ACCION SAN DIEGO

FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

Leaf & Cole, LLP
Certified Public Accountants

ACCION SAN DIEGO
FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

TABLE OF CONTENTS

Leaf & Cole, LLP
Certified Public Accountants
A Partnership of Professional Corporations

Independent Auditor's Report

To the Board of Directors
Accion San Diego

Report on the Financial Statements

We have audited the accompanying financial statements of Accion San Diego, which comprise the statements of financial position as of December 31, 2017 and 2016, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

2810 Camino Del Rio South, Suite 200, San Diego, California 92108-3820
619.294.7200, 619.294.7077 fax, www.leaf-cole.com, leafcole@leaf-cole.com

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Accion San Diego as of December 31, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards as required by Title 2 U.S. *Code of Federal Regulations* 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 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the 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 June 11, 2018, on our consideration of Accion San Diego'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 the effectiveness of Accion San Diego's 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 Accion San Diego's internal control over financial reporting and compliance.

Leaf & Cole LLP

San Diego, California
June 11, 2018

ACCION SAN DIEGO
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2017 AND 2016

ASSETS

	2017	2016
Current Assets: (Notes 2, 3, 4, 11 and 12)		
Cash and cash equivalents	$ 3,867,529	$ 3,440,720
Receivables, net:		
Grants	154,239	243,825
Other	146,220	61,442
Loan interest and fees	54,004	73,981
Current portion of loans receivable	1,585,713	1,401,402
Deposits and prepaid expenses	27,552	16,396
Total Current Assets	5,835,257	5,237,766
Noncurrent Assets: (Notes 2, 4, 5, 11 and 12)		
Loans receivable, net	4,470,469	4,086,061
Loan loss reserve	238,212	225,636
Property and equipment	30,936	19,799
Total Noncurrent Assets	4,739,617	4,331,496
TOTAL ASSETS	$ 10,574,874	$ 9,569,262

LIABILITIES AND NET ASSETS

	2017	2016
Current Liabilities: (Notes 2, 6, 7 and 12)		
Accounts payable and accrued expenses	$ 261,543	$ 228,065
Current portion of deferred revenue	23,999	51,131
Total Current Liabilities	285,542	279,196
Noncurrent Liabilities: (Notes 2, 7, 8 and 12)		
Deferred revenue, net of current portion	-	22,927
Notes payable	1,450,000	1,650,000
Total Noncurrent Liabilities	1,450,000	1,672,927
Total Liabilities	1,735,542	1,952,123
Commitments and Contingencies (Notes 11 and 13)		
Net Assets: (Notes 2 and 9)		
Unrestricted	8,839,332	7,583,513
Temporarily restricted	-	33,626
Total Net Assets	8,839,332	7,617,139
TOTAL LIABILITIES AND NET ASSETS	$ 10,574,874	$ 9,569,262

The accompanying notes are an integral part of the financial statements.

ACCION SAN DIEGO
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2017

	Unrestricted	Temporarily Restricted	Total
Revenue and Support:			
Grants and contributions	$ 1,344,705	$ 40,000	$ 1,384,705
Federal awards	1,077,296	-	1,077,296
Loan interest and fees	997,640	-	997,640
In-kind contributions	126,923	-	126,923
Investment income	3,422	-	3,422
Net assets released from restrictions	73,626	(73,626)	-
Total Revenue and Support	3,623,612	(33,626)	3,589,986
Expenses:			
Program Services	2,249,516	-	2,249,516
Supporting Services:			
Management and general	97,918	-	97,918
Fundraising	20,359	-	20,359
Total Supporting Services	118,277	-	118,277
Total Expenses	2,367,793	-	2,367,793
Change in Net Assets	1,255,819	(33,626)	1,222,193
Net Assets at Beginning of Year	7,583,513	33,626	7,617,139
NET ASSETS AT END OF YEAR	$ 8,839,332	$ -	$ 8,839,332

The accompanying notes are an integral part of the financial statements.

ACCION SAN DIEGO
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2016

	Unrestricted	Temporarily Restricted	Total
Revenue and Support:			
Grants and contributions	$ 1,128,137	$ 40,000	$ 1,168,137
Loan interest and fees	948,227	-	948,227
Federal awards	820,636	-	820,636
In-kind contributions	100,007	-	100,007
Investment income	3,238	-	3,238
Net assets released from restrictions	100,719	(100,719)	-
Total Revenue and Support	3,100,964	(60,719)	3,040,245
Expenses:			
Program Services	1,999,267	-	1,999,267
Supporting Services:			
Management and general	101,019	-	101,019
Fundraising	16,705	-	16,705
Total Supporting Services	117,724	-	117,724
Total Expenses	2,116,991	-	2,116,991
Change in Net Assets	983,973	(60,719)	923,254
Net Assets at Beginning of Year	6,599,540	94,345	6,693,885
NET ASSETS AT END OF YEAR	$ 7,583,513	$ 33,626	$ 7,617,139

The accompanying notes are an integral part of the financial statements.

ACCION SAN DIEGO
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2017

	Program Services	Supporting Services: Management and General	Supporting Services: Fundraising	Supporting Services: Total Supporting Services	Total
Salaries and Related Expenses:					
Staff salaries	$ 1,149,426	$ 62,012	$ 13,178	$ 75,190	$ 1,224,616
Payroll taxes and employee benefits	197,751	10,519	2,104	12,623	210,374
Total Salaries and Related Expenses	1,347,177	72,531	15,282	87,813	1,434,990
Nonsalary Related Expenses:					
Provision for loan losses	221,361	-	-	-	221,361
Occupancy	103,676	5,515	1,103	6,618	110,294
Interest expense	105,576	-	-	-	105,576
Lending expense	98,123	-	-	-	98,123
Public relations and marketing	47,603	2,532	506	3,038	50,641
Software expense	47,295	2,516	503	3,019	50,314
Accounting and legal	40,637	2,161	432	2,593	43,230
Mileage, parking and transport	36,634	1,949	390	2,339	38,973
Training	31,655	1,684	337	2,021	33,676
Travel, meals and accommodations	31,309	1,665	333	1,998	33,307
Telephone	23,529	1,251	250	1,501	25,030
Dues and subscriptions	18,082	962	192	1,154	19,236
Small equipment	16,518	879	176	1,055	17,573
Insurance	15,615	831	166	997	16,612
Bank fees	10,870	578	116	694	11,564
Supplies	10,303	548	110	658	10,961
Miscellaneous expenses	9,455	503	101	604	10,059
Meetings and conferences	7,840	417	83	500	8,340
Equipment rental	6,264	333	67	400	6,664
Postage and shipping	5,587	297	59	356	5,943
Taxes and licenses	2,111	112	22	134	2,245
Printing and copying	922	49	10	59	981
Total Nonsalary Related Expenses	890,965	24,782	4,956	29,738	920,703
Total Expenses Before Depreciation	2,238,142	97,313	20,238	117,551	2,355,693
Depreciation	11,374	605	121	726	12,100
TOTAL PROGRAM AND SUPPORTING SERVICES EXPENSES	$ 2,249,516	$ 97,918	$ 20,359	$ 118,277	$ 2,367,793

The accompanying notes are an integral part of the financial statements.

ACCION SAN DIEGO
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2016

	Program Services	Supporting Services: Management and General	Supporting Services: Fundraising	Supporting Services: Total Supporting Services	Total
Salaries and Related Expenses:					
Staff salaries	$ 1,004,741	$ 67,101	$ 11,052	$ 78,153	$ 1,082,894
Payroll taxes and employee benefits	156,783	10,115	1,686	11,801	168,584
Total Salaries and Related Expenses	1,161,524	77,216	12,738	89,954	1,251,478
Nonsalary Related Expenses:					
Provision for loan losses	281,325	-	-	-	281,325
Interest expense	110,000	-	-	-	110,000
Occupancy	87,308	5,633	939	6,572	93,880
Lending expense	77,461	-	-	-	77,461
Public relations and marketing	36,629	2,363	394	2,757	39,386
Mileage, parking and transport	29,410	1,897	316	2,213	31,623
Software expense	25,507	1,646	274	1,920	27,427
Accounting and legal	24,766	1,598	266	1,864	26,630
Travel, meals and accommodations	20,692	1,335	223	1,558	22,250
Small equipment	19,904	1,284	214	1,498	21,402
Dues and subscriptions	17,621	1,137	189	1,326	18,947
Telephone	16,371	1,056	176	1,232	17,603
Meetings and conferences	15,997	1,032	172	1,204	17,201
Insurance	15,255	984	164	1,148	16,403
Training	11,829	763	127	890	12,719
Bank fees	11,336	731	122	853	12,189
Supplies	9,359	604	101	705	10,064
Equipment rental	6,069	392	65	457	6,526
Postage and shipping	3,447	222	37	259	3,706
Printing and copying	3,265	211	35	246	3,511
Miscellaneous expenses	3,147	203	34	237	3,384
Taxes and licenses	2,234	144	24	168	2,402
Total Nonsalary Related Expenses	828,932	23,235	3,872	27,107	856,039
Total Expenses Before Depreciation	1,990,456	100,451	16,610	117,061	2,107,517
Depreciation	8,811	568	95	663	9,474
TOTAL PROGRAM AND SUPPORTING SERVICES EXPENSES	$ 1,999,267	$ 101,019	$ 16,705	$ 117,724	$ 2,116,991

The accompanying notes are an integral part of the financial statements.

ACCION SAN DIEGO
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
Cash Flows From Operating Activities:		
Change in net assets	$ 1,222,193	$ 923,254
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	12,100	9,474
Provision for loan losses	221,361	281,325
(Increase) Decrease in:		
Contributions receivable	-	13,278
Grants receivable	89,586	(190,500)
Other receivables	(84,778)	(47,498)
Loan interest and fees receivable	19,977	(16,264)
Deposits and prepaid expenses	(11,156)	9,165
Loan loss reserve	(12,576)	(64,829)
Increase (Decrease) in:		
Accounts payable and accrued expenses	33,478	41,176
Deferred revenue	(50,059)	(589,932)
Net Cash Provided by Operating Activities	1,440,126	368,649
Cash Flows From Investing Activities:		
Funding of loans receivable	(3,615,158)	(3,542,641)
Repayment of loans receivable	2,785,078	2,570,394
Loan loss reserve funded by lender	40,000	-
Purchase of property and equipment	(23,237)	-
Net Cash Used in Investing Activities	(813,317)	(972,247)
Cash Flows From Financing Activities:		
Proceeds from notes payable	200,000	-
Payments on notes payable	(400,000)	-
Net Cash Used in Financing Activities	(200,000)	-
Net Increase (Decrease) in Cash and Cash Equivalents	426,809	(603,598)
Cash and Cash Equivalents at Beginning of Year	3,440,720	4,044,318
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 3,867,529	$ 3,440,720
Supplemental Disclosure of Cash Flow Information:		
Cash paid for interest	$ 28,957	$ 30,500

The accompanying notes are an integral part of the financial statements.

Note 1 - Organization:

Accion San Diego (the "Organization") is a not-for-profit corporation, incorporated in the State of California on May 31, 1994, and was organized for the primary purpose of creating economic opportunity for low-to-moderate income business owners who lack access to traditional sources of credit in San Diego County, California. In 2016, the Organization expanded service to include Imperial County, Riverside and San Bernardino Counties in California.

Through business loans (of $300 to $75,000) and support services, the Organization strengthens emerging entrepreneurs and helps them to thrive in their communities, creating social and economic change by providing business support and small business loans. The Organization is primarily funded by contributions from banks, foundations, corporations, government entities, and individuals. The Organization also earns interest and fees on its loan portfolio.

Accion San Diego is a member of the Accion U.S. Network (Network), a nationwide micro and small-business lending network consisting of four individually governed and managed not-for-profit Accion branded member organizations that each serve specified geographies and collectively serve thousands of clients nationwide.

Accion, the U.S. Network, Inc. (AUSN) licenses the Accion brand from Accion International and sublicenses the brand to the four Network member organizations for an annual fee. All of the Network member organizations are represented in the governance of AUSN. AUSN raises funds that enable it to (a) provide financial support and services to the member organizations (b) fund the out-of-pocket costs of building technology and infrastructure to serve the operating processes of its members, and (c) provide information sharing and establish and monitor required minimum member operating standards. Accion San Diego works collaboratively with AUSN and the other Network member organizations to develop and improve the efficiency and effectiveness of key processes, together with supporting technology designed to benefit all Network members. AUSN and each Network member organization accounts for its own costs related to these collaborative development activities.

Note 2 - Significant Accounting Policies:

Accounting Method

The financial statements of the Organization have been prepared on the accrual basis of accounting which is in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) and, accordingly, reflect all significant receivables, payables, and other liabilities.

Note 2 - Significant Accounting Policies: (Continued)

Financial Statement Presentation

The financial statements present information regarding the financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

- Unrestricted net assets – Net assets not subject to donor imposed stipulations

- Temporarily restricted net assets – Net assets subject to donor imposed stipulations that will be met by actions of the Organization and/or the passage of time. When a donor stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

- Permanently restricted net assets – Net assets subject to donor imposed stipulations requiring that they be maintained permanently by the Organization. The income from these assets is available for either general operations or specific programs as specified by the donor.

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 the reported amounts of assets and liabilities and disclosure 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 those estimates.

Risks and Uncertainties

The Organization invests in various types of investment securities which are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and such changes could materially affect the amounts reported in the statements of financial position.

Fair Value Measurements

Fair value accounting standards define fair value, establish a framework for measuring fair value, outline a fair value hierarchy based on inputs used to measure fair value and enhance disclosure requirements for fair value measurements. The fair value hierarchy distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Level 1 or 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy). The Organization had no financial instruments measured at fair value at December 31, 2017 and 2016.

Note 2 - Significant Accounting Policies: (Continued)

Allowance for Doubtful Accounts

Bad debts are recognized on the allowance method based on historical experience and management's evaluation of outstanding receivables. Management believes that all contributions, grants, and other receivables were fully collectible; therefore, no allowance for doubtful accounts receivable was recorded at December 31, 2017 and 2016.

Loan Loss Reserve

The Organization began participation in a program to establish a cash reserve to be used to cover loan losses for enrolled loans. Deposits to the reserve are received from the Organization and the State of California. The portion of deposits received from the State of California are refundable to California Capital Access Program (CalCAP) if the program is terminated and excess deposits remain in the reserve account. The Organization has recorded a loan loss reserve equal to the portion non-refundable to the State of California. The loan loss reserve totaled $238,212 and $225,636 at December 31, 2017 and 2016, respectively.

Loans Receivable

The allowance for loan losses is increased by charges to income and decreased by charge-offs, net of recoveries. Loan losses are charged against the allowance (charge-offs) when management believes the uncollectibility of a loan balance is confirmed. Repossessed collateral is reported at net realizable value on or soon after acquisition based on an evaluation completed on the collateral. Management's periodic evaluation of the adequacy of the allowance is based on the Organization's past and current loan-loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay and current economic conditions.

The provision for loan losses in the statements of activities totaling $221,361 and $281,325 for the years ended December 31, 2017 and 2016, respectively, results from the combination of an estimate by management of loan losses that occurred during the current period and the ongoing adjustment of prior estimates of losses occurring in prior periods. Because of these factors, it is reasonably possible that the allowance for losses on loans may change materially in the near term. While management uses available information to recognize losses on loans, future additions to the allowances may be necessary based on changes in local economic conditions.

Accrual of interest on a loan is discontinued when management believes that the borrower's financial condition is such that collection of interest is doubtful. Uncollectible interest previously accrued is charged-off by means of a charge to interest income. Income is subsequently recognized only to the extent cash payments are received until, in management's judgment, the borrower's ability to make periodic interest and principal payments is back to normal, in which case the loan is returned to accrual status.

Note 2 - Significant Accounting Policies: (Continued)

Loans Receivable (Continued)

Loans that have been modified and economic concessions that have been granted to borrowers who have experienced financial difficulties are considered a troubled debt restructuring (TDR). These concessions typically would result from the Organization's loss mitigation activities and may include suspension of interest, payment extensions, forgiveness of principal, forbearance, and other actions. Certain TDR's are classified as nonperforming at the time of restructuring and typically are returned to performing status after considering the borrower's sustained repayment performance for a reasonable period.

When the Organization modifies loans in a TDR, it evaluates any possible impairment similar to other impaired loans based on the present value of expected future cash flows, discounted at the contractual interest rate of the original loan agreement. If the Organization determines that the value of the modified loan is less than the recorded investment in the loan (net of previous charge-offs, deferred loan fees or costs and unamortized premium or discount), impairment is recognized through an allowance estimate or a charge-off to the allowance. In periods subsequent to modification, the Organization evaluates TDR's, including those that have payment defaults, for possible impairment and recognizes impairment through the allowance.

Capitalization and Depreciation

The Organization capitalizes all expenditures in excess of $2,000 for property and equipment at cost, while donations of property and equipment are recorded at their estimated fair values. Such donations are reported as unrestricted unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time. Property and equipment are depreciated using the straight-line method over the estimated useful asset lives as follows:

Leasehold improvements	10 years
Computer software	3 years

Depreciation totaled $12,100 and $9,474 for the years ended December 31, 2017 and 2016, respectively.

Maintenance and repairs are charged to operations as incurred. Upon sale or disposition of property or equipment, the asset account is reduced by the cost and the accumulated depreciation account is reduced by the depreciation taken prior to the sale. Any resultant gain or loss is then recorded as income or expense.

Note 2 - Significant Accounting Policies: (Continued)

Compensated Absences

Accumulated unpaid paid time off (PTO) totaling $73,750 and $65,606 at December 31, 2017 and 2016, respectively, is accrued when incurred and included in incentive and PTO payable as a component of accounts payable and accrued expenses (Note 6).

Deferred Lease

Rent expense is recognized on a straight-line basis over the term of the operating lease. The deferred lease represents discounted rent received in excess of the rent expense recognized. The deferred lease totaled $4,892 and $9,347 at December 31, 2017 and 2016, respectively, and is included as an accrued expense in accounts payable and accrued expenses.

Revenue Recognition

Contributions are recognized when the donor makes a promise to give to the Organization that is in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Grants and federal awards are recognized in the period in which the related work is performed in accordance with the terms of the grant or award. Grants receivable are recorded when revenue earned under a grant or award exceeds the cash received. Deferred revenue is recorded when cash received under a grant or award exceeds the revenue earned.

Donated Services, Facilities and Below Market Interest

The Organization has received donations for professional services, supplies and below market interest. The professional services and supplies are recorded at their fair value. The Organization recorded in-kind contributions and interest expense using the difference between the actual interest rate charged and the fair value of the loan interest rate based on the date of the loan. Donated services, facilities, and below market interest totaled $126,923 and $100,007 for the years ended December 31, 2017 and 2016, respectively, and have been reported as in-kind contributions and expenses. (Note 10)

In addition, many individuals volunteer their time and perform a variety of tasks that assist the Organization with programs and various assignments. This contribution of services by the volunteers is not recognized in the financial statements unless the services received (a) create or enhance nonfinancial assets or (b) require specialized skills which are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation.

Note 2 - Significant Accounting Policies: (Continued)

Allocated Expenses

The Organization allocates its expenses on a functional basis among its various programs and supporting services. Expenditures which can be identified with a specific program or support services are allocated directly, according to their natural expenditure classification. Costs that are common to several functions are allocated among the program and supporting services on the basis of time records, space utilized and estimates made by the Organization's management.

Income Taxes

Accion San Diego is a public charity and is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code. The Organization believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements. Accion San Diego is not a private foundation.

Accion San Diego's Return of Organization Exempt from Income Tax for the years ended December 31, 2017, 2016, 2015 and 2014 are subject to examination by the Internal Revenue Service and State taxing authorities, generally three to four years after the returns were filed.

Concentration of Credit Risk

The Organization maintains its cash in bank deposit accounts and money market funds which, at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts. The Organization believes it is not exposed to any significant credit risk on cash and cash equivalents.

The Organization provides micro lending to qualifying small business entities in several Counties in Southern California. The Organization considers this a geographic concentration potentially subject to risk.

Cash and Cash Equivalents

For the purposes of the statements of cash flows, the Organization considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

Subsequent Events

The Organization has evaluated subsequent events through June 11, 2018, which is the date the financial statements are available for issuance, and concluded that there were no events or transactions that needed to be disclosed.

Note 3 - Grants Receivable:

Grants receivable consist of the following at December 31:

	2017	2016
Community Development Financial Institution Program	$ 122,500	$ 210,000
City of San Diego - Community Development Block Grant	27,347	30,196
City of San Diego - Small Business Enhancement Program	4,392	3,629
Total Grants Receivable	$ 154,239	$ 243,825

Note 4 - Loans Receivable:

Loans receivable were funded from various sources and consist of the following at December 31:

Funding Source	Interest Rates	2017	2016
Accion San Diego	9.00% - 18.00%	$ 2,361,225	$ 2,295,660
Community Development Financial Institution	10.00% - 18.00%	1,660,244	1,304,211
Wells Fargo Bank	10.00% - 18.00%	939,441	928,054
Comerica Bank	10.00% - 18.00%	882,634	771,171
Pacific Western Bank	10.00% - 18.00%	277,001	265,911
Civic San Diego	10.00% - 18.00%	188,748	-
Private sources	10.00% - 18.00%	48,810	52,315
Torrey Pines Bank	10.00% - 18.00%	44,704	38,783
Kiva Microfunds	12.00% - 18.00%	23,999	74,058
Jacobs Foundation	10.00% - 18.00%	23,664	58,613
Total Loans Receivable		6,450,470	5,788,776
Less: Allowance for loan losses		(394,288)	(301,313)
Loans receivable, net		6,056,182	5,487,463
Less: Current portion of loans receivable		(1,585,713)	(1,401,402)
Loans Receivable, Noncurrent		$ 4,470,469	$ 4,086,061

Loans receivable are recorded at unpaid principal balances, less an allowance for loan losses. Interest on loans may range from 9.00% to 18.00% and is recognized as income based on the daily principal amount outstanding. A loan is considered delinquent when a payment is not made on or before the scheduled due date and is placed on nonaccrual status. There were 8 and 13 loans on nonaccrual status at December 31, 2017 and 2016, respectively. When interest accrual is discontinued, all unpaid accrued interest is reversed. Interest income is subsequently recognized only to the extent cash payments are received. An allowance for loan losses is maintained to absorb potential losses inherent in the loan portfolio. When all or a portion of a loan balance reaches 180 days delinquent, it is deemed uncollectible, and the remaining loan balance is charged off to the allowance for loan losses. Recoveries of loans previously charged off are credited to the allowance for loan losses. The provision for loan losses charged to expense is determined monthly based on past delinquency, write-off trends, loan loss guarantee program coverage in place and standards set by Accion Network. Collateral is secured based on the particular loan profile. Generally, collateral on loans will cover a portion of the loan balance only. Impaired loans are recorded at unpaid principal balances, net of an allowance for uncollectible balances, which approximate the present value of the expected future cash flows. For loans that are considered impaired, the provision for loan losses charged to expense is determined monthly based on past delinquency and write-off trends. The interest income on an impaired loan is recognized in the same manner as noted above.

Note 4 - Loans Receivable: (Continued)

The activity in the allowance for loan losses consisted of the following for the years ended December 31:

	2017	2016
Balance at Beginning of Year	$ 301,313	$ 211,962
Provision charged to expense	221,361	281,325
Loan loss reserve funded by lender	40,000	-
Loans charged off	(341,667)	(318,056)
Recoveries	173,281	126,082
Balance at End of Year	$ 394,288	$ 301,313

The Organization has secured debt agreements that limit its risk of loan loss on certain loans. Of the loans charged off reflected in the table above, $173,281 and $126,082 for the years ended December 31, 2017 and 2016, respectively, were covered by these agreements. (Note 11)

Management evaluates loans for credit quality at least quarterly, but more frequently if certain circumstances occur, such as material new information which becomes available and indicates a potential change in credit risk. Credit quality is based on the aging status of the loan and by payment activity.

When loans have been modified and economic concessions are granted to borrowers who have experienced financial difficulties, these loans are considered a TDR. Specifically, loans are considered TDR's when, in order to stay current on loan payments, a borrower has needed one payment extension of longer than three months duration, or two payment extensions of three months duration in the life of the loan. If these clients perform pursuant to the modified terms, the loans may be placed back on accrual status, but they will still be reported as TDR's. After a loan is restructured once, it may not be modified again. Total TDR's outstanding were $70,242 and $102,023 at December 31, 2017 and 2016, respectively. The specific valuation allowance for these TDR's has been calculated based on the reserve factor as calculated by management in the evaluation of the allowance for loan losses. Included within the allowance for loan losses was $12,574 and $18,521 related to TDR's at December 31, 2017 and 2016, respectively.

The following tables present the aging for loans receivable and the status of interest accruals at December 31, 2017 and 2016:

December 31, 2017							
		Past Due				Total	
Current	1-30 Days	31-60 Days	61-90 Days	91-120 Days	>120 Days	Past Due	Balance
$ 6,025,048	$ 189,371	$ 67,362	$ 38,639	$ 64,247	$ 65,803	$ 236,051	$ 6,450,470

December 31, 2016							
		Past Due				Total	
Current	1-30 Days	31-60 Days	61-90 Days	91-120 Days	>120 Days	Past Due	Balance
$ 5,324,317	$ 199,698	$ 71,019	$ 53,295	$ 72,112	$ 68,335	$ 264,761	$ 5,788,776

Note 4 - Loans Receivable: (Continued)

December 31, 2017			December 31, 2016		
	Status of Interest Accruals			Status of Interest Accruals	
Total Loans Receivable	Total Loans Receivable on Nonaccrual Status	Loans Receivable Past Due > 120 Days and Still Accruing Interest	Total Loans Receivable	Total Loans Receivable on Nonaccrual Status	Loans Receivable Past Due > 120 Days and Still Accruing Interest
$ 6,450,470	$ 43,738	$ -	$ 5,788,776	$ 59,241	$ -

In December 2017, the Organization sold 34 loans to Pacific Mercantile Bank. The loans are excluded from the Organization's loan portfolio, but the Organization continues to service the borrowers and remits all principal and interest collections to the buyer. As of December 31, 2017, the principal balance of the sold loans amounted to $127,111.

Note 5 - Property and Equipment:

Property and equipment consist of the following at December 31:

	2017	2016
Leasehold improvements	$ 70,421	$ 54,276
Computer software	43,484	43,484
Furniture and equipment	7,092	-
Subtotal	120,997	97,760
Less: Accumulated depreciation	(90,061)	(77,961)
Property and Equipment, Net	$ 30,936	$ 19,799

Note 6 - Accounts Payable and Accrued Expenses:

Accounts payable and accrued expenses consist of the following at December 31:

	2017	2016
Incentive and PTO payable	$ 164,550	$ 165,606
Accrued expenses	41,492	35,347
Salary benefits	33,218	10,748
Accounts payable	9,638	7,862
Accrued interest	2,597	7,914
Other	10,111	588
Total Account Payable and Accrued Expenses	$ 261,606	$ 228,065

Note 7 - Deferred Revenue:

The Organization has received conditional awards from the Community Development Financial Institution Program (CDFI) totaling $4,743,905. The Organization has received $4,621,405 of those funds through December 31, 2017, and has recognized revenues of $912,500 and $635,900 for the years ended December 31, 2017 and 2016, respectively. These awards are conditioned upon the Organization funding loans to specific target markets that are either low income or lacking access to financial products. In addition, the Organization must meet certain lending benchmarks annually. A total of $122,500 of the recent conditional award of $916,905 was not received at December 31, 2017. (See Note 3)

The Organization is a field partner of Kiva Microfunds (Kiva), which connects local lenders that provide loans to individuals. Field partners use lender funds to replenish loans already made and collect payments from the borrowers which are remitted to the lenders through Kiva. This program ended on December 31, 2016. Lender funds used by Accion San Diego totaled $-0- and $-0- at December 31, 2017 and 2016, respectively.

Deferred revenue consists of the following at December 31:

	2017	2016
CDFI grants	$ 4,743,905	$ 3,827,000
CDFI grants unfunded	(794,405)	(790,000)
CDFI grants expended	(3,949,500)	(3,037,000)
Net CDFI Grants	-	-
Kiva	23,999	74,058
Total	23,999	74,058
Less: Current Portion	(23,999)	(51,131)
Deferred Revenue, Net of Current Portion	$ -	$ 22,927

Note 8 - Notes Payable:

Notes payable consist of the following at December 31:

	2017	2016
Unsecured note payable to Wells Fargo Community Development Corporation. The note bears interest at a fixed rate of 2% of the outstanding balance annually, with interest only payments due quarterly. All outstanding principal and any accrued but unpaid interest will be due at maturity November 16, 2025. The note terms can be extended two additional years at a modified interest rate.	$ 750,000	$ 750,000
Unsecured note payable to Wells Fargo Community Development Corporation. The note bears interest at a fixed rate of 2% of the outstanding balance annually, with interest only payments due quarterly. All outstanding principal and any accrued but unpaid interest will be due at maturity, February 18, 2019. The note terms can be extended two additional years at a modified interest rate.	250,000	250,000

Note 8 - Notes Payable: (Continued)

	2017	2016
Unsecured note payable to Pacific Western Bank (Bank). The note bears no interest, provided the Bank receives California Organized Investment Network (COIN) CDFI tax credits as defined in the California Revenue and Taxation Code. Interest will accrue at a rate of 4% of the outstanding balance if the tax credits are not approved. Interest only payments are quarterly. All outstanding principal and any accrued but unpaid interest will be due at maturity, September 29, 2020.	$ 250,000	$ 250,000
Unsecured note payable to Civic San Diego. The note bears no interest. The outstanding principal balance will be due at maturity, January 10, 2022, and can be extended for another 5 years, upon submission of a written extension request.	200,000	-
Unsecured note payable to CDFI. The note included interest at a fixed rate of 2% of the outstanding balance annually, with interest only payments due each April 30th. The note balance originally due in 2012, was extended to June 13, 2017. All outstanding principal and any accrued but unpaid interest was due at maturity.	-	$ 400,000
Total Notes Payable	$ 1,450,000	$ 1,650,000

As of December 31, 2017 and 2016, accrued interest on notes payable totaled $2,597 and $7,914, respectively.

Future principal payments on notes payable are as follows:

Years Ended December 31	
2018	$ -
2019	250,000
2020	250,000
2021	-
2022	200,000
Thereafter	750,000
	$ 1,450,000

Note 9 - Temporarily Restricted Net Assets:

Certain net assets are temporarily restricted to support increased lending capacity and efficiency and totaled $-0- and $33,626 at December 31, 2017 and 2016, respectively.

Net assets totaling $73,626 and $100,719 were released from donor restrictions due to the satisfaction of purpose or time restrictions for the years ended December 31, 2017 and 2016, respectively.

Note 10 - In-Kind Contributions:

The Organization received the following in-kind contributions for the years ended December 31:

	2017	2016
Below market interest on notes payable	$ 82,000	$ 79,500
Donated legal loan collection services	18,959	2,280
Donated workshop presenter services	7,995	3,180
Donated services for office expansion	7,389	7,297
Donated software equipment	4,960	-
Donated rent	3,120	-
Donated office equipment	2,500	7,750
Total In-Kind Contributions	$ 126,923	$ 100,007

Note 11 - Loan Guarantee and Reserve Programs:

The Organization participates in the Nor-Cal FDC, the California Southern FDC and the Golden Gate FDC loan guarantees, and the California CAP loan loss reserve program. These programs provide loan loss recoveries between 50% and 100% on enrolled loans depending on the characteristics of the loan and the program. The following summarizes, by program, the loan balances and the related loan loss guarantees or reserves:

Nor-Cal FDC

Accion San Diego participates in the Nor-Cal FDC loan loss guarantee program which guarantees loans up to 80% of the loan balance at the time of the loss claim, with no minimum dollar exposure and a maximum dollar exposure of $50 million, and a maximum term of seven years. A guarantee fee of 2.5% ($300 minimum) is charged to the client in addition to a $250 application fee. If a loan defaults, Accion San Diego can use the loan guarantee to recover the loss, up to the guarantee percentage of the loan loss, at the time of claim. Maximum loan amount to qualify for this program is $75,000.

The following summarizes the number of loans, the loan balance and the related loan guarantee as of and for the years ended December 31:

	2017	2016
Number of Loans	101	93
Loan Balance	$ 2,781,913	$ 2,074,395
Loan Guarantee	$ 2,215,951	$ 1,655,271

Note 11 - Loan Guarantee and Reserve Programs: (Continued)

California Southern FDC

Accion San Diego participates in California Southern FDC's loss guarantee program which guarantees up to 80% of the loan balance at the time of the loss claim, with no minimum dollar exposure, a maximum dollar exposure of $50 million and a maximum term of seven years. A guarantee fee of 2.5% ($300 minimum) is charged to the client in addition to a $250 application fee. If a loan defaults Accion San Diego can use the loan guarantee to recover the loss up to the guarantee percentage of the loan loss at the time of the claim. Minimum loan amount to qualify for this program is $17,500.

The following summarizes the number of loans, the loan balance and the related loan guarantee as of and for the years ended December 31:

	2017	2016
Number of Loans	33	23
Loan Balance	$ 874,497	$ 603,597
Loan Guarantee	$ 697,713	$ 462,198

This is the minimum guaranteed amount of coverage. The actual guaranteed percent coverage varies by loan within the portfolio, and therefore the actual dollar amount covered by guarantee may exceed the minimum guaranteed amount.

Golden Gate FDC (FEDC)

Accion San Diego participates in Golden Gate FDC (FEDC) loan loss guarantee program, which guarantees 50% to 80% of the loan balance at the time of the loss claim, with no minimum dollar exposure, a maximum dollar exposure of $35 million and a maximum term of five years. A guarantee fee of 2% is charged to the client in addition to a $250 application fee. If a loan defaults, Accion San Diego can use this loan guarantee to recover the loss up to the guarantee percentage of the loan loss at the time of the claim. Minimum loan amount to qualify for this program is $10,000.

The following summarizes the number of loans, the loan balance and the related loan guarantee as of and for the years ended December 31:

	2017	2016
Number of Loans	3	13
Loan Balance	$ 16,846	$ 68,033
Loan Guarantee	$ 8,423	$ 34,017

Note 11 - Loan Guarantee and Reserve Programs: (Continued)

California Capital Access Program (CalCAP)

Accion San Diego participates in the CalCAP loan loss reserve program which guarantees certain loan defaults up to 100% of the loan balance at the time of the loss. By participating in CalCAP's program, Accion San Diego has mitigated the risk of losses to the portfolio. Premiums are paid into the portfolio loss reserve account. The premium ranges from 4% to 6% of the loan balance, with Accion San Diego and the borrower each paying one-half (½). After the premium is paid, CalCAP funds a reserve account. If a covered loan defaults, Accion San Diego has the option to draw funds from this reserve to cover the loss or the funds can remain in the reserve account for future needs. Minimum loan amount to qualify for this program is $5,001.

The following summarizes the number of loans, the loan balance and the related loan loss reserve as of and for the years ended December 31:

	2017	2016
Number of Loans	251	291
Loan Balance	$ 2,159,342	$ 2,298,504
Loan Loss Reserve	$ 475,374	$ 434,467

Note 12 - Access to Capital Program:

Accion San Diego participates in the Kiva microfunds program. Kiva allows institutions around the world, called "Field Partners", to post profiles of qualified local entrepreneurs on its website, Kiva.org. Individual lenders browse and choose an entrepreneur they wish to fund. The lenders transfer their funds to Kiva and after receiving a user's money, Kiva aggregates loan capital from individual lenders and transfers it to the appropriate Field Partners, who then replenish the capital used to fund the entrepreneur chosen by the lender. Even though Kiva itself does not charge interest on the loans, the Field Partners charge interest on the loan. As the entrepreneurs repay their loans with interest, the Field Partners remit only the principal portions to Kiva. As the loan is repaid, the Kiva lenders can withdraw their principal or re-lend it to another entrepreneur. However, if the borrower does not repay the Field Partner, the Field Partner does not repay Kiva, resulting in the Kiva lender taking the loss.

In 2014, Accion San Diego deposited $5,000 with Kiva as an individual lender in order to assist in fully funding loans prior to the funding deadline established by Kiva. Loans funded with this deposit are included in the loan balance, below. The unused portion of the deposit is included in deposits and prepaid expenses and totaled $2,247 and $2,247 at December 31, 2017 and 2016, respectively.

Note 12 - Access to Capital Program: (Continued)

The following summarizes the number of loans, the loan balance and the related loan loss reserve as of and for the years ended December 31:

	2017	2016
Number of Loans	17	39
Loan Balance	$ 23,999	$ 74,058
Loan Loss Reserve	$ 23,999	$ 74,058

Note 13 - Commitments and Contingencies:

Lease Obligations

The Organization leases office space under an operating lease that expires January 31, 2020.

In January 2017, the lease was amended to modify the terms of the agreement to include additional square footage. The new rate of 7,892 per month with annual increase of 3% is effective February 2017 until the end of lease, January 31, 2020. In addition, the tenant share of property expenses of 1.65% is deleted as the pro rata share is included in the new based rate per the amended lease agreement. Occupancy expense, including common area maintenance charges, totaled $110,294 and $93,880 for the years ended December 31, 2017 and 2016, respectively.

In addition, the Organization leases a digital copier under an operating lease agreement through June 2020. Equipment rental, including maintenance charges, totaled $6,664 and $6,526 for the years ended December 31, 2017 and 2016, respectively.

The following is a schedule of the future minimum lease payments under the leases:

Years Ended December 31	Office Space	Equipment	Total
2018	$ 97,312	$ 6,120	$ 103,432
2019	100,231	6,120	106,351
2020	8,373	2,550	10,923
Total	$ 205,916	$ 14,790	$ 220,706

Note 13 - Commitments and Contingencies: (Continued)

Retirement Plan

The Organization offers eligible employees the opportunity for participation in a 403(b) retirement plan. Employees may contribute to the Plan up to the maximum amount allowed by the Internal Revenue Code. The Organization contributes a matching contribution equal to 3% of compensation. The Organization contributed \$28,883 and \$16,978 to the Plan for the years ended December 31, 2017 and 2016 and is included in payroll taxes and employees benefits in the statements of functional expenses.

Grants

Expenditures under grant programs may be subject to program or compliance audits by the grantor which may result in disallowed program expenditures. The Organization is not aware of any such audits in progress at December 31, 2017 and 2016.

ACCION SAN DIEGO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2017

Federal Grants/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Agency or Pass-Through Number	Pass Through to Subrecipient	Federal Expenditures	Total Federal Expenditures
U.S. Department of Housing and Urban Development:					
Pass-Through Program From:					
CDBG - Entitlement Grants Cluster:					
City of San Diego:					
Community Development Block Grants/Entitlement Grants	14.218	310318 / 311071	$ -	$ 164,796	$ 164,796
Total U.S. Department of Housing and Urban Development			-	164,796	164,796
U.S. Department of the Treasury:					
Direct Program:					
CDFI Cluster:					
Community Development Finanical Institutions Program	21.020	161FA020251/171FA021204	-	912,500	912,500
Total U.S. Department of the Treasury			-	912,500	912,500
Total Expenditures of Federal Awards			$ -	$ 1,077,296	$ 1,077,296

Note 1 - Basis of Presentation:

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Accion San Diego under programs of the federal government for the year ended December 31, 2017. 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 Accion San Diego, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Accion San Diego.

Note 2 - Summary of Significant Accounting Policies:

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures 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.

Accion San Diego has elected not to use the 10-percent de minimis indirect cost rate as allowed under Uniform Guidance.

Leaf & Cole, LLP
Certified Public Accountants
A Partnership of Professional Corporations

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
Accion San Diego

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Accion San Diego, which comprise the statement of financial position as of December 31, 2017, and the related statements of activities, functional expenses and cash flows for the year then ended and the related notes to the financial statements, and have issued our report thereon dated June 11, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Accion San Diego'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 Accion San Diego's internal control. Accordingly, we do not express an opinion on the effectiveness of Accion San Diego'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.

2810 Camino Del Rio South, Suite 200, San Diego, California 92108-3820
619.294.7200, 619.294.7077 fax, www.leaf-cole.com, leafcole@leaf-cole.com

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Accion San Diego's 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.

Leaf & Cole LLP

San Diego, California
June 11, 2018

Leaf & Cole, LLP
Certified Public Accountants
A Partnership of Professional Corporations

Independent Auditor's Report on Compliance for the Major Program and on Internal Control Over Compliance Required by the Uniform Guidance

To the Board of Directors
Accion San Diego

Report on Compliance for the Major Federal Program

We have audited Accion San Diego's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on Accion San Diego's major federal program for the year ended December 31, 2017. Accion San Diego's major federal program is 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 program.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for Accion San Diego's major federal program 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 standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; 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* (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 Accion San Diego'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 the major federal program. However, our audit does not provide a legal determination of Accion San Diego's compliance.

2810 Camino Del Rio South, Suite 200, San Diego, California 92108-3820
619.294.7200, 619.294.7077 fax, www.leaf-cole.com, leafcole@leaf-cole.com

Opinion on the Major Federal Program

In our opinion, Accion San Diego complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2017.

Report on Internal Control over Compliance

Management of Accion San Diego 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 Accion San Diego's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the 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 Accion San Diego'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 weaknesses 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.

Leaf & Cole LLP

San Diego, California
May 11, 2018

ACCION SAN DIEGO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2017

Section I - Summary of Auditor's Results:

Financial Statements

Type of auditor's report issued on whether the financial statements audited were prepared in accordance with U.S. GAAP:	Unmodified			
Internal control over financial reporting:				
Material weakness identified?		Yes	X	No
Significant deficiencies identified?		Yes	X	No
Noncompliance material to financial statements noted?		Yes	X	No

Federal Awards

Type of auditor's report issued on compliance for major program:	Unmodified			
Internal control over major program:				
Material weakness identified?		Yes	X	No
Significant deficiencies identified?		Yes	X	No
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?		Yes	X	No

Identification of major program:

CDFA Number	Name of Federal Program or Cluster
21.020	Community Development Financial Institutions Program

Dollar threshold used to distinguish between Type A and Type B programs:	$750,000			
Auditee qualified as low-risk auditee?	X	Yes		No

Section II - Financial Statement Findings:

None

Section III - Federal Award Findings and Questioned Costs:

None