,000
Community Savings Bank		**0.00%**	0.00%	Semiannual	**12/31/57**	12/31/57	**78,000**	80,000
Community Ventures 2011, LLC	(4)	**0.00%**	0.00%	N/A	**(4)**	(4)	**-**	100,000
Federal Home Loan Bank of Chicago	(5)	**2.13%**	2.13%	Quarterly	**07/08/26**	07/08/26	**500,000**	500,000
IFF	(6)	**5.38%**	5.38%	Monthly	**(6)**	(6)	**-**	336,259
Manaaki Foundation		**1.50%**	1.50%	Annual	**11/02/20**	11/02/20	**52,000**	52,000
							1,121,400	1,572,259
Unsecured Subordinated Debt								
Amalgamated Bank of Chicago		**3.00%**	2.00%	Quarterly	**11/30/19**	11/30/18	**50,000**	50,000
Devon Bank		**2.00%**	2.00%	Quarterly	**03/27/20**	03/27/20	**75,000**	75,000
First Midwest Bank		**2.00%**	2.00%	Quarterly	**11/30/19**	11/30/18	**50,000**	50,000
US Bancorp		**2.00%**	2.00%	Quarterly	**N/A**	03/15/18	**-**	250,000
							175,000	425,000
Equity Equivalent Debt								
Bank Financial		**2.00%**	2.00%	Monthly	**01/01/20**	01/01/19	**40,000**	40,000
Bank of America		**0.00%**	0.00%	N/A	**07/01/57**	07/01/57	**57,750**	59,250
Byline Bank		**2.00%**	2.00%	Semiannual	**10/27/20**	10/27/20	**100,000**	100,000
Byline Bank		**2.00%**	2.00%	Semiannual	**01/01/20**	01/01/19	**100,000**	100,000
Fifth Third Bank		**0.00%**	0.00%	N/A	**06/30/57**	06/30/57	**149,654**	153,542
First Bank of Highland Park		**2.00%**	2.00%	Semiannual	**12/21/21**	12/21/21	**75,000**	75,000
First Bank/Illinois		**2.00%**	2.00%	Semiannual	**04/01/19**	04/01/18	**250,000**	250,000
First Eagle Bank		**2.00%**	2.00%	Semiannual	**09/30/19**	09/30/18	**100,000**	100,000
First Eagle Bank		**2.00%**	2.00%	Semiannual	**09/02/20**	09/02/20	**100,000**	100,000
First National Bank of Omaha		**2.00%**	2.00%	Quarterly	**05/31/21**	05/31/21	**250,000**	250,000
First Savings Bank of Hegewisch		**2.00%**	2.00%	Semiannual	**01/01/23**	01/01/19	**500,000**	400,000
Inland Bank		**2.00%**	2.00%	Semiannual	**11/30/20**	11/30/20	**100,000**	100,000
Leaders Bank		**2.00%**	2.00%	Semiannual	**01/01/20**	01/01/19	**75,000**	75,000
Marquette Bank		**2.00%**	2.00%	Semiannual	**05/31/21**	05/31/21	**75,000**	75,000
MB Financial Bank		**0.00%**	0.00%	N/A	**06/01/57**	06/01/57	**76,665**	78,656
Northern Trust Company		**0.00%**	0.00%	N/A	**12/31/56**	12/31/56	**76,000**	78,000
Oxford Bank & Trust		**2.00%**	2.00%	Semiannual	**01/01/20**	01/01/19	**25,000**	25,000
Pan American Bank		**2.00%**	2.00%	Semiannual	**04/01/22**	04/01/22	**75,000**	75,000
Republic Bank		**2.00%**	2.00%	Monthly	**01/01/20**	01/01/19	**24,953**	24,953
US Bancorp		**3.00%**	N/A	Monthly	**04/19/21**	N/A	**250,000**	-
							2,500,022	2,159,401
Total							**4,721,470**	5,348,794
Less: Present value discount	(8)						**(793,952)**	(893,137)
Net long-term debt							**$ 3,927,518**	$ 4,455,657

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

(1) The Organization has a revolving line of credit with MB Financial Bank with a maximum borrowing base of the lesser of $1,500,000 or 80% of eligible accounts as defined in the business loan agreement associated with the line of credit. The line of credit is collateralized by the assets of the Organization. Interest on the line of credit is payable at the three-month LIBOR plus 2.50%.

(2) The Organization had two loans with the Small Business Administration (SBA). The Organization repaid the remaining amount of $149,001 during 2017 for the loan that was scheduled to mature in 2020. Principal and interest are payable monthly at a rate based upon average size of micro loans made, collateralized by micro loans receivable totaling $214,219 and $208,997 at December 31, 2018 and 2017, respectively, as well as cash of $163,863 and $348,750 at December 31, 2018 and 2017, respectively. The Organization is required to maintain a minimum ratio of 1.15:1 in collateralized cash plus collateralized notes receivable to SBA debt outstanding.

(3) The Department of the Treasury, Community Development Financial Institutions (CDFI) Fund had financial covenants, defined in their original agreement, relating to net assets, net revenue, and operating and capital ratios. However, the Organization has been informed by the CDFI Fund that the repayment of this debt will not be accelerated, and they are no longer required to submit reports to the CDFI Fund. In 2007, the Organization further restructured the debt agreement with the CDFI Fund, capitalizing the balance of $30,000 for past interest, reducing the interest rate to 0%, extending the maturity to 2057, and requiring quarterly payments of $3,150.

(4) To fund predevelopment costs associated with the Hatchery project (Note 5), the Organization entered into a loan agreement with Community Ventures 2011, LLC in November of 2016. The loan matured in full on the date of financial closing in January 2018. Half of the loan was guaranteed by KIDC.

(5) In January of 2016, the Organization entered into a term note with the Federal Home Loan Bank Chicago (FHLB) for a maximum amount of $1,250,000. The term note is to be disbursed in two disbursements. The first disbursement of $500,000 was drawn in 2016. The second disbursement is contingent upon the Organization achieving specified ratios under the credit agreement as defined therein. The note has a maturity date of 10 years from initial disbursement and the funds are to be used for loan capital. The note bears interest at 2.13% and is unsecured, but contains covenants related to the Organization's maintenance as a Community Development Financial Institution, maintaining a level of use of lent funds, maintaining minimum financial ratios related to net assets, liquidity, loan performance, among others. At December 31, 2018, the Organization was not in compliance with the covenant related to the deployment of lent funds. The FHLB did not waive the noncompliance for the waiver, but also did not call a default. The debt maturity schedule on the following pages assumes that the debt with the FHLB will not be called based on noncompliance with debt covenants.

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

(6) To fund predevelopment costs associated with the Hatchery project (Note 5), the Organization entered into a loan agreement with IFF in October of 2016. The loan matured on the closing of the development financing for the Hatchery in January 2018.

Maturities of debt and the present value discount for imputed interest rate on below market interest and interest-free loans at December 31, 2018, are as follows:

Future Principal Payments (Face Value)

	Secured Debt	Unsecured Debt	Unsecured Subordinated Debt	Equity Equivalent Debt	Total
2019	$ 789,032	$ 14,600	$ 100,000	$ 624,333	$ 1,527,965
2020	28,366	66,600	75,000	309,380	479,346
2021	28,510	14,600	-	659,380	702,490
2022	28,653	14,600	-	84,380	127,633
2023	28,796	14,600	-	509,380	552,776
2024 - 2028	21,691	573,000	-	46,900	641,591
2029 - 2033	-	73,000	-	46,900	119,900
2034 - 2038	-	73,000	-	46,900	119,900
2039 - 2043	-	73,000	-	46,900	119,900
2044 - 2048	-	73,000	-	46,900	119,900
2049 - 2053	-	73,000	-	46,900	119,900
2054 - 2057	-	58,400	-	31,769	90,169
	$ 925,048	$ 1,121,400	$ 175,000	$ 2,500,022	$ 4,721,470

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

Debt Discount Amortization

	Secured Debt	Unsecured Debt	Unsecured Subordinated Debt	Equity Equivalent Debt	Total
2019	$ (6,957)	$ (26,227)	$ (3,750)	$ (52,654)	$ (89,588)
2020	(5,581)	(21,857)	-	(46,380)	(73,818)
2021	(4,101)	(21,741)	-	(17,554)	(43,396)
2022	(2,504)	(21,655)	-	(13,748)	(37,907)
2023	(164)	(21,564)	-	(8,482)	(30,210)
2024 - 2028	-	(89,618)	-	(41,400)	(131,018)
2029 - 2033	-	(61,098)	-	(39,110)	(100,208)
2034 - 2038	-	(56,164)	-	(35,905)	(92,069)
2039 - 2043	-	(49,193)	-	(30,485)	(79,678)
2044 - 2048	-	(39,346)	-	(25,012)	(64,358)
2049 - 2053	-	(25,368)	-	(15,975)	(41,343)
2054 - 2057	-	(6,477)	-	(3,882)	(10,359)
	(19,307)	(440,308)	(3,750)	(330,587)	(793,952)
Total debt, net	$ 905,741	$ 681,092	$ 171,250	$ 2,169,435	$ 3,927,518

Equity Equivalent Debt, or EQ2, is a capital product for Community Development Financial Institutions and their investors. This special debt investment allows organizations like ACCION Chicago to strengthen their capital structure and increase lending and investing in economically disadvantaged communities. It is a long-term subordinated loan, offered by regulated financial institutions to fulfill their investment requirements by meeting the credit needs of the communities in which they do business. Like permanent capital, EQ2 enhances the Organization's lending flexibility and increases its debt capacity by protecting lenders from losses. Unlike permanent capital, it must eventually be repaid. To qualify as an EQ2, the obligation is not secured, is fully subordinated, essentially cannot have accelerated repayment, carries an interest rate not tied to income received by the Organization, and has a rolling term and, therefore, a relatively indeterminate maturity. Subsequent to December 31, 2018, the Organization entered into an additional Equity Equivalent debt instrument due January 1, 2024 (Note 18).

The total interest incurred and expensed on all notes payable outstanding, other than imputed interest, for the year ended December 31, 2018, was $109,003 ($87,029 in 2017).

13. Commitments and Contingencies

Financial Instruments with Concentration of Credit Risk – Loans range in size from $500 to $100,000, while their terms generally range from 2 to 60 months, with the exception of SBA CA loans that have a maximum term of 120 months. Collateral and cosigners may be required, depending upon the loan amount and the perceived credit risk. While the Organization serves all of Illinois and Northwest Indiana, most of the Organization's business activity is with borrowers located throughout Illinois, with the majority of these borrowers concentrated in the Chicagoland area. Geographic concentration risk on the Organization's borrowers arises largely from the influence of economic conditions in the Midwest region, and particularly, the Chicagoland area. The Organization's lending limit is $100,000 with the SBA CA program, but all loans over $50,000 must be underwritten and approved under the SBA CA program. Under that program, the SBA provides an 85% guarantee of the loan balance if the loan is underwritten and monitored in accordance with program standards.

Fees and Grants Received – The Organization has received significant financial assistance from federal, state and local government agencies. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and may be subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Organization. Management believes the risk related to disallowed claims is minimal.

14. Restrictions and Limitations on Net Assets

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

	2018	2017
EDA revolving loan funds	**$ 1,085,614**	$ 1,056,641
City of Chicago revolving loan funds	**397,994**	400,000
Bank of America - funds for SBA loan loss reserve	**60,000**	60,000
Tory Burch - loan funds	**222,388**	158,003
Hatchery Joint Venture funds	**150,000**	884,853
Polk Bros - grant funds	**-**	40,000
Chicago Community Trust - grant funds	**100,000**	175,000
Donated in-process software	**297,604**	297,604
Imputed Interest on below market and interest-free	**793,953**	893,137
Community Development Financial Institutions	**700,000**	-
Entreprenuers of Color funds	**453,205**	-
	$ 4,260,758	$ 3,965,238

15. **Employee Benefit Plan**

The Organization has a SIMPLE Individual Retirement Account Plan that covers all full-time employees. The plan calls for the Organization to match employee contributions to the plan dollar-for-dollar up to a maximum of 3% of employee compensation. Benefit plan expense was $40,293 for the year ended December 31, 2018 ($67,651 in 2017).

16. **Related Parties**

MB Financial employs two members of the Organization's Board of Directors. The Organization has a revolving line of credit and equity equivalent debt agreements as described in Note 12, a loan servicing agreement for the Organization's micro loan portfolio as described in Note 7, and cash accounts with a carrying amount at December 31, 2018, of $761,397 ($3,635,622 at December 31, 2017) with MB Financial Bank. Terms and conditions of the equity equivalent debt are consistent with other equity equivalent funders, and the terms and conditions of all other agreements with MB Financial Bank were negotiated at arm's length.

A member of the Board of Directors is the Chief Executive Officer of IFF. The Organization has entered into agreements and loans with IFF as disclosed in Note 5 and Note 12.

A member of the 2017 Board of Directors owns and manages First Eagle Bank. The Organization has equity equivalent debt agreements as described in Note 12 and a credit card line of $35,000. Terms and conditions of the equity equivalent debt are consistent with other equity equivalent funders.

From time to time, the Organization procures grants, financial products, and services from members of the Board of Directors or the organizations that employ them that are in addition to the specific arrangements disclosed in this note. All terms and conditions of these items are either consistent with other financial products procured by the Organization or are negotiated at an arm's length.

17. **U.S. Network**

ACCION Chicago is a member of the ACCION U.S. Network, the largest and only nationwide microlending network. The Network was officially launched in late 2011, to provide financial, marketing, and risk management support to each of the four ACCION lending companies in the United States. Members, including ACCION Chicago, ACCION East, ACCION New Mexico-Arizona-Colorado-Nevada-Texas, and ACCION San Diego each pay annual dues to the Network in order to support its work on their behalf. Together, the four ACCION affiliates continue to grow local lending operations, while the Network seeks to maximize resources nationally and to move the industry forward. The four independent organizations have served tens of thousands of clients since 1991.

18. Subsequent Events

Equity Equivalent Debt – Subsequent to year end, the Organization entered into an equity equivalent debt agreement with MUFG Union Bank, N.A, increasing their total debt to $500,000 for the period January 2, 2019 through January 1, 2024.

Subsequent events have been evaluated through May 31, 2019, which is the date the financial statements were available to be issued.

19. Future Accounting Standards

Revenue Recognition – During 2018, The Financial Accounting Standards Board (FASB) issued amended and clarifying guidance for not-for-profit entities on whether a transfer of assets is a contribution or exchange transaction and whether a contribution received (including government grants) is conditional or unconditional. A contribution will be considered conditional when the agreement includes (1) that a barrier must be overcome, and (2) either a right of return of the assets transferred or a right of release of the promisor from its obligation to transfer assets. The standard will be effective for the Organization in 2019. The Organization has not determined the effect of adopting the new standard.

Credit Losses – During 2016, FASB issued a new standard relating to the model that is to be used to calculate the allowance for credit losses. The standard introduces a model referred to as the current expected credit losses (CECL) model and it requires an entity to estimate credit losses over the life of the financial instrument or a pool of financial instruments. The standard will also expand disclosure requirements regarding an entity’s assumptions, models, and methods for estimating its allowance for credit losses. The standard was delayed for one year and will be effective for the Organization in 2022. The Organization has not determined the effect of adopting the new standard.