LOS ANGELES LDC

A Community Development Financial Institution

Los Angeles LDC, Inc. and Subsidiaries
(Nonprofit Organizations)
Consolidated Financial Statements
As of and for the Year Ended September 30, 2018
with Independent Accountants' Compilation Report

An independently owned member
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Vasquez & Company LLP
Certified Public Accountants and Business Consultants

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Independent Accountants' Compilation Report

To the Board of Directors
Los Angeles LDC, Inc. and Subsidiaries

Management is responsible for the accompanying consolidated financial statements of Los Angeles LDC, Inc. and Subsidiaries (the Organization), which comprise the consolidated statement of financial position as of September 30, 2018, and the related consolidated statements of activities and cash flows for the year then ended and the related notes to the consolidated financial statements (collectively, the financial statements) in accordance with accounting principles generally accepted in the United States of America. We have performed the compilation engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the American Institute of Certified Public Accountants. We did not audit or review the financial statements, nor were we required to perform any procedures to verify the accuracy or completeness of the information provided by management. Accordingly, we do not express an opinion, a conclusion, nor provide any form of assurance on these financial statements.

The accompanying consolidating schedule of financial position and consolidating schedule of activities are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management. The supplemental information was subject to our compilation engagement. We have not audited or reviewed the supplemental information and do not express an opinion, a conclusion, nor provide any assurance on such information.

Vasquez & Company LLP

Glendale, California
July 23, 2019

ASSETS		
Cash and cash equivalents	$	1,363,419
Notes receivable, net		-
Prepaids and other assets		294,080
Property and equipment, net		1,157,551
Total assets	$	2,815,050
LIABILITIES AND NET ASSETS (DEFICIT)		
Liabilities		
Accounts payable and accrued expenses	$	7,952
Notes payable		3,100,000
Total liabilities		3,107,952
Net assets (deficit)		
Unrestricted		(292,902)
Total net assets (deficit)		(292,902)
Total liabilities and net assets (deficit)	$	2,815,050

See notes to consolidated financial statements.

Unrestricted revenues and support		
Grants and contributions	$	85,500
Interest on investments		569
Other income		72,347
Total unrestricted revenues and support		158,416
Interest expense		1,540
Net unrestricted revenues and support		156,876
Recovery from credit losses		108,212
Net unrestricted revenues and support after recovery from credit losses		265,088
Operating expenses		
Salaries and wages		231,343
Facilities rent and utilities		50,611
Professional fees		41,898
Travel		15,694
Repairs and maintenance		9,348
Insurance		42,415
Dues, membership and subscriptions		21,993
Administration		30,546
Bank fees		2,461
Taxes and licenses		10,916
Miscellaneous		27,706
Total expenses		484,931
Change in net assets		(219,843)
Net assets (deficit)		
Beginning of year		(73,059)
End of year	$	(292,902)

See notes to consolidated financial statements.

Los Angeles LDC, Inc. and Subsidiaries
(A Nonprofit Organization)
Consolidated Statement of Cash Flows
Year ended September 30, 2018

Cash flows from operating activities		
Change in net assets:	$	(219,843)
Adjustments to reconcile change in net assets to		
net cash used in operating activities:		
Changes in assets and liabilities:		
Decrease in accounts payable and accrued expenses		(67,580)
Net cash used in operating activities		(287,423)
Cash flows from investing activities		
Acquisitions of property and equipment		(33,986)
Cash provided by investing activities		(33,986)
Change in cash and cash equivalents		(321,409)
Cash and cash equivalents - beginning of year		1,684,828
Cash and cash equivalents - end of year	$	1,363,419
Supplemental disclosures of cash flow information		
Interest paid	$	1,540

See notes to consolidated financial statements.

NOTE 1 NATURE OF THE ORGANIZATION

Los Angeles LDC, Inc. (LDC) and Subsidiaries (the Organization) is a not-for-profit community development financial services corporation organized to promote community development by initiating, sponsoring, promoting and carrying out plans, policies and activities that promote the creation and retention of jobs by expanding businesses and revitalizing economically distressed communities primarily throughout the State of California. The Organization (as defined in Note 2) provides direct loans, investments and technical assistance to businesses, real estate developers, not-for-profit service providers and other targeted borrowers operating in specific investment areas.

The Organization is a Community Development Financial Institution (CDFI). It is authorized to make commercial loans under a Commercial Finance Lenders license by the California Department of Business Oversight.

Since 1980, the Organization has operated capital access programs that originate and manage loans to eligible borrowers located in low income, underserved communities, or targeted populations which have a history of having greater difficulty in obtaining loans or investments to finance growth, expansion, revitalization, capital assets or other needs. As loan repayments are received, they are used to replenish the Organization's lending capital or retire commercial borrowings so that additional loans may be made. Loans are collateralized by real estate, equipment and other collateral, and bear interest at the prevailing market rate.

In 1999, the Organization assumed the management of the Southern California Business Development Corporation (SCBDC) and subsequently purchased the community development loan portfolio of the SCBDC, a multi-bank community development corporation. Since August 1999, the Organization has borrowed up to $3,400,000 from SCBDC, which will be used to make additional community development loans, as defined under the Community Reinvestment Act (CRA), to eligible borrowers.

In 2002, the Organization was certified as a CDFI by the CDFI Fund program. This certification requires the Organization to have a primary mission of promoting community development and maintaining other requirements as set forth in the CDFI Fund Regulation A 12CFR Part 1805 and is more fully described in 12CFR Section 1805.201. During the year ended September 30, 2018, the Organization did not receive any funds relating to the CDFI Fund program and its CDFI Fund certification has expired.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of LDC and its wholly-owned subsidiaries, 504 ACE Loan Fund II (2006), LLC and LDC Management Services, LLC (collectively, the Organization). All significant intercompany accounts and transactions are eliminated in consolidation.

- 504 ACE Loan Fund II (2006), LLC: This is a wholly-owned subsidiary of LDC that was organized in December 2001 to promote access to capital and community development in geographically targeted areas with underserved populations of low-income residents. This subsidiary was previously named EZ Credit LLC.

- LDC Management Services, LLC: This is a wholly-owned subsidiary of LDC that was organized in March 2002 to provide management services to various investment funds on behalf of LDC and its investors. The 504 ACE Loan Fund I (2004), LLC, in which it has a 10% ownership interest, is the first investment fund it is managing.

Basis of Accounting

The accompanying consolidated financial statements are presented utilizing the accrual basis of accounting.

Financial Statement Presentation

The Organization reports information regarding its financial position and activities according to three (3) classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. The Organization did not have any permanently restricted or temporarily restricted net assets at September 30, 2018.

Revenue Recognition

Loan fees are recognized as revenue when the related loan is provided. Interest income on loans, net of participations sold, is recorded as earned from the date the borrower signs the promissory note to the date the note is paid off or to the end of the reporting period. Grants and contributions are recognized as revenue in the period received.

Cash and Cash Equivalents

For purposes of reporting cash flows, the Organization considers all cash accounts not subject to withdrawal restrictions and certificates of deposit with original maturities of ninety (90) days or less to be cash or cash equivalents.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Estimated Fair Value of Financial Instruments

Financial instruments included in the Organization's consolidated statement of financial position include cash and cash equivalents, investments, notes receivable, line of credit, loan participations, and notes payable.

Generally accepted accounting principles define fair value, establish a framework for measuring fair value, and require enhanced disclosures about fair value measurements. Fair value is the amount 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 (i.e. the exit price).

The updates require enhanced disclosures about financial instruments that are measured and reported at fair value. The updates establish a fair value hierarchy that prioritizes and ranks the level of market price observability used in measuring fair value. Market price observability is impacted by a number of factors, including the type of instrument, the characteristics specific to the instrument, and the state of the marketplace (including the existence and transparency of transactions between market participants). Instruments with readily available actively quoted prices or for which fair value can be measured from actively quoted prices in an orderly market will generally have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value.

Instruments measured and reported at fair value are classified and disclosed in one of the following categories based on inputs:

Level 1 Quoted prices are available in active markets for identical instruments as of the reporting date.

Level 2 Pricing inputs are observable for the instruments, either directly or indirectly, as of the reporting date, but are other than quoted prices in active markets as in Level 1. Fair value is determined through observable trading activity reported at net asset value or through the use of models or other valuation methodologies.

Level 3 Pricing inputs are unobservable for the instruments and include situations where there is little, if any, market activity for the instruments. The inputs into the determination of fair value require significant judgment or estimation by the Organization.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Estimated Fair Value of Financial Instruments (Continued)
In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the determination of which category within the fair value hierarchy is appropriate for any given instrument is based on the lowest level of input that is significant to the fair value measurement. The Organization's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the instrument.

Notes Receivable and Related Allowance for Losses
Notes receivable are recorded in the accompanying consolidated financial statements at face value, less payments received and funds not yet disbursed. Interest on these loans is accrued monthly as earned, except where a reasonable doubt exists as to the collectability of the interest, in which case the accrual of income is discontinued. Cash receipts are allocated between interest earned and principal payment of the loan. Lending fees and costs are deferred and amortized over the life of the loan.

Loan losses are charged against the allowance for losses. Provisions for losses are based on management's judgment as to the need to absorb known and inherent risks in the loan portfolio. Accounts are charged off against the allowance when the Organization believes they are uncollectible. Receivables are considered past due or delinquent based on contractual terms.

The Organization acts as the lead lender for certain community development loans. The Organization and the participants record their proportionate share of the loans on their respective accounting records.

Property and Equipment
Purchases of property and equipment over $300 with a useful life greater than three (3) years are capitalized. Upon disposal of depreciable property, the appropriate property accounts are reduced by the related costs and accumulated depreciation. The resulting gains and losses are reflected in the consolidated statement of activities. The estimated service life of the assets for depreciation purposes may be different than their actual economic useful lives. Fully depreciated assets are retained in the accounts until their retirement.

The Organization reviews the carrying amount of its property and equipment for possible impairments when events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. Management assessed that the Organization’s property and equipment are not impaired.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allocation of Expenses

The costs of providing direct loans and technical assistance to the Organization's borrowers have been summarized on a natural classification basis in the consolidated statement of activities. Management estimates the administrative costs were approximately $143,327 for the year ended September 30, 2018.

Federal and State Income Taxes

The Organization is exempt from taxation under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation code and is generally not subject to federal or state income taxes. However, the Organization is subject to income taxes on any net income that is derived from a trade or business, regularly carried on, and not in furtherance of the purposes for which it was granted exemption. No income tax provision has been recorded as the net income, if any, from any unrelated trade or business, in the opinion of management, is not material to the consolidated financial statements taken as a whole.

FASB Accounting Standards Codification (ASC) Topic 740-10-45, *Income Taxes – Other Presentation*, prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. It requires that an organization recognize in the financial statements the impact of the tax position if that position will more likely than not be sustained on audit, based on the technical merits of the position. As of and for the year ended September 30, 2018, the Organization had no material unrecognized tax benefits or tax penalties or interest.

There are currently no audits for any tax periods in progress. The Organization’s management believes it is no longer subject to income tax examination for calendar years prior to 2013.

Use of Estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting principles 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. Significant estimates include determination of loan receivable allowance for losses and depreciation of property and equipment. Actual results could differ from those estimates.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Concentrations of Credit Risk

Financial instruments that potentially subject the Organization to concentrations of credit risk - consist principally of cash and cash equivalents and notes receivable. The Organization places its cash balances with reputable financial institutions. Concentrations of credit risk with respect to notes receivable are limited because of the large number of customers composing its loan portfolio, regular monitoring and collateral requirements. The Organization places its investments in reputable financial institutions and monitors their credit ratings periodically.

Custodial Credit Risk

Custodial credit risk is the risk that the Organization will not be able to (a) recover deposits if the depository financial institution fails, or (b) recover the value of investments or collateral securities that are in the possession of an outside party if the counterparty to the investment or deposit transaction fails.

Financial instruments that potentially subject the Organization to credit risk are cash deposits with banks and other financial institutions that are in excess of the federally insured limit of $250,000. As of September 30, 2018, the Organization has a total of $270,140 deposit accounts with banks that exceeded the Federal Deposit Insurance Corporation insured limit. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash.

NOTE 3 CASH AND CASH EQUIVALENTS

The Organization maintains its cash balances in several banks and financial institutions in Southern California.

NOTE 4 FAIR VALUE MEASUREMENTS

Following is a description of the valuation methodologies used for assets measured at fair value.

Loans, notes and line of credit: Valued at amortized cost, which approximates fair value because the loans bear interest at rates commensurate with loans of similar credit quality and duration as of year-end.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the Organization's assets and liabilities measured at fair value as of September 30, 2018:

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 1,363,419	$ -	$ -	$ 1,363,419
Notes payable	-	-	(3,100,000)	(3,100,000)
Net	$ 1,363,419	$ -	$ (3,100,000)	$ (1,736,581)

The following table sets forth a summary of changes in the fair value of the Organization's level 3 assets and liabilities for the year ended September 30, 2018.

Nature	Beginning Balance	Issuances	Settlements	Ending Balance
Notes payable	$ (3,100,000)	$ -	$ -	$ (3,100,000)

NOTE 5 NOTES RECEIVABLE AND ALLOWANCE FOR UNCOLLECTIBLE LOANS

The Organization has no outstanding notes receivable as of September 31, 2018. The notes receivable were fully settled during the fiscal year 2017.

NOTE 6 PROPERTY AND EQUIPMENT

At September 30, property and equipment is composed of the following:

Land	$	1,000,000
Building		99,384
Building improvements		50,957
Equipment		68,883
		1,219,224
Accumulated depreciation		(61,673)
Property and equipment, net	$	1,157,551

NOTE 7 NOTES PAYABLE

Notes payable consisted of promissory notes due to the Southern California Business Development Corporation (SCBDC) with interest payable in annual installments at 2% per annum. The principal balance is due at maturity on September 30, 2019, with an automatic extension of an additional year, unless the Organization delivers a written notice to SCBDC of its intention not to extend the maturity of the notes payable. The balance of the notes payable as of September 30, 2018 amounted to $3,100,000. SCBDC is evaluating the forgiveness of the $3,1000,000 notes payable at maturity.

NOTE 8 COMMITMENTS

Rent expense under operating leases amounted to $50,611 for the year ended September 30, 2018.

NOTE 9 RETIREMENT PLANS

On June 27, 2011, the Board approved a Savings Incentive Match Plan of Small Employers (SIMPLE) Individual Retirement Account (IRA) plan in which the employees can contribute up to $11,000 per annum with a 3% matching contribution by the Organization. The Organization's matching contribution expense amounted to $6,000 for the year ended September 30, 2018.

NOTE 10 SUBSEQUENT EVENTS

The Organization has evaluated events or transactions that occurred subsequent to September 30, 2018 through July 23, 2019, the date the accompanying consolidated financial statements were available to be issued, for potential recognition or disclosure in the consolidated financial statements and determined that no subsequent matters require disclosure or adjustment to the accompanying consolidated financial statements.

SUPPLEMENTAL INFORMATION

	LDC	504 ACE Loan Fund II (2006), LLC	LDC Management Services, LLC	Eliminating Entries	Total
ASSETS					
Cash and cash equivalents	$ 1,350,593	$ 8,923	$ 3,903	$ -	$ 1,363,419
Prepaids and other assets	294,080	-	-	-	294,080
Property and equipment, net	1,157,551	-	-	-	1,157,551
Due from Affiliates	20,000	-	-	(20,000)	-
Total assets	$ 2,822,224	$ 8,923	$ 3,903	$ (20,000)	$ 2,815,050
LIABILITIES AND NET ASSETS (DEFICIT)					
Liabilities					
Accounts payable and accrued expenses	$ 7,952	$ -	$ -	$ -	$ 7,952
Due to LDC	-	8,923	3,903	(12,826)	-
Notes payable	3,100,000	-	-	-	3,100,000
Total liabilities	3,107,952	8,923	3,903	(12,826)	3,107,952
Net assets (deficit)					
Unrestricted	(285,728)	-	-	(7,174)	(292,902)
Total net assets (deficit)	(285,728)	-	-	(7,174)	(292,902)
Total liabilities and net assets (deficit)	$ 2,822,224	$ 8,923	$ 3,903	$ (20,000)	$ 2,815,050

	LDC	504 ACE Loan Fund II (2006), LLC	LDC Management Services, LLC	Eliminating Entries	Total
Unrestricted revenues and support					
Grants and contributions	$ 85,500	$ -	$ -	$ -	$ 85,500
Interest on investments	569	-	-	-	569
Other income	72,347	-			72,347
Total unrestricted revenues and support	158,416	-	-	-	158,416
Interest expense	1,540	-	-	-	1,540
Net unrestricted revenues and support	156,876	-	-	-	156,876
Recovery from credit losses	108,212	-	-	-	108,212
Net unrestricted revenues and support after recovery from credit losses	265,088	-	-	-	265,088
Operating expenses					
Salaries and wages	231,343	-	-	-	231,343
Facilities rent and Utilities	50,611	-	-	-	50,611
Professional fees	41,898	-	-	-	41,898
Travel	15,694	-	-	-	15,694
Repairs and maintenance	9,348	-	-	-	9,348
Insurance	42,415	-	-	-	42,415
Dues, membership and subscriptions	21,993	-	-	-	21,993
Administration	30,546	-	-	-	30,546
Bank fees	2,461	-	-	-	2,461
Taxes and licenses	10,916	-	-	-	10,916
Miscellaneous	20,532	-	-	7,174	27,706
Total expenses	477,757	-	-	7,174	484,931
Change in net assets	(212,669)	-	-	(7,174)	(219,843)
Net assets (deficit)					
Beginning of year	(73,059)	-	-	-	(73,059)
End of year	$ (285,728)	$ -	$ -	$ (7,174)	$ (292,902)

See independent accountants' compilation report

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