

ASSETS LANCASTER

Consolidated Financial Statements

Year Ended June 30, 2019

ASSETS LANCASTER
CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2019

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BERTZ, HESS & CO., LLP

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors

ASSETS Lancaster

Lancaster, Pennsylvania

We have audited the accompanying consolidated financial statements of ASSETS Lancaster (a nonprofit organization) and subsidiary, which comprise the consolidated statements of financial position as of June 30, 2019 and 2018, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

To the Board of Directors
ASSETS Lancaster
Lancaster, Pennsylvania

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of ASSETS Lancaster and subsidiary as of June 30, 2019 and 2018, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 15, the Organization adopted the new accounting guidance required by the Financial Accounting Standards Board's *Accounting Standards Update 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, and changed its classification of net assets and enhanced its disclosures about net assets, expenses, and liquidity. The changes in accounting principle has been applied retrospectively to the beginning balances presented. Our opinion is not modified with respect to this matter.

Bertz, Hess & Co., LLP

BERTZ, HESS & CO., LLP
Lancaster, Pennsylvania
February 25, 2020

ASSETS LANCASTER
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2019 AND 2018

ASSETS	2019	2018
CURRENT ASSETS		
Cash	\$ 740,008	\$ 437,008
Accounts receivable	40,590	26,488
Notes receivable, microloans (net of allowance for uncollectible accounts of \$10,683 and \$9,500 for 2019 and 2018, respectively)	61,683	38,910
Grants receivable	23,442	-
Unconditional promises to give	6,401	22,001
Prepaid expenses	6,863	6,222
Total Current Assets	878,987	530,629
PROPERTY AND EQUIPMENT, At Cost		
Office furniture	31,606	31,606
Computer equipment	53,702	51,741
Less accumulated depreciation	(53,551)	(41,519)
Net Property and Equipment	31,757	41,828
OTHER ASSETS		
Notes receivable, microloans, long-term	121,136	47,708
TOTAL ASSETS	\$ 1,031,880	\$ 620,165

See notes to financial statements.

LIABILITIES AND NET ASSETS	2019	2018
CURRENT LIABILITIES		
Notes payable	\$ 81,367	\$ 44,830
Line of credit	130,000	-
Accounts payable	14,773	33,251
Escrow payable	5,374	1,909
Accrued payroll	46,558	25,423
Compensated absences	19,466	13,465
Total Current Liabilities	297,538	118,878
LONG TERM LIABILITIES		
Notes payable	180,267	130,693
TOTAL LIABILITIES	477,805	249,571
NET ASSETS		
Without donor restrictions	(53,012)	(48,705)
With donor restrictions	607,087	419,299
TOTAL NET ASSETS	554,075	370,594
TOTAL LIABILITIES AND NET ASSETS	\$ 1,031,880	\$ 620,165

ASSETS LANCASTER
CONSOLIDATED STATEMENTS OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019

	Without Donor Restrictions	With Donor Restrictions	2019 Totals
PUBLIC SUPPORT AND OTHER INCOME			
Government Grants			
City grants	\$ 5,000	\$ -	\$ 5,000
Federal grants	239,550	441,378	680,928
Contributions and Other Grants			
Foundation grants	193,728	-	193,728
Corporate contributions	160,988	-	160,988
Individual contributions	148,377	-	148,377
Other Income			
Program income	336,750	-	336,750
Interest income	7,326	-	7,326
Total Public Support and Other Income	1,091,719	441,378	1,533,097
EXPENSES			
Program services	1,070,079	-	1,070,079
Management and general	182,277	-	182,277
Fundraising	97,260	-	97,260
Total Expenses	1,349,616	-	1,349,616
TOTAL PUBLIC SUPPORT AND OTHER INCOME IN EXCESS (DEFICIENCY) OF EXPENSES	(257,897)	441,378	183,481
OTHER CHANGES IN NET ASSETS			
Net assets released from restrictions	253,590	(253,590)	-
CHANGE IN NET ASSETS	\$ (4,307)	\$ 187,788	\$ 183,481
NET ASSETS, BEGINNING	\$ (48,705)	\$ 419,299	\$ 370,594
Change in Net Assets	(4,307)	187,788	183,481
NET ASSETS, ENDING	\$ (53,012)	\$ 607,087	\$ 554,075

See notes to financial statements.

ASSETS LANCASTER
CONSOLIDATED STATEMENTS OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018

	Without Donor Restrictions	With Donor Restrictions	2018 Totals
PUBLIC SUPPORT AND OTHER INCOME			
Government Grants			
City grants	\$ 5,000	\$ -	\$ 5,000
Federal grants	302,303	280,928	583,231
Contributions and Other Grants			
Foundation grants	147,846	23,404	171,250
Corporate contributions	177,774	-	177,774
Individual contributions	143,325	-	143,325
Other Income			
Program income	314,107	-	314,107
Interest income	4,372	-	4,372
Miscellaneous income	90	-	90
Total Public Support and Other Income	1,094,817	304,332	1,399,149
EXPENSES			
Program services	1,033,258	-	1,033,258
Management and general	154,521	-	154,521
Fundraising	91,861	-	91,861
Total Expenses	1,279,640	-	1,279,640
TOTAL PUBLIC SUPPORT AND OTHER INCOME IN EXCESS (DEFICIENCY) OF EXPENSES	(184,823)	304,332	119,509
OTHER CHANGES IN NET ASSETS			
Impairment loss (Note 6)	(551,997)	-	(551,997)
Net assets released from restrictions	190,827	(190,827)	-
CHANGE IN NET ASSETS	\$ (545,993)	\$ 113,505	\$ (432,488)
NET ASSETS, BEGINNING	\$ 497,288	\$ 305,794	\$ 803,082
Change in Net Assets	(545,993)	113,505	(432,488)
NET ASSETS, ENDING	\$ (48,705)	\$ 419,299	\$ 370,594

See notes to financial statements.

ASSETS LANCASTER
CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2019

	Program Services	Management and General	Fundraising	2019 Totals
Wages	\$ 447,074	\$ 125,362	\$ 62,681	\$ 635,117
Health insurance	42,262	12,075	6,037	60,374
Payroll taxes	36,830	10,523	5,261	52,614
Retirement plan contributions	8,606	2,459	1,229	12,294
Contract labor	220,884	-	-	220,884
Staff development and travel	13,067	3,733	1,867	18,667
Depreciation	-	12,032	-	12,032
Bad debt expense	12,980	-	-	12,980
Interest expense	8,571	-	-	8,571
Repairs and maintenance	11,146	-	2,787	13,933
Insurance	9,414	2,690	1,345	13,449
Telephone	1,958	560	280	2,798
Utilities	14,157	4,045	2,023	20,225
Program expenses	73,491	-	-	73,491
Program development	38,132	-	3,497	41,629
Miscellaneous	-	-	293	293
Office expense	31,485	-	5,560	37,045
Postage	166	-	-	166
Professional fees	17,495	4,998	2,499	24,992
Consulting	69,060	-	-	69,060
Administrative expenses	9,383	2,681	1,341	13,405
Registration and memberships	3,918	1,119	560	5,597
Total Expenses	\$ 1,070,079	\$ 182,277	\$ 97,260	\$ 1,349,616

See notes to financial statements.

ASSETS LANCASTER
CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2018

	Program Services	Management and General	Fundraising	2018 Totals
Wages	\$ 482,896	\$ 97,908	\$ 48,954	\$ 629,758
Health insurance	32,710	9,346	4,673	46,729
Payroll taxes	45,539	8,232	4,116	57,887
Retirement plan contributions	6,226	1,779	889	8,894
Contract labor	56,350	-	-	56,350
Staff development and travel	29,559	8,445	4,223	42,227
Depreciation	-	11,522	-	11,522
Bad debt expense	5,789	-	-	5,789
Interest expense	3,818	-	-	3,818
Repairs and maintenance	9,806	-	2,451	12,257
Insurance	15,194	4,341	2,171	21,706
Rent	75	22	11	108
Telephone	2,232	638	319	3,189
Utilities	14,150	4,043	2,021	20,214
Program expenses	82,622	-	-	82,622
Program development	54,390	-	16,746	71,136
Miscellaneous	-	-	184	184
Office expense	31,603	-	981	32,584
Postage	1,918	-	-	1,918
Professional fees	23,707	6,774	3,387	33,868
Consulting	129,527	-	-	129,527
Administrative expenses	3,125	893	446	4,464
Registration and memberships	2,022	578	289	2,889
Total Expenses	\$ 1,033,258	\$ 154,521	\$ 91,861	1,279,640

See notes to financial statements.

ASSETS LANCASTER
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 183,481	\$ (432,488)
Adjustments to reconcile change in net assets to cash provided by operating activities:		
Depreciation and amortization	12,032	11,522
Impairment loss	-	551,997
(Increase) decrease in:		
Accounts receivable	(14,102)	(17,844)
Notes receivable, microloans (net of allowance for uncollectible accounts)	(96,201)	(55,863)
Grants receivable	(23,442)	-
Unconditional promises to give	15,600	125,000
Prepaid expenses	(641)	(4,159)
Increase (decrease) in:		
Accounts payable	(18,478)	5,515
Escrow payable	3,465	(1,464)
Accrued payroll	21,135	1,341
Compensated absences	6,001	1,435
Cash Provided by Operating Activities	88,850	184,992
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(1,961)	(8,498)
CASH FLOWS FROM FINANCING ACTIVITIES		
Borrowings (repayments) on line of credit, net	130,000	(67,000)
Payments on long-term debt	(13,889)	(40,417)
Proceeds from long-term debt	100,000	111,250
Cash Provided by Financing Activities	216,111	3,833
NET INCREASE IN CASH	303,000	180,327
Cash at Beginning of Year	437,008	256,681
Cash at End of Year	\$ 740,008	\$ 437,008
SCHEDULE OF SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid during the year for interest	\$ 8,571	\$ 3,818

See notes to financial statements.

ASSETS LANCASTER
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR YEARS ENDED JUNE 30, 2019 AND 2018

NOTE 1: ORGANIZATION DATA

ASSETS Lancaster (the "Organization") is a nonprofit organization whose purpose is to create economic opportunity and cultivate entrepreneurial leadership to alleviate poverty and build vibrant, sustainable communities. The Organization does this by providing business development services including training, mentoring, technical assistance and lending to underrepresented entrepreneurs and social enterprises in South Central Pennsylvania, with a focus on Lancaster County and Lancaster City. The Organization was incorporated as a Pennsylvania not-for-profit corporation in October 1995.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accompanying consolidated financial statements have been prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). Accordingly, revenue is recognized when earned and expenses are recognized when incurred.

Principles of Consolidation

The consolidated financial statements of ASSETS Lancaster and subsidiary include the accounts of ASSETS Lancaster and its wholly owned subsidiary Lancaster Works at ASSETS, LLC. ASSETS Lancaster and its subsidiary entity are referred to collectively as the "Organization." All significant financial activity between ASSETS Lancaster and its wholly owned subsidiary is eliminated in the preparation of the consolidated financial statements.

Financial Statement Presentation

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

Net Assets Without Donor Restrictions

Net assets without donor restrictions are not subject to donor-imposed stipulations. Net assets without donor restrictions may be designated for specific purposes by action of the Board of Directors or may otherwise be limited by contractual agreements with outside parties.

Net Assets With Donor Restrictions

The use of net assets with donor restrictions is subject to donor-imposed stipulations that can be fulfilled by actions of the Organization pursuant to those stipulations or that expire by the passage of time.

Revenues are reported as increases in net assets without donor restrictions unless they are restricted by donor-imposed stipulations. Expenses are generally reported as decreases in net assets without donor restrictions. Satisfaction of donor-imposed stipulations that simultaneously increase net assets without donor restrictions and decrease net assets with donor restrictions are reported as reclassifications. Donor restricted revenue received and expended during the same fiscal year is recorded as revenue without donor restrictions in the consolidated statement of activities.

ASSETS LANCASTER
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR YEARS ENDED JUNE 30, 2019 AND 2018

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash

For purposes of reporting the consolidated statement of cash flows, the Organization considers all cash accounts which are not subject to withdrawal restrictions or penalties and all highly liquid debt instruments purchased with an original maturity of three months or less to be cash.

Property and Equipment

Property and equipment are recorded at cost, or if donated, at approximate fair value at the date of donation. The Organization capitalizes property and equipment costing in excess of \$500. Expenditures for maintenance and repairs that materially improve or extend the life of assets are also capitalized.

Depreciation of property and equipment is computed on the straight-line method. Estimated lives are generally as follows:

Office furniture	5 years
Computer equipment	5 to 7 years

Depreciation expense for the years ended June 30, 2019 and 2018 was \$12,032 and \$11,522, respectively.

Contributed Services

A number of unpaid volunteers have made significant contributions of time to the Organization for the purpose of providing training, mentoring and technical assistance to the entrepreneurs in the Organization's development courses. In accordance with the accrual basis of accounting described above, the Organization has not recorded the value of these contributed services in the accompanying financial statements.

Functional Allocation of Expenses

Direct expenses are assigned to the functional expense classifications to which they apply. Management, overhead, and general and administrative costs which are not identifiable with a single program or fund-raising activity, but are indispensable to the conduct of those activities and to the Organization's existence, are allocated to those program and supporting services which benefit from the expenses. The allocation percentages are reviewed annually for reasonableness.

Income Tax Status

The Organization is a not-for-profit entity as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from income taxes on related activities pursuant to Section 509(a) of the Code.

Tax returns are open for examination by the Internal Revenue Service for three years from the due date of the returns. The tax years subject to examination by the state jurisdiction are unlimited. The Organization has evaluated its tax filings for the open tax years for uncertain tax positions.

ASSETS LANCASTER
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR YEARS ENDED JUNE 30, 2019 AND 2018

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Management's Evaluation of Subsequent Events

Events that occurred subsequent to June 30, 2019 have been evaluated by the Organization's management through the date of the independent auditors' report, which is the date the financial statements were available to be issued.

NOTE 3: CONCENTRATIONS

Credit Risk

The Organization maintains its cash at financial institutions located in South Central Pennsylvania. The balances are insured by the Federal Deposit Insurance Corporation (FDIC) and the National Credit Union Association (NCUA), both up to \$250,000. The Organization had balances in excess of the FDIC or NCUA insurance limits of \$222,989 and \$121,044 at June 30, 2019 and June 30, 2018, respectively.

Support and Revenue

During the year ended June 30, 2019, approximately 38% of total public support and other income was attributable to two grantors. During the year ended June 30, 2018, approximately 41% of total public support and other income was attributable to two grantors.

Notes Receivable

During the year ended June 30, 2019, microloan notes receivable (Note 4) from one borrower comprised approximately 10% of total gross notes receivable. During the year ended June 30, 2018, microloan notes receivable from five borrowers comprised 85% of total gross notes receivable.

NOTE 4: NOTES RECEIVABLE, MICROLOANS

The Organization provides notes receivable in the form of microloans in the following categories:

Small Business Loans

Small Business Loans provide funding between \$600 and \$10,000 to new and existing small business owners. Certain participants provide an initial escrow deposit equal to one month's loan payment as a guarantee for all loans within that loan pool, which creates a model that induces mutual responsibility for members of the loan pool. These loans bear interest at rates of 8.5% for loans issued during the year ended June 30, 2019 and between 8.5% and 9.0% for the loans issued during the year ended June 30, 2018 and have various maturity dates through May 2023.

Social Impact Loans

Social Impact Loans provide funding between \$10,000 and \$50,000 to established small business owners who are committed to becoming B-Corporation certified within 12 months of receiving Social Impact Loan funding. Social Impact Loans are unsecured. These microloans bear interest at rates between 4.0% and 8.5% for the year ended June 30, 2019 and 4.0% and 6.25% for the year ended June 30, 2018 and have various maturity dates through June 2023.

ASSETS LANCASTER
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR YEARS ENDED JUNE 30, 2019 AND 2018

NOTE 4: NOTES RECEIVABLE, MICROLOANS (Continued)

Balances of notes receivable by category of program as of June 30, 2019 and 2018 are as follows:

	2019	2018
Small Business Loans	\$ 46,211	\$ 13,839
Social Impact Loans, unsecured	147,291	82,279
Subtotal	193,502	96,118
Less: Loan loss reserve	(10,683)	(9,500)
<u>Total</u>	\$ 182,819	\$ 86,618

Maturities of loans receivable are as follows at June 30:

	\$ 72,366
2020	72,366
2021	56,590
2022	43,029
2023	21,517
<u>Total</u>	\$ 193,502

Changes to the loan loss reserve for the years ended June 30, 2019 and 2018 are as follows:

	2019	2018
Beginning Balance	\$ 9,500	\$ 4,600
Provision for loan losses	1,946	5,777
Write-off of uncollectible loans, net of recoveries	(763)	(877)
<u>Ending Balance</u>	\$ 10,683	\$ 9,500

Credit Losses

The Organization maintains a cash reserve for loan losses as follows:

- An escrow account is made up of one months' payment from certain notes receivable as noted above for a total of 23% and 18% of all guaranteed loans outstanding as of June 30, 2019 and 2018, respectively. Other notes receivable are unsecured.

ASSETS LANCASTER
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR YEARS ENDED JUNE 30, 2019 AND 2018

NOTE 4: NOTES RECEIVABLE, MICROLOANS (Continued)

Credit Losses (Continued)

- The Organization maintains additional cash reserves to total at least 15% of all loans outstanding as a cash reserve against potential losses.

Loans determined to be uncollectible are charged to the escrow account during the period in which such determination is made. The Organization makes periodic credit reviews of the Lending Circle portfolios and considers current economic conditions, historical loan loss experience and other factors to determine whether to write off a loan. During the years ended June 30, 2019 and 2018, the Organization wrote off \$1,363 and \$2,652 of loans as uncollectible, respectively. As of June 30, 2019 and 2018, the Organization held \$5,374 and \$1,909, respectively, in escrow.

Credit Quality Considerations

The Organization provides micro-lending to new business entrepreneurs who may not possess the credit history required to qualify for bank financing. Therefore, the credit policies may result in more risks than traditionally used by banks and other financial institutions. The Organization does not measure credit quality in accordance with standards such as those ratings identified in Moody's Investor Services.

NOTE 5: UNCONDITIONAL PROMISES TO GIVE

Unconditional promises to give are recognized as revenues in the period promised. Unconditional promises to give that are expected to be collected within one year are recorded at the anticipated collectible value. Unconditional promises to give that are expected to be collected in future years are recorded at fair value, which is measured at the present value of their future cash flows using risk-adjusted interest rates applicable to the years in which the promises are expected to be received. At June 30, 2019 and 2018, all promises to give are expected to be collected within one year and are therefore not discounted. Management anticipates the pledges to be fully collectible. Unconditional promises to give are reported as increases in donor restricted net assets depending upon the nature of the restrictions. When a restriction expires, donor restricted net assets are reclassified to net assets without donor restrictions. As of June 30, 2019 and 2018, unconditional promises to give were \$6,401 and \$22,001, respectively.

NOTE 6: IMPAIRMENT LOSS

During the year ended June 30, 2015, the Organization received a federal grant through the United States Department of Health and Human Services under the Community Development Block Grant Program to assist a local business in startup costs. The Organization loaned \$400,000 of the grant proceeds to an unrelated business entity. During the year ended June 30, 2016, an additional \$141,000 of grant proceeds was advanced to the business entity upon successful completion of certain objectives. The business ceased operations during 2018 and the Organization deemed the full amount of the receivable and accrued interest of \$10,997 to be uncollectible. For the year ended June 30, 2018, the Organization recorded an impairment loss of \$551,997.

NOTE 7: COMPENSATED ABSENCES

Full-time employees of the Organization are entitled to paid time off depending on length of service and other factors. The Organization allows full-time employees to carry a balance of 30 days of paid time off from the prior year. At June 30, 2019 and 2018, the liability for compensated absences amounted to \$19,466 and \$13,465, respectively.

ASSETS LANCASTER
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR YEARS ENDED JUNE 30, 2019 AND 2018

NOTE 8: LINE OF CREDIT

The Organization has a \$200,000 line of credit with a local financial institution. The loan is secured by accounts receivable, inventory, general intangibles and property and equipment. The interest rate is based on the bank's prime rate, subject to a floor of 5.50%. The applicable interest rate in effect was 6.50% at June 30, 2019 and 2018. The Organization had a balance on the line of credit at June 30, 2019 of \$130,000. No balance was outstanding as of June 30, 2018.

NOTE 9: NOTES PAYABLE

The Organization has an unsecured note payable from an individual in the amount of \$30,000. The loan's prime rate of interest is based upon announcements published in the Wall Street Journal. The interest rate was 5.50% as of June 30, 2019, and is payable within 60 days upon demand. No interest was paid as of June 30, 2019.

During the year ended June 30, 2018, the Organization obtained an unsecured non-interest-bearing note payable from a local government for \$30,940. No discount has been recognized on this note. Management believes this departure from generally accepted accounting principles is immaterial to the consolidated financial statements taken as a whole. The loan is payable upon demand within 90 days of receiving written notice from the payee.

In August 2016, the Organization obtained a SBA micro-lending loan note payable with a maximum amount of \$125,000. Proceeds for the note payable must be used to relend to eligible small business concerns. The note is payable 120 months from the date of the note, with variable interest accruing between 0% and 1.125% per annum, based on certain performance criteria within the portfolio. During the first 24 months, the interest rate on the note payable will be 0%. No payments of principal are required during the first 12 months on the note payable. The note payable is secured by all funds held in the Microloan Revolving Fund, a security interest in all funds held in the Loan Loss Reserve Fund, and in all microloans made as a result of funding received under the Microloan Program. At June 30, 2019 and 2018, the balance on this note payable was \$100,694 and \$114,583, respectively.

In August 2018, the Organization obtained a SBA micro-lending loan note payable with a maximum amount of \$100,000. Proceeds for the note payable must be used to relend to eligible small business concerns. The note is payable 120 months from the date of the note, with variable interest accruing between 0.75% and 2.75% per annum, based on certain performance criteria within the portfolio. During the first 24 months, the interest rate on the note payable will be .75%. No payments of principal are required during the first 12 months on the note payable. The note payable is secured by all funds held in the Microloan Revolving Fund, a security interest in all funds held in the Loan Loss Reserve Fund, and in all microloans made as a result of funding received under the Microloan Program. At June 30, 2019 and 2018, the balance on this note payable was \$100,000 and \$0, respectively.

ASSETS LANCASTER
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR YEARS ENDED JUNE 30, 2019 AND 2018

NOTE 9: NOTES PAYABLE (Continued)

Notes payable consist of the following at June 30, 2019 and 2018:

	2019		2018	
	Balance	Current Portion	Balance	Current Portion
Note payable, individuals, unsecured	\$ 30,000	\$ 30,000	\$ 30,000	\$ -
Note payable, governmental agency, unsecured	30,940	30,940	30,940	30,940
Notes payable, governmental agency, secured	200,694	20,427	114,583	13,890
Total notes payable	261,634	<u>\$ 81,367</u>	175,523	<u>\$ 44,830</u>
Less Current Portion	<u>81,367</u>		<u>44,830</u>	
Total Long-Term Debt	\$ 180,267		\$ 130,693	

Maturities of notes payable are as follows at June 30:

2020	\$ 81,367
2021	24,798
2022	24,881
2023	24,963
2024	25,047
Thereafter	80,578
Total	<u>\$ 261,634</u>

NOTE 10: NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following at June 30:

	2019	2018
BB&T - Measure What Matters	\$ -	\$ 81,661
LCCF - Great Social Enterprise Pitch	-	18,404
Wyomissing Foundation	38,305	38,305
SBA Women's Business Center	13,379	-
Community Development Financial Institution	555,403	280,929
Total net assets with donor restrictions	<u>\$ 607,087</u>	<u>\$ 419,299</u>

The Measure What Matters represents a grant from the BB&T Economic Growth Fund of the Lancaster County Community Foundation.

ASSETS LANCASTER
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 FOR YEARS ENDED JUNE 30, 2019 AND 2018

NOTE 10: NET ASSETS WITH DONOR RESTRICTIONS (Continued)

The LCCF - Great Social Enterprise Pitch represents grants of \$20,000 for each of the years ended June 30, 2019 and 2018 for the purpose of analysis of improvement and environmental impact, and strengthening the Impact Fund.

The Wyomissing Foundation represents a grant of \$44,000 for two years to support a two year Credit-Building Circle Pilot in Reading, Pennsylvania. The initial \$22,000 was received in 2017, with a second \$22,000 issued upon meeting certain criteria of the grant.

The SBA Women's Business Center represents a grant of \$157,278 for the year ended June 30, 2019 for the purposes of providing business services to women-owned businesses.

The Community Development Financial Institution represents grants of \$428,000 and \$350,000 for the years ended June 30, 2019 and 2018, respectively, to support the expansion of the Organization's microlending.

NOTE 11: RETIREMENT PLAN

The Organization has a SIMPLE IRA retirement plan for employees. The plan provides a matching benefit of up to 3% of employee contributions. In March 2017, the Organization began an additional 2% SIMPLE IRA match program for employees. Total retirement plan expense for the years ended June 30, 2019 and 2018 was \$12,294 and \$8,894, respectively.

NOTE 12: OPERATING LEASES

The Organization leased a copier for 39 monthly payments of \$144. This lease ended at the end of October of 2017 after a new lease was subsequently signed. The lease renewal is for 60-months with a monthly payment of \$151. Total lease expense for the years ended June 30, 2019 and 2018 was \$2,003 and \$1,997, respectively, and is included in office expense in the statement of functional expenses.

The approximate remaining annual minimum lease payments under non-cancellable operating leases existing as of June 30, 2019 for each of the years ended June 30 are:

2020	\$	1,812
2021		1,812
2022		1,812
2023		604
Total	\$	6,040

NOTE 13: RELATED PARTY TRANSACTIONS

For the years ended June 30, 2019 and 2018, one member of the Board of Directors is an employee of the financial institution where the Organization maintains certain cash balances and its line of credit.

For the years ended June 30, 2019 and 2018, the Organization received donations from two board members totaling \$19,845 and \$15,600, respectively.

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NOTE 13: RELATED PARTY TRANSACTIONS (Continued)

For the year ended June 30, 2019, an employee of the Organization is also employed by a loan borrower. The balance of the loan amount owed to the Organization is \$18,567.

NOTE 14: LANCASTER WORKS AT ASSETS, LLC

The Organization is the 100% owner of Lancaster Works at ASSETS, LLC, a for-profit limited liability company whose services include contract and temporary-to-permanent job placements, payroll services, and executive recruiting. Lancaster Works at ASSETS, LLC operates as a B-Corporation staffing agency. The consolidated financial statements of ASSETS Lancaster include the accounts of Lancaster Works at ASSETS, LLC.

NOTE 15: CHANGE IN ACCOUNTING PRINCIPLE

The Financial Accounting Standards Board enacted *Accounting Standards Update ASU 2016-14*, an update to its *Accounting Standards Codification (ASC) Topic 958, Not-for-Profit Entities*. The standard is effective for fiscal years beginning after December 15, 2017. The new guidance changed the Organization's classification of net assets and enhanced its disclosures about net assets, expenses and liquidity. Accordingly, the Organization reviewed its net asset classifications and reclassified \$497,288 of unrestricted net assets to net assets without donor restrictions as of July 1, 2017. Additionally, the Organization also reclassified \$305,794 of temporarily restricted net assets to net assets with donor restrictions as of July 1, 2017.

NOTE 16: LIQUIDITY

The Organization's current financial assets as of June 30, 2019 are as follows:

Cash	\$	740,008
Accounts receivable		40,590
Notes receivable, microloans		61,683
Unconditional promises to give		6,401
Financial assets, at year-end	\$	848,682

The following reflects the Organization's financial assets as of June 30, 2019, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of June 30, 2019:

Financial assets, at year-end	\$	848,682
 Less those unavailable for general expenditures within one year due to:		
Donor restrictions		(607,087)
Cash collateralizing secured debt		(150,413)
Notes receivable collateralizing secured debt		(51,704)
Financial assets available for general expenditures within one year	\$	39,478

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NOTE 17: RECLASSIFICATIONS

Certain amounts in the prior year presented have been reclassified to conform to the current year financial statement presentation. These reclassifications have no effect on the previously reported change in net assets.