Los Angeles LDC, Inc. and Subsidiaries
(Nonprofit Organizations)
Consolidated Financial Statements
As of and for the Year Ended September 30, 2019
with Independent Accountants' Compilation Report

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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, 2019, 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 schedules of financial position and schedule of activities are presented for purposes of additional analysis and are not required parts of the basic financial statements. Such information is the responsibility of management. The supplementary information was subject to our compilation engagement. We have not audited or reviewed the supplementary information and do not express an opinion, a conclusion, nor provide any assurance on such information.

Vasquez & Company LLP

Glendale, California
March 25, 2020

ASSETS		
Cash and cash equivalents	$	831,321
Prepaids and other current assets		295,898
Property and equipment, net		1,157,551
Total assets	$	2,284,770
LIABILITIES AND NET ASSETS		
Liabilities		
Notes payable	$	3,100,000
Total liabilities		3,100,000
Net assets (deficit)		
Without donor restrictions		(815,230)
Total net assets (deficit)		(815,230)
Total liabilities and net assets (deficit)	$	2,284,770

See notes to consolidated financial statements.

Revenues and support		
Grants and contributions	$	21,345
Interest on investments		880
Other income		13,196
Total revenues and support		35,421
Interest expense		63,408
Net revenues and support		(27,987)
Functional expenses		
Program expenses		
Salaries and wages		226,485
Facilities rent and utilities		47,730
Professional fees		66,998
Travel		12,178
Repairs and maintenance		15,514
Insurance		39,593
Dues, membership and subscriptions		18,761
Bank fees		2,291
Taxes and licenses		17,311
Miscellaneous		20,317
General administration		
Administration		27,163
Total expenses		494,341
Change in net assets		(522,328)
Net assets (deficit)		
Beginning of year		(292,902)
End of year	$	(815,230)

See notes to consolidated financial statements.

Cash flows from operating activities		
Change in net assets	$	(522,328)
Changes in assets and liabilities:		
Increase in prepaids and other current assets		(1,818)
Decrease in accounts payable and accrued expenses		(7,952)
Net cash used in operating activities		(532,098)
Change in cash and cash equivalents		(532,098)
Cash and cash equivalents - beginning of year		1,363,419
Cash and cash equivalents - end of year	$	831,321
Supplemental disclosures of cash flow information		
Interest paid	$	63,408

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.

In 2002, the Organization was certified as a Community Development Financial Institution (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, 2019, the Organization did not receive any funds relating to the CDFI Fund program and its CDFI Fund certification has expired.

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.

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 and Reporting

The financial statements of the Organization have been prepared in accordance with accounting principles generally accepted in the United States of America, which require the Organization to report information regarding its financial position and activities according to the following net asset classifications:

- *Net assets without donor restrictions* - Net assets that are not subject to donor-imposed restrictions and that may be expendable for any purpose in performing the primary objectives of the Organization.

- *Net assets with donor restrictions* – Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

- Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities. Donor restricted contributions whose restrictions are met within the same reporting period as received are reported as contributions without donor restrictions in the accompanying financial statements.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Estimated Fair Value of Financial Instruments
Financial instruments included in the Organization's consolidated statement of financial position include cash and cash equivalents 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.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

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.

Federal and State Income Taxes
The Organization is exempt from taxation under Section 501(c)(3) of the Internal Revenue Code and Section 23701d 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, 2019, the Organization had no material unrecognized tax benefits or tax penalties or interest.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 2015.

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 and depreciation. Actual results could differ from those estimates.

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.

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.

Custodial Credit Risk
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, 2019, the Organization has no deposit accounts with banks that exceeded the Federal Deposit Insurance Corporation insured limit.

New Accounting Pronouncement
On August 18, 2016, FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. The 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 has adjusted the presentation of these statements accordingly.

NOTE 3 LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The following represents the Organization's financial assets at September 30, 2019:

Financial assets at year end:		
Cash and cash equivalents	$	745,785
Total expenses	$	494,341
% of total available financial assets over total expenses		151%

NOTE 4 CASH AND CASH EQUIVALENTS

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

NOTE 5 FAIR VALUE MEASUREMENTS

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

Notes payable: Valued at amortized cost, which approximates fair value because the notes 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, 2019:

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 745,785	$ -	$ -	$ 745,785
Notes payable	-	-	(3,100,000)	(3,100,000)
Net	$ 745,785	$ -	$ (3,100,000)	$ (2,354,215)

NOTE 5 FAIR VALUE MEASUREMENTS (CONTINUED)

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, 2019.

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

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, 2018, 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, 2019 amounted to $3,100,000.

On December 12, 2019, the Organization entered into a Note Purchase Agreement with SCBDC in relation to the outstanding debt from the latter amounting to $3,100,000 as of September 30, 2019 (Note 6). SCBDC agreed to forgive payment of the outstanding debt in full in consideration of the Organization's payment of $1 to SCBDC.

NOTE 8 COMMITMENTS

Rent expense under operating leases amounted to $47,730 for the year ended September 30, 2019.

NOTE 9 RETIREMENT PLAN

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 $2,687 for the year ended September 30, 2019.

NOTE 10 SUBSEQUENT EVENTS

The Organization has evaluated events or transactions that occurred subsequent to September 30, 2019 through March 25, 2020, 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 other than the matter disclosed in Note 7.

SUPPLEMENTAL INFORMATION

	LDC	504 ACE Loan Fund II (2006), LLC	LDC Management Services, LLC	Eliminating Entries	Total
ASSETS					
Cash and cash equivalents	$ 818,479	$ 8,939	$ 3,903	$ -	$ 831,321
Prepaids and other current assets	295,898	-	-	-	295,898
Property and equipment, net	1,157,551	-	-	-	1,157,551
Due from affiliates	20,000	-	-	(20,000)	-
Total assets	$ 2,291,928	$ 8,939	$ 3,903	$ (20,000)	$ 2,284,770
LIABILITIES AND NET ASSETS					
Liabilities					
Due to LDC	$ -	$ 8,939	$ 3,903	$ (12,842)	$ -
Notes payable	3,100,000	-	-	-	3,100,000
Total liabilities	3,100,000	8,939	3,903	(12,842)	3,100,000
Net assets (deficit)					
Without donor restrictions	(808,072)	-	-	(7,158)	(815,230)
Total net assets (deficit)	(808,072)	-	-	(7,158)	(815,230)
Total liabilities and net assets (deficit)	$ 2,291,928	$ 8,939	$ 3,903	$ (20,000)	$ 2,284,770

	LDC	504 ACE Loan Fund II (2006), LLC	LDC Management Services, LLC	Eliminating Entries	Total
Revenues and support					
Grants and contributions	$ 21,345	$ -	$ -	$ -	$ 21,345
Interest on investments	880	-	-	-	880
Other income	13,196	-			13,196
Total revenues and support	35,421	-	-	-	35,421
Interest expense	63,408	-	-	-	63,408
Net revenues and support	(27,987)	-	-	-	(27,987)
Functional expenses					
Program expenses					
Salaries and wages	226,485	-	-	-	226,485
Facilities rent and utilities	47,730	-	-	-	47,730
Professional fees	66,998	-	-	-	66,998
Travel	12,178	-	-	-	12,178
Repairs and maintenance	15,514	-	-	-	15,514
Insurance	39,593	-	-	-	39,593
Dues, membership and subscriptions	18,761	-	-	-	18,761
Bank fees	2,291	-	-	-	2,291
Taxes and licenses	17,311	-	-	-	17,311
Miscellaneous	13,159	-	-	7,158	20,317
General and administration					
Administration	27,163	-	-		27,163
Total expenses	487,183	-	-	7,158	494,341
Change in net assets	(515,170)	-	-	(7,158)	(522,328)
Net assets (deficit)					
Beginning of year	(292,902)	-	-	-	(292,902)
End of year	$ (808,072)	$ -	$ -	$ (7,158)	$ (815,230)

See independent accountants' compilation report

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