

**Opportunity Fund Northern California  
and Subsidiary**

Consolidated Financial Statements  
and Single Audit Reports and Schedules

June 30, 2016 and 2015



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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Opportunity Fund Northern California and Subsidiary  
San Jose, California

We have audited the accompanying consolidated financial statements of Opportunity Fund Northern California and Subsidiary (a California nonprofit corporation) (the "Organization"), which comprise the consolidated statements of financial position as of June 30, 2016 and 2015, and the related consolidated 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 Consolidated 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 (the "U.S."); 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.

### **Auditor's 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 U.S. and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the U.S. 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.

## **Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Opportunity Fund Northern California and Subsidiary as of June 30, 2016 and 2015, 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 U.S.

## **Other Matter**

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the U.S. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

## **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 15, 2016, on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.



Armanino<sup>LLP</sup>  
San Jose, California

September 15, 2016

Opportunity Fund Northern California and Subsidiary  
Consolidated Statements of Financial Position  
June 30, 2016 and 2015

	2016	2015
ASSETS		
Current assets		
Cash and cash equivalents	\$ 5,696,142	\$ 5,635,126
Investments (Note 3)	1,180,790	1,148,157
Cash - programs (Note 4)	14,795,511	8,665,161
Current receivables		
Loans receivable - small business, net (Notes 7, 8 and 9)	17,734,236	12,091,442
Loans receivable - other, net (Notes 7 and 8)	68,681	61,500
Contributions receivable (Note 5)	894,962	1,074,066
Due from related parties (Note 6)	67,230	72,553
Small business interest and fees	285,812	186,373
Total current receivables	19,050,921	13,485,934
Prepaid expenses and other	232,226	168,843
Total current assets	40,955,590	29,103,221
Property and equipment, net (Note 10)	641,276	656,002
Non-current assets		
Loans receivable - small business, net (Notes 7, 8 and 9)	33,127,119	19,855,592
Loans receivable - other, net (Notes 7 and 8)	250,921	264,711
Contributions receivable (Note 5)	404,915	800,000
Investment in new market tax credits LLC's (Note 11)	18,520	15,125
Total non-current assets	33,801,475	20,935,428
Total assets	\$ 75,398,341	\$ 50,694,651

The accompanying notes are an integral part of these consolidated financial statements.

Opportunity Fund Northern California and Subsidiary  
Consolidated Statements of Financial Position  
June 30, 2016 and 2015

	2016	2015
<b>LIABILITIES AND NET ASSETS</b>		
<b>Current liabilities</b>		
Accounts payable and accrued expenses	\$ 2,148,567	\$ 1,474,636
Deferred revenue	-	30,000
Funds provided for other programs, current (Note 15)	68,681	61,500
Notes payable, current (Notes 12 and 13)	5,892,282	1,600,000
<b>Total current liabilities</b>	<b>8,109,530</b>	<b>3,166,136</b>
<b>Non-current liabilities</b>		
Notes payable (Notes 12 and 13)	40,607,366	23,975,093
Unearned revenue - savings program (Note 14)	960,273	2,034,012
Funds provided for other programs (Note 15)	105,705	123,000
<b>Total non-current liabilities</b>	<b>41,673,344</b>	<b>26,132,105</b>
<b>Total liabilities</b>	<b>49,782,874</b>	<b>29,298,241</b>
<b>Net assets</b>		
Unrestricted (Note 16)	22,505,254	19,410,496
Temporarily restricted (Note 17)	3,110,213	1,985,914
<b>Total net assets</b>	<b>25,615,467</b>	<b>21,396,410</b>
<b>Total liabilities and net assets</b>	<b>\$ 75,398,341</b>	<b>\$ 50,694,651</b>

The accompanying notes are an integral part of these consolidated financial statements.

Opportunity Fund Northern California and Subsidiary  
Consolidated Statement of Activities  
For the Year Ended June 30, 2016

	2016			2015		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenues and contributions						
Earned revenues						
Interest from loan programs	\$ 4,621,839	\$ -	\$ 4,621,839	\$ 2,893,409	\$ -	\$ 2,893,409
Loan and other program income	2,637,226	-	2,637,226	1,653,153	-	1,653,153
NMTC program income	2,083,871	-	2,083,871	2,038,736	-	2,038,736
Investment income, net	25,479	-	25,479	35,927	-	35,927
Other income	540,168	-	540,168	357,975	-	357,975
Total earned revenues	<u>9,908,583</u>	<u>-</u>	<u>9,908,583</u>	<u>6,979,200</u>	<u>-</u>	<u>6,979,200</u>
Contributions and grants						
Contributions	3,913,511	1,964,036	5,877,547	5,461,195	1,196,612	6,657,807
Government contracts and grants	2,080,492	37,500	2,117,992	2,533,781	-	2,533,781
Annual meetings/conferences/sponsorship	174,815	-	174,815	212,865	-	212,865
Recoveries	390,013	-	390,013	161,809	-	161,809
In-kind contributions	121,012	-	121,012	130,469	-	130,469
Net assets released from restriction	877,237	(877,237)	-	2,943,613	(2,943,613)	-
Total contributions and grants	<u>7,557,080</u>	<u>1,124,299</u>	<u>8,681,379</u>	<u>11,443,732</u>	<u>(1,747,001)</u>	<u>9,696,731</u>
Total revenues and contributions	<u>17,465,663</u>	<u>1,124,299</u>	<u>18,589,962</u>	<u>18,422,932</u>	<u>(1,747,001)</u>	<u>16,675,931</u>
Functional expenses						
Program services	<u>11,707,543</u>	<u>-</u>	<u>11,707,543</u>	<u>8,857,169</u>	<u>-</u>	<u>8,857,169</u>
Support services						
Management and general	1,689,003	-	1,689,003	1,248,384	-	1,248,384
Fundraising	974,359	-	974,359	1,059,474	-	1,059,474
Total support services	<u>2,663,362</u>	<u>-</u>	<u>2,663,362</u>	<u>2,307,858</u>	<u>-</u>	<u>2,307,858</u>
Total functional expenses	<u>14,370,905</u>	<u>-</u>	<u>14,370,905</u>	<u>11,165,027</u>	<u>-</u>	<u>11,165,027</u>
Change in net assets	3,094,758	1,124,299	4,219,057	7,257,905	(1,747,001)	5,510,904
Net assets, beginning of year	<u>19,410,496</u>	<u>1,985,914</u>	<u>21,396,410</u>	<u>12,152,591</u>	<u>3,732,915</u>	<u>15,885,506</u>
Net assets, end of year	<u>\$ 22,505,254</u>	<u>\$ 3,110,213</u>	<u>\$ 25,615,467</u>	<u>\$ 19,410,496</u>	<u>\$ 1,985,914</u>	<u>\$ 21,396,410</u>

The accompanying notes are an integral part of these consolidated financial statements.

Opportunity Fund Northern California and Subsidiary  
Consolidated Statement of Functional Expenses  
For the Year Ended June 30, 2016

	<u>Program services</u>	<u>Management and general</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and benefits	\$ 6,078,863	\$ 1,184,116	\$ 791,562	\$ 8,054,541
Independent				
contractors/professional fees	378,187	221,269	12,609	612,065
Staff development	30,770	13,853	5,101	49,724
Occupancy	311,142	47,448	30,723	389,313
Parking and travel	248,916	54,704	21,582	325,202
Office expense	253,098	44,650	27,522	325,270
Interest	907,938	14,669	-	922,607
Bank fees	64,872	4,015	787	69,674
Program operating expenses	646,844	-	-	646,844
Provision for loan losses	1,024,071	-	-	1,024,071
Other fees	9,312	5,177	53	14,542
Marketing	339,020	-	3,636	342,656
Meetings	214,854	11,559	24,572	250,985
Insurance	41,103	6,280	4,066	51,449
Savings program match expense	886,233	-	-	886,233
Miscellaneous	92,653	53,811	34,371	180,835
Depreciation	<u>179,667</u>	<u>27,452</u>	<u>17,775</u>	<u>224,894</u>
	<u>\$ 11,707,543</u>	<u>\$ 1,689,003</u>	<u>\$ 974,359</u>	<u>\$ 14,370,905</u>
Percentage of total	<u>81.5 %</u>	<u>11.7 %</u>	<u>6.8 %</u>	<u>100.0 %</u>

The accompanying notes are an integral part of these consolidated financial statements.



Opportunity Fund Northern California and Subsidiary  
Consolidated Statement of Functional Expenses  
For the Year Ended June 30, 2015

	<u>Program services</u>	<u>Management and general</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and benefits	\$ 4,881,337	\$ 866,228	\$ 882,712	\$ 6,630,277
Independent				
contractors/professional fees	158,978	190,537	37,120	386,635
Staff development	35,538	4,270	5,501	45,309
Occupancy	252,842	33,026	33,385	319,253
Parking and travel	182,385	31,012	23,125	236,522
Office expense	175,868	40,648	22,190	238,706
Interest	494,284	2,540	-	496,824
Bank fees	43,829	18,777	915	63,521
Program operating expenses	265,989	-	-	265,989
Provision for loan losses	883,549	-	-	883,549
Other fees	11,732	6,820	16	18,568
Marketing	163,472	-	1,065	164,537
Annual meeting and conference	7,851	2,356	463	10,670
Meetings	250,539	16,942	25,533	293,014
Insurance	37,785	5,029	5,086	47,900
Savings program match expense	838,430	-	-	838,430
Miscellaneous	49,926	13,850	5,830	69,606
Depreciation	<u>122,835</u>	<u>16,349</u>	<u>16,533</u>	<u>155,717</u>
	<u>\$ 8,857,169</u>	<u>\$ 1,248,384</u>	<u>\$ 1,059,474</u>	<u>\$ 11,165,027</u>
Percentage of total	<u>79.3 %</u>	<u>11.2 %</u>	<u>9.5 %</u>	<u>100.0 %</u>

The accompanying notes are an integral part of these consolidated financial statements.

Opportunity Fund Northern California and Subsidiary  
Consolidated Statements of Cash Flows  
For the Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities		
Changes in net assets	\$ 4,219,057	\$ 5,510,904
Adjustments to reconcile changes in net assets to net cash provided by operating activities		
Depreciation and amortization	224,894	155,717
Bad debt expense	1,022,889	883,549
Unrealized (gains) losses on investments	(11,873)	6,623
In-kind contribution of property and equipment	-	(12,978)
Changes in operating assets and liabilities		
Restricted cash	(1,682,766)	2,487,552
Change in cash for savings program	975,350	(308,113)
Change in cash for other programs	-	26,264
Contributions receivable	574,189	(702,275)
Related-party receivable	5,323	175,072
Interest receivable	(99,438)	(71,542)
Prepaid expenses and other	(63,382)	(11,486)
Other receivables	6,609	894,453
Accounts payable and accrued expenses	673,933	626,744
Deferred revenue	(30,000)	(66,000)
Savings program- unearned revenue	(1,073,738)	108,039
Funds provided for programs without recourse	(10,114)	(450,792)
Net cash provided by operating activities	<u>4,730,933</u>	<u>9,251,731</u>
Cash flows from investing activities		
Change in cash for loan capital	(3,655,054)	18,853
Change in cash for loan loss reserve	(1,767,882)	(1,065,431)
Loans receivable - disbursements	(60,461,033)	(37,132,386)
Loans receivable - repayments	32,434,736	21,234,263
Proceeds from sale of loans receivable	13,677,873	7,415,997
Repayments to third party	(5,588,789)	(2,824,091)
Purchases of investments	(20,760)	-
Net changes in investment in NMTC LLC's	(3,394)	(48)
Acquisition of property and equipment	(210,168)	(291,302)
Net cash used in investing activities	<u>(25,594,471)</u>	<u>(12,644,145)</u>
Cash flows from financing activities		
Net proceeds/(repayment) from line of credit	9,000,000	(1,000,000)
Proceeds from notes payable	12,822,044	10,052,956
Repayment of notes payable	(897,490)	(2,805,579)
Net cash provided by financing activities	<u>20,924,554</u>	<u>6,247,377</u>
Net increase in cash and cash equivalents	61,016	2,854,963
Cash and cash equivalents, beginning of year	<u>5,635,126</u>	<u>2,780,163</u>
Cash and cash equivalents, end of year	<u>\$ 5,696,142</u>	<u>\$ 5,635,126</u>

The accompanying notes are an integral part of these consolidated financial statements.

Opportunity Fund Northern California and Subsidiary  
Consolidated Statements of Cash Flows  
For the Years Ended June 30, 2016 and 2015

	<u>2016</u>		<u>2015</u>
Supplemental disclosures of cash flow information			
Cash paid during the year for			
Interest	\$ 842,679	\$	492,825
Income tax	\$ 5,102	\$	10,400

The accompanying notes are an integral part of these consolidated financial statements.

Opportunity Fund Northern California and Subsidiary  
Notes to Consolidated Financial Statements  
June 30, 2016 and 2015

1. NATURE OF OPERATIONS

Opportunity Fund Northern California and Subsidiary (the "Organization"), a certified Community Development Financial Institution, was formed as a for-profit organization on December 8, 1993. On September 30, 2000, the Organization converted to a California nonprofit public benefit corporation. Since then, the Organization has been classified as a publicly supported, tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and is exempt from California franchise taxes under Revenue and Taxation Code Section 23701(d).

The Organization's mission is to enhance the economic well-being of working people by helping them earn, save and invest in their future. The Organization works across California, primarily in the San Francisco Bay Area, Los Angeles, Orange County and the Inland Empire, and has the following programs:

Small business program

The Organization raises funds from private and public sources, in the form of loans and grants, to provide micro and small business loans to business borrowers who don't have access to credit from traditional financial institutions or lack access to affordable financing products. Since inception, the Organization has made 8,472 loans totaling \$164.2 million in capital deployed to low and moderate income borrowers throughout California. Virtually all loans are covered by a loan loss reserve funded by the State of California as part of its Capital Access Program.

The Organization sells participations in its trucking loan portfolio to other lenders. The purpose of these sales is to manage credit concentration in the Organization portfolio and develop portfolio sales as an option to raise additional capital and scale the program. Loans are sold at a premium over face value and the Organization retains the servicing of the loans, for which it charges a monthly fee.

Savings program

The Organization administers a matched savings and financial education program in the San Francisco Bay Area. Since inception, the Organization has opened 5,741 savings accounts and mobilized more than \$20 million in individual savings and matching funds.

New Market Tax Credits program

In 2003, the Organization was certified by the U.S. Department of Treasury - Community Development Financial Institution Fund ("CDFI Fund") as a Community Development Entity ("CDE") under its New Market Tax Credit ("NMTC") program. As of June 30, 2016, the Organization has received a cumulative total of \$253 million of tax credit allocations. The Organization - through its subsidiary CDE, the LCD New Markets Fund, LLC - uses these allocations to attract new capital to support large real estate projects providing high community impact in low-income areas. As of June 30, 2016 and 2015, the Organization has deployed \$231.6 million and \$192 million in qualified equity investments, respectively

Opportunity Fund Northern California and Subsidiary  
Notes to Consolidated Financial Statements  
June 30, 2016 and 2015

1. NATURE OF OPERATIONS (continued)

Ratings

The Organization is AERIS rated (formerly "CARS rated"). AERIS uses CARS® (CDFI Assessment and Ratings System) methodology to rate CDFIs. The Organization was last rated in April 2015, receiving AAA 2 rating. AAA is the highest possible rating in Impact performance rating, meaning that the use of the resources of the Organization is fully aligned with its mission. A 2 rating in Financial Strength indicates that the Organization is fundamentally sound. It exhibits solid financial strength, performance, and risk management practices relative to its size, complexity, and risk profile. During the year ended on June 30, 2016, the Organization had its annual update from AERIS and it was updated as "stable" which means it maintained its previous rating.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting and financial statement presentation

The consolidated financial statements have been prepared on the accrual basis of accounting which recognizes revenue when earned and expenses when incurred and, accordingly, reflect all receivables and payables outstanding at the end of the reporting period.

The Organization presents information regarding its consolidated financial position and activities according to three classes of net assets:

- *Unrestricted net assets* - are available to support all activities of the Organization without restrictions and include those net assets whose use is not restricted by donors.
- *Temporarily restricted net assets* - are contributions with temporary, donor imposed time or purpose restrictions. Temporarily restricted net assets become unrestricted when the time restriction expires or the donor stipulated purpose has been accomplished, at which time they are reported in the statement of activities as net assets released from restrictions.
- *Permanently restricted net assets* - represent contributions that are restricted by the donor for investment in perpetuity, such as endowments. The income from such invested assets may be available to support the activities of the Organization based on the donor's instructions. The Organization has no permanently restricted net assets.

Principles of consolidation

The consolidated financial statements include the accounts of a subsidiary, LCD New Markets Fund, LLC (the "LLC") of which the Organization is the managing member with a 99% interest. The LLC is a Delaware limited liability company that was formed in April 2003. All material intercompany balances and transactions have been eliminated in consolidation.

Opportunity Fund Northern California and Subsidiary  
Notes to Consolidated Financial Statements  
June 30, 2016 and 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in NMTC entities

The following NMTC entities, over which the Organization exercises significant influence, are included in the consolidated financial statements using the equity method of accounting. The investment is recorded at cost then adjusted for the Organization's proportionate share of undistributed earnings or losses (see Note 6, 11, and 19).

NMTC investor entity:

Chase NMTC CVRM Investment Fund

NMTC CDE entities:

LCD New Markets Fund VII, LLC*	LCD New Markets Fund XVI, LLC
LCD New Markets Fund VIII, LLC	LCD New Markets Fund XVII, LLC
LCD New Markets Fund IX, LLC	LCD New Markets Fund XVIII, LLC
LCD New Markets Fund X, LLC	LCD New Markets Fund XIX, LLC
LCD New Markets Fund XI, LLC	LCD New Markets Fund XX, LLC
LCD New Markets Fund XII, LLC	LCD New Markets Fund XXI, LLC
LCD New Markets Fund XIII, LLC	LCD New Markets Fund XXII, LLC
LCD New Markets Fund XIV, LLC	LCD New Markets Fund XXIII, LLC
LCD New Markets Fund XV, LLC	LCD New Markets Fund XXIV, LLC

\* This entity was closed during fiscal year 2016 at the time the projects were unwound.

The above limited liability companies were formed in the State of Delaware to qualify as CDEs under the provisions of Section 45D of the Internal Revenue Code and to make qualified low-income community investments from the proceeds of qualified equity investments received from the NMTC Investor Entities.

Cash and cash equivalents

The Organization considers all highly liquid investments with a maturity of three months or less at the date of purchase to be cash equivalents.

Restricted cash

Restricted cash consists of cash with limitations on the Organization's ability to use it due to restrictions imposed by donors.

Contributions and grants revenue recognition

Contributed support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires during the reporting period in which the support is recognized, otherwise such support is reported as an increase in temporarily restricted net assets. All other contributed support is recognized as revenue when received or un-conditionally promised.

Opportunity Fund Northern California and Subsidiary  
Notes to Consolidated Financial Statements  
June 30, 2016 and 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contributions and grants revenue recognition (continued)

Savings Program match money that has been received but not yet disbursed to clients is recorded as an unearned revenue liability. When the match money is disbursed to an eligible client, the liability is reduced and the transaction is shown on the Statement of Activities as an offsetting revenue and expense. As of June 30, 2016 and 2015, the Organization had approximately \$1.0 million and \$2.0 million of unearned revenue liability, respectively (see Note 14).

Loans receivable

Loans receivable are stated at the principal amount outstanding net of allowance for loan losses. Interest income on loans is accrued on the principal outstanding at the loans' stated interest rate.

Allowance for loan losses

The allowance for loan losses represents management's estimate of probable losses inherent in the Organization's lending activities. Credit exposures deemed to be uncollectible are charged against the allowance. Recoveries on previously charged-off amounts are credited to the allowance. Management evaluates the adequacy of the allowance based on the historical performance and forward looking evaluation of the portfolio performance and internal and external factors and trends such as operational efficiency, national and local economic conditions. The allowance for loan losses is presented in Note 8.

Investments

The Organization invests in marketable securities and fixed income instruments. Investments are recorded at fair value. Unrealized gains and losses represent market fluctuations and are recorded on a monthly basis. Interest and dividend income are recognized when earned (see Note 3).

Fair value of financial instruments

Financial instruments included in the Organization's Consolidated Statement of Financial Position as of June 30, 2016 and 2015, include cash and cash equivalents, receivables, investments, accounts payable and accrued expenses, funds provided for programs without recourse and notes payable with recourse to unrestricted net assets. For cash and cash equivalents, receivables, accounts payable and accrued expenses, funds provided for programs without recourse and notes payable with recourse to unrestricted net assets, the carrying amounts represent a reasonable estimate of the corresponding fair values. Investments are reflected in the accompanying Consolidated Statements of Financial Position at their estimated fair values using methodologies described in Note 3.

Opportunity Fund Northern California and Subsidiary  
Notes to Consolidated Financial Statements  
June 30, 2016 and 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment

Purchased property and equipment are stated at cost. Acquisitions of property and equipment in excess of \$5,000 are capitalized. Significant donated property and equipment is recorded at estimated fair value at the date of receipt. In absence of restrictions regarding the use of such donated assets, contributions are recorded as unrestricted support.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets of five years for furniture and 3 years for computers and software. Leasehold improvements are amortized using the straight-line method over the lesser of the assets' estimated useful lives or the term of the applicable lease.

Concentration of credit risk

The Organization maintains cash and cash equivalents with commercial banks and other major financial institutions. Cash equivalents include overnight investments and money market funds. By policy, the Organization invests in low risk high liquid investments at top rated financial institutions. Deposits, at times, might exceed Federal Deposit Insurance Corporation ("FDIC") limits. The Organization has not experienced any losses in such accounts. Management believes it is not exposed to any significant risk on cash accounts.

Concentration in contributors

For the year ended June 30, 2016, the Organization had a concentration of one foundation donor who provided approximately 25% of total contributions and one government entity who provided 21% of total contributions. For the year ended June 30, 2015, the Organization had a concentration of one individual donor who provided approximately 22% of total contributions and one government entity who provided 22% of total contributions.

Functional expense allocation

The costs of providing the various program and supporting services have been summarized on a functional basis in the consolidated statement of activities and changes in net assets. Accordingly, certain costs have been allocated, based on estimates of time, space, and other factors, among the classifications.

Advertising

Advertising costs are expensed as incurred. Advertising, promotion and marketing expense for the years ended June 30, 2016 and 2015, was \$108,400 and \$71,520, respectively.



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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax status

The Organization is exempt from federal income taxes under the provisions of Section 501(c) (3) of the Internal Revenue Code. In addition the Organization qualifies for charitable contribution deductions and has been classified as an organization that is not a private foundation. Income which is not related to exempt purposes less applicable deductions, is subject to federal and state corporate income taxes. The Organization had no unrelated business income for the years ended in June 30, 2016 and 2015, respectively.

Accounting for uncertainty in income taxes

The Organization evaluates its uncertain tax positions and will recognize a loss contingency when it is probable that a liability has been incurred as of the date of the consolidated financial statements and the amount of the loss can be reasonably estimated. The amount recognized is subject to estimate and management judgment with respect to the likely outcome of each uncertain tax position. The amount that is ultimately sustained for an individual uncertain tax position or for all uncertain tax positions in the aggregate could differ from the amount recognized. As of June 30, 2016 and 2015, management did not identify any uncertain tax positions.

The Organization is subject to potential examination by taxing authorities for income tax returns filed in the U.S. federal jurisdiction and the State of California. The tax years that remain subject to potential examination for the U.S. federal jurisdiction are years ended June 30, 2014, and forward. The State of California tax jurisdiction is subject to potential examination for years ended June 30, 2013 and forward.

Use of estimates

The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Reclassifications

Certain 2015 balances have been reclassified to conform to the 2016 financial statement presentation. These reclassifications have no effect on previously reported change in net assets.

Subsequent events

Subsequent events have been evaluated through the date of the financial statements, September 15, 2016, which is the date the consolidated financial statements were available to be issued. See Note 20 for subsequent events disclosure.

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3. INVESTMENTS

The Organization follows the provisions of the Fair Value Measurements and Disclosure topic of the FASB ASC (820-10-35). These standards establish a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, Level 2 inputs consist of observable inputs other than quoted prices for identical assets, and Level 3 inputs consist of significant unobservable inputs. All investments are at quoted prices in active markets for identical assets (level 1 input).

Investments consist of the following:

	2016	2015
Bank certificate of deposit	\$ 26,443	\$ 26,293
Mutual funds	1,154,347	1,121,864
	\$ 1,180,790	\$ 1,148,157

Investment earnings (losses) during the year consist of the following:

	2016	2015
Interest income	\$ 25,410	\$ 23,900
Net realized and unrealized income/(losses)	(8,547)	12,027
	\$ 16,863	\$ 35,927

4. CASH - PROGRAMS

Cash - programs consists of the following:

	2016	2015
Cash restricted for per donor stipulation	\$ 1,699,459	\$ 16,695
Cash for loan capital	6,134,666	2,479,612
Cash for loan loss reserves (1)(2)	5,389,079	3,621,197
Cash for savings program match	1,572,307	2,547,657
	\$ 14,795,511	\$ 8,665,161

(1) This number includes \$5,114,768 and \$3,347,983 related to CalCAP reserves as of June 30, 2016 and 2015, respectively. In addition, there is \$274,311 and \$273,214 related to SBA reserves as of June 30, 2016 and 2015, respectively. Not included are the CalCAP & ARB cash reserves controlled by the State (see Note 9).

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4. CASH - PROGRAMS (continued)

(2) The Organization and the State of California's CalCAP program (see Note 9) jointly own a cash account held at a commercial bank. Each entity owns its own contributions made to the program when enrolling eligible loans.

5. CONTRIBUTIONS RECEIVABLE

Contributions receivable consist of unconditional pledges that have not yet been received. The Organization records a present value discount for the future cash flows of these pledges, if material to the consolidated financial statements. As of June 30, 2016 and 2015, a present value discount was not recorded as the amount was immaterial to the consolidated financial statements. The Organization evaluates contributions receivable for collectability annually. As of June 30, 2016 and 2015, the allowance for doubtful accounts for contributions receivable was not material and was not recorded.

Future maturities of these receivables are as follows:

<u>Year ending June 30,</u>		
2017	\$	894,962
2018		<u>404,915</u>
		1,299,877
Current portion		<u>(894,962)</u>
	<u>\$</u>	<u>404,915</u>

6. RELATED PARTY RECEIVABLES

Related party receivables from NMTC asset management fees and operating advances consist of the following:

	<u>2016</u>	<u>2015</u>
New Markets Fund VII, LLC	\$ -	\$ 5,323
New Markets Fund VIII, LLC	37,030	37,030
New Markets Fund X, LLC	22,880	22,880
New Markets Fund XV, LLC	<u>7,320</u>	<u>7,320</u>
	<u>\$ 67,230</u>	<u>\$ 72,553</u>

Opportunity Fund Northern California and Subsidiary  
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7. LOANS RECEIVABLE

Small business loans

The Organization offers micro and small business loans from \$2,600 to \$100,000 with fixed interest rates ranging from 8.5% to 18.9% and terms of up to 60 months. Loans are fully amortizing and payments are due monthly. Interest is calculated on the outstanding balance. During the years ended June 30, 2016 and 2015, the Organization disbursed \$60.5 million among 2,211 loans and \$37.3 million among 1,560 loans in the Small Business Program, respectively.

Small business program loans receivable are as follows:

	<u>2016</u>	<u>2015</u>
Micro loans (1)	\$ 10,146,452	\$ 8,269,357
Small business loans (2)	58,082,227	33,457,871
Restructured loans	<u>1,583,452</u>	<u>1,032,110</u>
Total portfolio under management	69,812,131	42,759,338
Less third parties' portfolios under management (3)	<u>(15,935,239)</u>	<u>(7,846,078)</u>
Total Opportunity Fund portfolio	53,876,892	34,913,260
Less allowance for loan losses	<u>(3,015,537)</u>	<u>(2,966,226)</u>
 Small business loans receivable, net of allowance	 <u>\$ 50,861,355</u>	 <u>\$ 31,947,034</u>
 Loans receivable, net of allowance - current	 <u>\$ 17,734,236</u>	 <u>\$ 12,091,442</u>
 Loans receivable, net of allowance - non-current	 <u>\$ 33,127,119</u>	 <u>\$ 19,855,592</u>

(1) Loans up to \$20,000.

(2) Loans larger than \$20,000 and equal to or smaller than \$100,000.

(3) Balance of loan participations owned by third parties investors. In the year ended 2016, Opportunity Fund sold participations in 320 loans for a total current year sale of \$13.6 million.

Other loans

The other loans receivable are related to agreements that the Organization entered into with different organizations in previous fiscal years. No loans were originated in these portfolios during 2016.

Opportunity Fund Northern California and Subsidiary  
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7. LOANS RECEIVABLE (continued)

Other loans consisted of the following:

	2016	2015
Sobrato Affordable Housing Fund (1)	\$ 174,386	\$ 184,500
TeamWorks (2)	<u>145,216</u>	<u>141,711</u>
	<u>319,602</u>	<u>326,211</u>
Other loans receivable, net of allowance	<u>\$ 319,602</u>	<u>\$ 326,211</u>
Loans receivable, net of allowance - current	<u>\$ 68,681</u>	<u>\$ 61,500</u>
Loans receivable, net of allowance - non-current	<u>\$ 250,921</u>	<u>\$ 264,711</u>

(1) Sobrato - The Organization has entered into agreements with Sobrato Affordable Housing Fund whereby Sobrato provided funds with recourse limited to the loans made with their funds plus any undisbursed cash (see Note 15).

(2) TeamWorks - The Organization entered into an agreement with TeamWorks Services, LLC to create the TeamWorks Capital Fund. This fund provides long-term loans with equity-like features to start-up worker-owned cooperatives.

8. PORTFOLIO QUALITY AND ADEQUACY OF ALLOWANCE FOR LOAN LOSSES

Loan portfolio management

The Organization follows specific policies and procedures that guide its practices for screening applicants, underwriting and management of loans. In addition, the Organization issues a monthly and quarterly Portfolio Quality Report that provides management, board and financial partners with relevant information on past due loans, troubled debt restructurings, charge-offs and concentrations of credit. Management periodically reviews and proposes updates to the Organization's policies which in turn are reviewed and approved by the Board of Directors. Management monitors the adequacy of the Allowance for Loan Losses and Loan Loss Reserves monthly. The Finance Committee reviews the adequacy of the Allowance for Loan Losses and Loan Loss Reserves quarterly.

The Organization established a Credit Risk Committee to assist the Board of Directors in fulfilling its responsibilities by providing oversight to the identification, measurement and management of the Organization's credit risk as well as reviewing the Organization's Credit Policies. This committee meets at least quarterly and reports a summary of the matters reviewed along with actions proposed to the Finance Committee and Board of Directors.

Opportunity Fund Northern California and Subsidiary  
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8. PORTFOLIO QUALITY AND ADEQUACY OF ALLOWANCE FOR LOAN LOSSES  
(continued)

Aging schedule

2016 aging schedule by category

	<u>Balance</u>	<u>Current</u>	<u>31 - 60 Days</u>	<u>61 - 90 Days</u>	<u>91 - 120 Days</u>	<u>121 - 150 Days</u>	<u>150+ Days</u>
Micro loans	\$ 10,146,452	\$ 9,968,319	\$ 101,624	\$ 28,587	\$ 20,225	\$ 10,341	\$ 17,356
Small business loans	58,082,227	57,098,705	685,648	80,882	73,918	74,536	68,538
Restructured loans	<u>1,583,452</u>	<u>1,535,149</u>	<u>2,676</u>	<u>8,225</u>	<u>2,377</u>	<u>10,256</u>	<u>24,769</u>
	69,812,131	68,602,173	789,948	117,694	96,520	95,133	110,663
Less third parties' portfolio under management	<u>(15,935,239)</u>	<u>(15,659,821)</u>	<u>(275,418)</u>	-	-	-	-
	<u>\$ 53,876,892</u>	<u>\$ 52,942,352</u>	<u>\$ 514,530</u>	<u>\$ 117,694</u>	<u>\$ 96,520</u>	<u>\$ 95,133</u>	<u>\$ 110,663</u>
		98.25 %	0.96 %	0.22 %	0.18 %	0.18 %	0.21 %

2015 aging schedule by category

	<u>Balance</u>	<u>Current</u>	<u>31 - 60 Days</u>	<u>61 - 90 Days</u>	<u>91 - 120 Days</u>	<u>121 - 150 Days</u>	<u>150+ Days</u>
Micro loans	\$ 8,269,357	\$ 8,132,198	\$ 66,010	\$ 16,247	\$ 25,434	\$ 14,057	\$ 15,411
Small business loans	33,457,871	33,070,557	160,627	27,720	117,101	-	81,866
Restructured loans	<u>1,032,110</u>	<u>950,785</u>	<u>50,088</u>	<u>7,123</u>	<u>-</u>	<u>967</u>	<u>23,147</u>
	42,759,338	42,153,540	276,725	51,090	142,535	15,024	120,424
Less third parties' portfolio under management	<u>(7,846,078)</u>	<u>(7,735,127)</u>	<u>(5,560)</u>	-	<u>(105,391)</u>	-	-
	<u>\$ 34,913,260</u>	<u>\$ 34,418,413</u>	<u>\$ 271,165</u>	<u>\$ 51,090</u>	<u>\$ 37,144</u>	<u>\$ 15,024</u>	<u>\$ 120,424</u>
		98.58 %	0.78 %	0.15 %	0.11 %	0.04 %	0.34 %

Opportunity Fund Northern California and Subsidiary  
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8. PORTFOLIO QUALITY AND ADEQUACY OF ALLOWANCE FOR LOAN LOSSES  
(continued)

Troubled debt restructurings ("TDR's")

From time to time and as a result of the evaluation of the borrower's circumstances, the Organization would consider modifying the terms of the loan that the Organization otherwise would not consider but for the borrower's financial difficulties.

As of June 30, 2016, there were 107 TDR's in the Organization's small business portfolio accounting for a total of \$1,423,288 representing 2.6% of the total portfolio. As of June 30, 2015, there were 82 TDR's accounting for \$989,155 representing 2.8% of the total portfolio.

2016 TDR aging schedule is presented as follows:

	<u>Balance</u>	<u>Current</u>	<u>31 - 60 Days</u>	<u>61 - 90 Days</u>	<u>91 - 120 Days</u>	<u>121 - 150 Days</u>	<u>150+ Days</u>
Total TDR's under management (1)	\$ 1,583,452	\$ 1,535,149	\$ 2,676	\$ 8,225	\$ 2,377	\$ 10,256	\$ 24,769
Less third parties' TDR's under management	<u>(160,164)</u>	<u>(160,164)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 1,423,288</u>	<u>\$ 1,374,985</u>	<u>\$ 2,676</u>	<u>\$ 8,225</u>	<u>\$ 2,377</u>	<u>\$ 10,256</u>	<u>\$ 24,769</u>
		96.60 %	0.19 %	0.58 %	0.17 %	0.72 %	1.74 %

2015 TDR aging schedule is presented as follows:

	<u>Balance</u>	<u>Current</u>	<u>31 - 60 Days</u>	<u>61 - 90 Days</u>	<u>91 - 120 Days</u>	<u>121 - 150 Days</u>	<u>150+ Days</u>
Total TDR's under management (1)	\$ 1,032,110	\$ 950,785	\$ 50,088	\$ 7,123	\$ -	\$ 967	\$ 23,147
Less third parties' TDR's under management	<u>(42,955)</u>	<u>(42,955)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 989,155</u>	<u>\$ 907,830</u>	<u>\$ 50,088</u>	<u>\$ 7,123</u>	<u>\$ -</u>	<u>\$ 967</u>	<u>\$ 23,147</u>
		91.78 %	5.06 %	0.72 %	0.00 %	0.10 %	2.34 %

(1) Subset of Total Portfolio

Opportunity Fund Northern California and Subsidiary  
Notes to Consolidated Financial Statements  
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8. PORTFOLIO QUALITY AND ADEQUACY OF ALLOWANCE FOR LOAN LOSSES  
(continued)

Allowance for loan losses

The Allowance for loan losses is based on management's historical and forward looking information. Management estimates the risk of default of the Organization's borrowers at intake; then, they adjust the Allowance to maintain its adequacy according to current or expected economic conditions, credit concentrations and changes in the quality of the portfolio.

The Organization's loan loss reserve policy requires that losses and cash reserves are maintained at a level adequate to cover potential losses from the existing portfolio at any point in time. Such level is defined by the internal risk assessment of its loan portfolio (management and credit risk committee) consistent with its policies for managing risk and in accordance with generally accepted accounting principles. The adequacy of the loan loss reserves is monitored monthly by management and quarterly by the Finance Committee. The loan loss reserve policy is reviewed annually by the Credit Risk and Finance Committee. Under the policy, the Organization maintains its loan loss reserves at 15% or more of its outstanding portfolio through a combination of allowance and/or cash reserves (see Note 9). In addition to the 15% reserve, the Organization reserves 100% of loans that are more than 150 days past due.

The following table summarizes the allowance for loan losses as follows:

	<u>2016</u>	<u>2015</u>
Balance, beginning of year	\$ 2,966,226	\$ 2,416,352
Provisions for loan losses during the year	763,089	820,289
Additional provision for loans 150+ days past due	259,801	120,424
Loans charged-off	<u>(973,579)</u>	<u>(390,839)</u>
Balance, end of year	<u>\$ 3,015,537</u>	<u>\$ 2,966,226</u>

9. CAL CAP LOAN LOSS RESERVES

The Organization participates in the State's California Capital Access Program (CalCAP) that has been funded in part with the State Small Business Credit Initiative (SSBCI). SSBCI is a federal program that provides funding to states to expand access to credit for small businesses. Through this program, the Organization and the State of California both contribute to a cash reserve at loan origination. When an enrolled loan is charged off the Organization can claim 100% of the loss to CalCAP, protecting the organization against potential credit losses. Additionally, the State of California fully funds a reserve (CalCAP ARB) for trucking loans with the purpose of meeting environmental trucking standards in the state.



Opportunity Fund Northern California and Subsidiary  
Notes to Consolidated Financial Statements  
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9. CAL CAP LOAN LOSS RESERVES (continued)

This protection is limited to the amount of cash in those reserves. Virtually all the Organization's loans are enrolled in this program.

Cal CAP loan loss reserves consist of the following:

	2016	2015
Opportunity Fund contributions to CalCAP Reserve	\$ 5,114,768	\$ 3,347,983
State contributions to CalCAP Reserve (a)	5,265,978	3,293,003
State contributions to CalCAP ARB Reserves (b)	2,364,226	1,729,401
	\$ 12,744,972	\$ 8,370,387

(a) Reserves for small business loans with general purpose. This portion of the reserve is not included in the Organization's Statement of Financial Position.

(b) State reserves for loans extended to businesses in the trucking industry with the purpose of meeting environmental standards of the State of California. The Organization does not contribute to this reserve and it is not included in our Statement of Financial Position. The amount shown is the pro-rated amount of Cal CAP ARB reserve associated to the portion of loans owned by Opportunity Fund.

10. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	2016	2015
Furniture	\$ 115,890	\$ 81,113
Computers and equipment	251,315	239,671
Software	708,911	579,172
Leasehold improvements	166,968	137,317
	1,243,084	1,037,273
Accumulated depreciation	(601,808)	(381,271)
	\$ 641,276	\$ 656,002

Depreciation expense for the years ended June 30, 2016 and 2015, was \$224,894 and \$155,717, respectively.

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11. INVESTMENT IN NEW MARKETS TAX CREDITS ("NMTC") ENTITIES

The Organization has financial interests in the following NMTC entities:

	Percentage Interest	2016	2015
Chase NMTC CVRM Investment Fund	0.01 %	\$ 292	\$ 305
LCD New Markets Fund VII, LLC (2)	0.01 %	-	394
LCD New Markets Fund VIII, LLC (1)	0.01 %	1,169	1,175
LCD New Markets Fund IX, LLC (1)	0.01 %	1,093	1,096
LCD New Markets Fund X, LLC (1)	0.01 %	1,142	1,143
LCD New Markets Fund XI, LLC (1)	0.01 %	1,003	1,005
LCD New Markets Fund XII, LLC (1)	0.01 %	1,280	1,288
LCD New Markets Fund XIII, LLC (1)	0.01 %	1,601	1,610
LCD New Markets Fund XIV, LLC (1)	0.01 %	1,153	1,160
LCD New Markets Fund XV, LLC (1)	0.01 %	1,219	1,226
LCD New Markets Fund XVI, LLC (1)	0.01 %	1,483	1,492
LCD New Markets Fund XVII, LLC (1)	0.01 %	1,970	1,981
LCD New Markets Fund XVIII, LLC (1)	0.01 %	1,244	1,250
LCD New Markets Fund XIX, LLC (1)	0.01 %	1,200	-
LCD New Markets Fund XX, LLC (1)	0.01 %	2,671	-
		<u>\$ 18,520</u>	<u>\$ 15,125</u>

(1) The LLC is the managing member of these NMTC CDE entities.

(2) Entity closed at June 30, 2016.

The fiscal year-end for the above companies is December 31. Audited financial statements for those periods are made available to the Organization. Audited financial statements are not available for the periods ending June 30.

The following is a summary of the unaudited financial information of these companies for the years ended June 30:

	2016	2015
Total assets	\$ 190,650,812	\$ 156,695,265
Total liabilities	\$ 8,491,127	\$ 8,496,450
Investors' capital	\$ 182,159,685	\$ 147,770,815
Total revenue	\$ 2,759,633	\$ 2,466,013
Total expenses	\$ 1,861,120	\$ 1,625,186
Net income/(loss)	\$ 898,513	\$ 840,827

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12. REVOLVING LINES OF CREDIT

In October 2014, the Organization entered into a revolving line of credit agreement with Deutsche Bank Trust Company Americas in the amount of \$3 million. Proceeds from the line of credit can be used to make small business loans, make commercial real estate development loans in connection with the federal New Markets Tax Credit program and fund the Organization's working capital needs. The line of credit matures on October 1, 2016. Interest accrues at a rate equal to LIBOR plus 2.5%. As of June 30, 2016, the outstanding balance was \$3 million.

In April 2015, the Organization entered into an operating line of credit agreement with Heritage Bank of Commerce in the amount of \$3.0 million. The line of credit will mature in April 2017. Interest accrues at a rate equal to PRIME. As of June 30, 2016, the rate was 3.5%. As of June 30, 2016, there was no borrowing against the line of credit.

In December 2015, the Organization entered into a revolving line of credit agreement with Charles Schwab Bank in the amount of \$10 million. Proceeds from the line of credit can be used to make small business loans. The line of credit matures in December 2019. Interest accrues at a rate equal to the greater of LIBOR + 2.75% or 3.5%. As of June 30, 2016, the rate was 3.5% and the outstanding balance was \$6 million.

In January 2016, the Organization entered into a revolving line of credit agreement with City National Bank in the amount of \$3 million. Proceeds from the line of credit can be used to make small business loans. The line of credit matures on January 18, 2022. Interest accrues at a rate equal to the greater of 3.5% per year or "Prime Rate" of CNB plus 0.25%. As of June 30th, 2016, there was no borrowing against the line of credit.

In June 2016, the Organization entered into a revolving line of credit agreement with Mechanics Bank in the amount of \$5 million. Proceeds from the line of credit can be used to make small business loans. The line of credit matures on July 7, 2017. Interest accrues at a rate equal to the greater of 3.5% or "Reference Rate" publicly announced from time to time by the Mechanics Bank in Walnut Creek. As of June 30th, there was no borrowing against the line of credit.

Borrowings from the lines of credit are included in the Notes Payable table below. The agreements require the Organization to comply with various financial covenants. The Organization was in compliance with all covenants as of June 30, 2016. There were no borrowings from the lines of credit as of June 30, 2015.

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13. NOTES PAYABLE

Notes payable consist of the following:

	<u>Interest</u>	<u>Maturity</u>	<u>2016</u>	<u>2015</u>
Deutsche Bank (1)	3.15 %	Oct-16	\$ 3,000,000	\$ -
Charles Schwab Bank (1)	3.50 %	Dec-19	6,000,000	-
Silicon Valley Bank (3)	0.00 %	Sep-15	-	250,000
Silicon Valley Bank	2.25 %	Oct-15	-	500,000
California Community Foundation	2.00 %	Mar-18	500,000	500,000
Wells Fargo (4)	2.00 %	Jun-18	750,000	750,000
Capital One, NA	1.75 %	Jul-18	1,000,000	1,000,000
First Republic Bank	0.00 %	Aug-18	500,000	500,000
Manufacturers Bank	3.00 %	Nov-18	1,000,000	-
US Bank	3.00 %	Dec-18	1,000,000	1,000,000
Calvert Foundation	4.00 %	Dec-18	2,500,000	2,500,000
Pacific Western Bank (3)	0.00 %	Aug-19	300,000	300,000
Small Business Loan Fund (2) (4)	2.00 %	Sep-19	2,236,000	2,236,000
Umpqua Bank	3.13 %	Nov-19	1,100,000	1,100,000
Community Foundation Santa Cruz County	3.00 %	Mar-20	350,000	350,000
Goldman Sachs Bank USA	4.50 %	Apr-20	3,000,000	802,956
Heritage Bank of Commerce	3.25 %	Apr-20	1,000,000	1,000,000
Capital Impact Partners (FEMI)	3.25 %	Jun-20	750,000	-
Opportunity Finance Network	3.50 %	Jun-20	3,500,000	1,500,000
Union Bank (4)	2.00 %	Jul-20	1,000,000	500,000
Banc of California	0.00 %	Sep-20	500,000	-
Small Business Administration	0.01 %	Apr-21	443,173	532,545
San Francisco Foundation	2.50 %	Jul-22	875,000	-
OFN Next Award	3.00 %	Oct-23	2,727,273	2,727,273
Small Business Administration 2	0.13 %	Jan-24	468,202	526,319
W.K. Kellogg Foundation	1.00 %	Apr-24	1,000,000	1,000,000
Bank of America	1.50 %	Sep-24	5,000,000	5,000,000
Wells Fargo (4)	0.00 %	Nov-24	1,000,000	1,000,000
BBVA Compass (4)	2.00 %	Feb-26	<u>5,000,000</u>	<u>-</u>
			<u>\$46,499,648</u>	<u>\$25,575,093</u>

(1) Revolving Line of Credit

(2) Small Business Loan Fund - U. S. Department of Treasury

(3) This investment is supported by the California Organized Investment Network (COIN), a California Department of Insurance program. COIN investments have a minimum 5 year term at 0% interest. In exchange, the investor receives a tax credit of 20% of the investment amount in the year it is made.

(4) This investment is structured as an Equity Equivalent (EQ2.) EQ2 investments are subordinated to other creditors, have rolling maturity dates, and low interest rates.

Opportunity Fund Northern California and Subsidiary  
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13. NOTES PAYABLE (continued)

Future maturities of notes payable are as follows:

<u>Year ending June 30,</u>	
2017	\$ 5,892,282
2018	6,103,393
2019	8,103,393
2020	9,375,504
2021	3,070,079
Thereafter	<u>13,954,997</u>
	46,499,648
Current portion	<u>(5,892,282)</u>
Noncurrent portion, net	<u>\$ 40,607,366</u>

As of June 30, 2016, the Organization had the following credit facilities available to be drawn at any time:

	<u>Facility Limit</u>	<u>Interest</u>	<u>Facility Inception Date</u>	<u>Maturity</u>	<u>Current Draw</u>	<u>Facility Available</u>
Heritage Bank - Revolving line of credit	\$ 3,000,000	3.50 %	4/17/2015	4/17/2017	\$ -	\$ 3,000,000
Charles Schwab Bank - Revolving line of credit	10,000,000	3.50 %	12/18/2015	12/16/2016	6,000,000	4,000,000
Mechanics Bank - Revolving line of credit	5,000,000	3.50 %	6/14/2016	7/7/2017	-	5,000,000
City National Bank - Revolving line of credit	3,000,000	3.75 %	1/18/2016	1/18/2018	-	3,000,000
California Community Foundation	1,000,000	2.00 %	3/31/2015	3/31/2018	500,000	<u>500,000</u>
						<u>\$ 15,500,000</u>

14. SAVINGS PROGRAM

The Organization, together with a financial institution partner, offers Saving Accounts to eligible persons in the Bay Area. The Organization provides matched savings accounts for low-income individuals and families, dedicated to such purposes as paying for higher education or building up a “nest egg” to be used in the future. The program also provides financial education for the participants.

Opportunity Fund Northern California and Subsidiary  
Notes to Consolidated Financial Statements  
June 30, 2016 and 2015

14. SAVINGS PROGRAM (continued)

When possible, the Organization maintains program funds in interest-bearing accounts with the financial institution partner. The funds are restricted for matching participant savings. The funds received as matching grants are recorded as unearned revenue until paid to clients, at which time contribution revenue is recorded with an equivalent amount recorded as grant expense. As of June 30, 2016 and 2015, the Organization had unearned revenue in the amount of approximately \$960K and \$2 million, respectively.

During the fiscal year ended on June 30, 2016, the Organization recognized \$787,560 in matching contributions, of which \$273,570 came from government grants and \$513,990 came from private donors. During the fiscal year ended on June 30, 2015, the Organization recognized \$838,430 in matching contributions, of which \$280,152 came from government grants and \$558,278 came from private donors. The Organization recognized \$886,233 and \$838,430 of matching expenses, respectively. The difference between contributions and expenses for the fiscal year 2016 is due to unrestricted revenues used to make client's matching contributions in the amount of \$98,673.

15. FUNDS PROVIDED FOR OTHER PROGRAMS

The Organization services loans for a third party organization. Those loans are shown as loans receivable (see Note 7) and as a liability to the third party organizations. These notes payable are non-recourse liabilities.

Liabilities to a third party of the Organization consist of the following:

	2016	2015
Sobrato Affordable Housing Fund	\$ 174,386	\$ 184,500
Less current portion	(68,681)	(61,500)
	\$ 105,705	\$ 123,000

The future principal payments are \$70,085 and \$35,620 due during fiscal years ended June 30, 2018 and 2019, respectively.

Opportunity Fund Northern California and Subsidiary  
Notes to Consolidated Financial Statements  
June 30, 2016 and 2015

16. UNRESTRICTED NET ASSETS

Unrestricted net assets included the following items:

	<u>2016</u>	<u>2015</u>
Balance, beginning of year	\$ 19,410,496	\$ 12,152,591
Current year changes in unrestricted net assets	<u>3,094,758</u>	<u>7,257,905</u>
Balance, end of year	<u>\$ 22,505,254</u>	<u>\$ 19,410,496</u>

Unrestricted net assets consist of the following:

	<u>2016</u>	<u>2015</u>
Net unrestricted cash	\$ 3,583,106	\$ 4,144,535
Investments	1,180,790	1,148,157
Cash available for loan capital	6,134,666	2,479,612
Excess of small business loans receivable over notes payable (including loan loss reserve allowance)	4,647,519	6,558,312
Cal CAP & SBA cash reserve (Opportunity Fund cash) (1)	5,389,079	3,621,197
Cash available for savings program match	578,262	500,000
Unrestricted grants receivable	20,000	37,454
Prepaid expenses and related parties receivable	299,455	241,026
Investment in NMTC	18,519	15,125
Investment in fixed assets	641,277	656,002
Team Works loans receivable	<u>12,581</u>	<u>9,076</u>
Balance, end of year	<u>\$ 22,505,254</u>	<u>\$ 19,410,496</u>

(1) Opportunity Fund's cash contributions to Cal CAP and SBA cash reserves are unrestricted. At any time the Organization can end participation in one or both programs to release the reserved cash.

Opportunity Fund Northern California and Subsidiary  
Notes to Consolidated Financial Statements  
June 30, 2016 and 2015

17. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets were for the following purposes as of June 30, 2016:

	<u>June 30, 2015</u>	<u>Additions to Restrictions</u>	<u>Releases from Restrictions</u>	<u>June 30, 2016</u>
Small business operating	\$ -	\$ 790,836	\$ -	\$ 790,836
Small business capital	-	1,173,200	-	1,173,200
Savings program operation	93,804	37,500	(93,804)	37,500
Time-restricted operating grants	1,759,475	-	(783,433)	976,042
TeamWorks	<u>132,635</u>	<u>-</u>	<u>-</u>	<u>132,635</u>
	<u>\$ 1,985,914</u>	<u>\$ 2,001,536</u>	<u>\$ (877,237)</u>	<u>\$ 3,110,213</u>

Temporarily restricted net assets were for the following purposes as of June 30, 2015:

	<u>June 30, 2014</u>	<u>Additions to Restrictions</u>	<u>Releases from Restrictions</u>	<u>June 30, 2015</u>
Small business operating	\$ 2,596,806	\$ -	\$ (2,596,806)	\$ -
Savings program operation	169,474	37,137	(112,807)	93,804
Time-restricted operating grants	800,000	1,159,475	(200,000)	1,759,475
TeamWorks	132,635	-	-	132,635
Marketing communications	<u>34,000</u>	<u>-</u>	<u>(34,000)</u>	<u>-</u>
	<u>\$ 3,732,915</u>	<u>\$ 1,196,612</u>	<u>\$ (2,943,613)</u>	<u>\$ 1,985,914</u>

18. RETIREMENT PLAN

The Organization provides a defined contribution 403(b) retirement savings plan ("plan") for all eligible full and part time employees. The plan provides for employee contributions, through a salary reduction agreement, plus employer contributions at the Organization's discretion and an employer matching contribution at various matching levels. During the years ended June 30, 2016 and 2015, the Organization contributed approximately \$186,000 and \$195,000, respectively, to participating employees.



Opportunity Fund Northern California and Subsidiary  
Notes to Consolidated Financial Statements  
June 30, 2016 and 2015

19. COMMITMENTS

New Markets Tax Credits commitments

The Organization provides indemnifications for its various NMTC projects in an event of a tax benefit recapture. The NMTC tax benefit recapture risk is based on the initial qualified equity investment amount, adjusted based on the life of the project. The indemnification period ends after ten years: seven years of the tax benefit period and three years after the last tax return showing benefits has been filed.

The following recapture events may trigger indemnification by the Organization: (1) the Community Development Entity ("CDE") ceases to be a qualified CDE; (2) the CDE fails to meet the substantially all test; or (3) the Qualified Equity Investment ("QEI") is redeemed before the end of the tax credit period.

Management believes that the likelihood of a recapture event is remote.

Amounts at risk, as well as the indemnification maturity at which time the Organization is no longer liable are as follows:

	<u>Indemnification Maturity</u>	<u>Indemnification as of June 30, 2016</u>	<u>Additional Future Indemnification</u>
LCD New Market Fund II	9/17/2018	\$ 7,020,000	\$ -
LCD New Market Fund V	3/18/2018	2,077,421	-
LCD New Market Fund VI	10/15/2018	1,950,000	-
LCD New Market Fund VII	11/24/2019	1,461,678	-
LCD New Market Fund VIII	3/10/2021	3,795,000	690,000
LCD New Market Fund IX	12/16/2021	3,265,625	593,750
LCD New Market Fund X	4/22/2022	3,088,800	1,372,800
LCD New Market Fund XI	10/22/2022	2,700,000	1,200,000
LCD New Market Fund XII	4/11/2023	2,730,000	2,340,000
LCD New Market Fund XIII	5/25/2023	3,381,000	2,898,000
LCD New Market Fund XIV-1	3/25/2024	1,533,000	1,314,000
LCD New Market Fund XIV-2	3/25/2024	882,000	756,000
LCD New Market Fund XV	9/4/2024	1,830,000	2,928,000
LCD New Market Fund XVI	9/16/2024	2,229,254	3,566,806
LCD New Market Fund XVII	8/4/2025	1,425,372	2,280,594
LCD New Market Fund XVII	8/4/2025	1,039,752	3,015,282
LCD New Market Fund XVIII	10/13/2025	1,250,000	3,625,000
LCD New Market Fund XIX	8/17/2026	600,000	4,080,000
LCD New Market Fund XX	9/4/2026	400,000	2,720,000
LCD New Market Fund XXI	1/15/2027	936,250	6,366,500
		<u>\$ 43,595,152</u>	<u>\$ 39,746,732</u>

Opportunity Fund Northern California and Subsidiary  
Notes to Consolidated Financial Statements  
June 30, 2016 and 2015

19. COMMITMENTS (continued)

Operating leases commitments

The Organization is obligated under non-cancelable operating leases for facilities and office equipment, which expire at various times.

The scheduled minimum lease payments under the lease terms are as follows:

<u>Year ending June 30,</u>	
2017	\$ 454,073
2018	476,268
2019	392,660
2020	371,632
2021	<u>318,041</u>
	<u>\$ 2,012,674</u>

Rental expense for the years ended June 30, 2016 and 2015, was \$385,541 and \$314,600, respectively.

20. SUBSEQUENT EVENTS

Subsequent to year end, the Organization secured additional credit facilities, see Note 13.

SINGLE AUDIT REPORTS AND SCHEDULES



INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors  
Opportunity Fund Northern California and Subsidiary  
San Jose, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America (the "U.S.") and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Opportunity Fund Northern California and Subsidiary (a California nonprofit corporation) (the "Organization"), which comprise the consolidated statements of financial position as of June 30, 2016, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated September 15, 2016.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the consolidated financial statements, we considered the Organization's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies.

Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Organization's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Armanino LLP".

Armanino<sup>LLP</sup>  
San Jose, California

September 15, 2016



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR  
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY  
THE UNIFORM GUIDANCE

To the Board of Directors  
Opportunity Fund Northern California and Subsidiary  
San Jose, California

**Report on Compliance for Each Major Federal Program**

We have audited Opportunity Fund Northern California and Subsidiary (a California nonprofit corporation) (the "Organization")'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended June 30, 2016. The Organization's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the Organization's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (the "U.S."); the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the U.S.; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the "Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Organization's compliance.

**Opinion on Each Major Federal Program**

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

## Report on Internal Control Over Compliance

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weakness or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Armanino<sup>LLP</sup>  
San Jose, California

September 15, 2016

Opportunity Fund Northern California and Subsidiary  
Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2016

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Contract Number	Total Federal Expenditures
<u>Expenditures of Federal Awards</u>			
U.S. Department of Small Business Administration			
Direct awards			
Prime Technical Assistance	59.050		\$ 41,421
Microloan program 01/2014	59.046	6447495002	468,202
Microloan program 09/2011	59.046	46173450-08	<u>443,173</u>
Total U.S. Department of Small Business Administration			<u>952,796</u>
U.S. Department of Health and Human Services			
Direct awards			
Assets for Independence Demonstration (IDA) Program	93.602	AF15	20,827
Assets for Independence Demonstration (IDA) Program	93.602	AF16	<u>365,244</u>
Total U.S. Department of Health and Human Services			<u>386,071</u>
U.S. Department of Treasury			
Direct awards			
Community Development Financial Institutions Program Financial Assistance for Year 2016	21.020	151FA013687	1,653,000
Small Business Lending Fund	N/A	0878	<u>2,236,000</u>
Total U.S. Department of Treasury			<u>3,889,000</u>
Total Expenditures of Federal Awards			<u>\$ 5,227,867</u>

The accompanying notes to the Schedule of Expenditures of Federal Awards  
are an integral part of this schedule.



Opportunity Fund Northern California and Subsidiary  
Notes to Schedule of Expenditures of Federal Awards  
June 30, 2016

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of Opportunity Fund Northern California and Subsidiary (the "Organization") under programs of the federal government for the year ended June 30, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Organization.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) Expenditures reported on the Schedule are reported on the accrual basis of accounting.

(2) Expenditures of federal awards made on or after December 26, 2014 are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

(3) Expenditures of federal awards made prior to December 26, 2014 are recognized following the cost principles contained in OMB Circular A122, *Cost Principles for NonProfit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

(4) Expenditures reported on the Schedule includes the value of new loans made or received during the audit period plus the beginning of the audit period balance of loans from previous years for which the federal government imposes continuing compliance requirements.

3. U.S. DEPARTMENT OF TREASURY LOAN PROGRAM

The Organization has a U.S. Department of Treasury loan. The loan balance outstanding at the beginning of the year is included in the federal expenditures presented in the Schedule. The Organization received no additional loans during the year. The balance of the loan outstanding at June 30, 2016 consists of:

CFDA Number : N/A

Program Name: Small Business Lending Fund EQ2

Outstanding balance as of June 30, 2016: \$2,236,000

4. INDIRECT COST RATE

Opportunity Fund Northern California and Subsidiary has not elected to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

Opportunity Fund Northern California and Subsidiary  
 Schedule of Findings and Questioned Costs  
 For the Year Ended June 30, 2016

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified that are not considered to be material weaknesses?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified that are not considered to be material weaknesses?	None reported
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	No

Identification of major programs:

<u>Name of Federal Program or Cluster</u>	<u>CFDA Number</u>
Community Development Financial Institutions Program	21.020
Dollar threshold used to distinguish between Type A and Type B programs	\$750,000
Auditee qualified as low-risk auditee?	Yes

Opportunity Fund Northern California and Subsidiary  
Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2016

SECTION II - SUMMARY OF FINANCIAL STATEMENT FINDINGS

There are no financial statement findings to be reported.

SECTION III - SUMMARY OF FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There are no federal award findings to be reported.

SECTION IV - STATUS OF PRIOR YEAR FINDINGS

There were no prior year findings.

SECTION V - CORRECTIVE ACTION PLAN

There is no corrective action plan required.