ACCION SAN DIEGO

FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

Leaf & Cole, LLP
Certified Public Accountants

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FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

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, 2018 and 2017, 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.

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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, 2018 and 2017, 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 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 May 31, 2019, 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
May 31, 2019

ACCION SAN DIEGO
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2018 AND 2017

ASSETS

	2018	2017
Current Assets: (Notes 2, 4, 5, 10 and 11)		
Cash and cash equivalents	$ 3,568,920	$ 3,867,529
Receivables, net:		
Grants	60,400	154,239
Contributions	5,613	-
Other	95,624	146,220
Loan interest and fees	66,610	54,004
Current portion of loans receivable	1,951,622	1,585,713
Deposits and prepaid expenses	42,752	27,552
Total Current Assets	5,791,541	5,835,257
Noncurrent Assets: (Notes 2, 5, 6, 10 and 12)		
Loans receivable, net	5,233,192	4,470,469
Loan loss reserve	269,606	238,212
Property and equipment	33,549	30,936
Total Noncurrent Assets	5,536,347	4,739,617
TOTAL ASSETS	$ 11,327,888	$ 10,574,874

LIABILITIES AND NET ASSETS

	2018	2017
Current Liabilities: (Notes 2, 7, 8 and 11)		
Accounts payable and accrued expenses	$ 239,630	$ 261,543
Deferred revenue	5,009	23,999
Current portion of noncurrent liabilities	250,000	-
Total Current Liabilities	494,639	285,542
Noncurrent Liabilities: (Note 8)		
Notes payable	1,650,000	1,450,000
Less: Current portion	(250,000)	-
Total Noncurrent Liabilities	1,400,000	1,450,000
Total Liabilities	1,894,639	1,735,542
Commitments and Contingencies (Notes 10 and 12)		
Net Assets: (Notes 2 and 9)		
Without donor restrictions:	9,433,249	8,839,332
Total Net Assets	9,433,249	8,839,332
TOTAL LIABILITIES AND NET ASSETS	$ 11,327,888	$ 10,574,874

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

ACCION SAN DIEGO
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Support:			
Loan interest and fees	$ 1,283,271	$ -	$ 1,283,271
Federal awards	919,679	-	919,679
Grants and contributions	768,202	29,500	797,702
In-kind contributions	102,556	-	102,556
Investment income	4,609	-	4,609
Net assets released from restrictions	29,500	(29,500)	-
Total Revenue and Support	3,107,817	-	3,107,817
Expenses:			
Program Services	2,362,289	-	2,362,289
Supporting Services:			
Management and general	130,189	-	130,189
Fundraising	21,422	-	21,422
Total Supporting Services	151,611	-	151,611
Total Expenses	2,513,900	-	2,513,900
Change in Net Assets	593,917	-	593,917
Net Assets at Beginning of Year	8,839,332	-	8,839,332
NET ASSETS AT END OF YEAR	$ 9,433,249	$ -	$ 9,433,249

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

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

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Support:			
Loan interest and fees	$ 997,640	$ -	$ 997,640
Federal awards	1,077,296	-	1,077,296
Grants and contributions	1,344,705	40,000	1,384,705
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 FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2018

	Program Services	Supporting Services: Management and General	Supporting Services: Fundraising	Supporting Services: Total Supporting Services	Total
Salaries and Related Expenses:					
Staff salaries	$ 1,279,581	$ 92,139	$ 13,813	$ 105,952	$ 1,385,533
Payroll taxes and employee benefits	257,597	13,702	2,740	16,442	274,039
Total Salaries and Related Expenses	1,537,178	105,841	16,553	122,394	1,659,572
Nonsalary Related Expenses:					
Accounting and legal	48,601	2,585	517	3,102	51,703
Bank fees	11,540	614	123	737	12,277
Dues and subscriptions	22,904	1,218	244	1,462	24,366
Equipment rental	6,973	371	74	445	7,418
Insurance	18,355	976	195	1,171	19,526
Interest expense	90,521	-	-	-	90,521
Lending expense	128,792	-	-	-	128,792
Meetings and conferences	5,476	291	58	349	5,825
Mileage, parking and transport	28,604	1,521	304	1,825	30,429
Miscellaneous expenses	5,787	308	62	370	6,157
Occupancy	120,221	6,395	1,279	7,674	127,895
Postage and shipping	6,354	338	68	406	6,760
Printing and copying	2,855	152	30	182	3,037
Provision for loan losses	148,048	-	-	-	148,048
Public relations and marketing	38,001	2,021	404	2,425	40,426
Small equipment	10,330	549	110	659	10,989
Software expense	40,693	2,165	433	2,598	43,291
Supplies	9,033	481	96	577	9,610
Taxes and licenses	1,564	83	17	100	1,664
Telephone	23,165	1,232	246	1,478	24,643
Training	20,912	1,112	222	1,334	22,246
Travel, meals and accommodations	26,912	1,432	286	1,718	28,630
Total Nonsalary Related Expenses	815,641	23,844	4,768	28,612	844,253
Total Expenses Before Depreciation	2,352,819	129,685	21,321	151,006	2,503,825
Depreciation	9,470	504	101	605	10,075
TOTAL PROGRAM AND SUPPORTING SERVICES EXPENSES	$ 2,362,289	$ 130,189	$ 21,422	$ 151,611	$ 2,513,900

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

		Supporting Services			
	Program Services	Management and General	Fundraising	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:					
Accounting and legal	40,637	2,161	432	2,593	43,230
Bank fees	10,870	578	116	694	11,564
Dues and subscriptions	18,082	962	192	1,154	19,236
Equipment rental	6,264	333	67	400	6,664
Insurance	15,615	831	166	997	16,612
Interest expense	105,576	-	-	-	105,576
Lending expense	98,123	-	-	-	98,123
Meetings and conferences	7,840	417	83	500	8,340
Mileage, parking and transport	36,634	1,949	390	2,339	38,973
Miscellaneous expenses	9,455	503	101	604	10,059
Occupancy	103,676	5,515	1,103	6,618	110,294
Postage and shipping	5,587	297	59	356	5,943
Printing and copying	922	49	10	59	981
Provision for loan losses	221,361	-	-	-	221,361
Public relations and marketing	47,603	2,532	506	3,038	50,641
Small equipment	16,518	879	176	1,055	17,573
Software expense	47,295	2,516	503	3,019	50,314
Supplies	10,303	548	110	658	10,961
Taxes and licenses	2,111	112	22	134	2,245
Telephone	23,529	1,251	250	1,501	25,030
Training	31,655	1,684	337	2,021	33,676
Travel, meals and accommodations	31,309	1,665	333	1,998	33,307
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
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
Cash Flows From Operating Activities:		
Change in net assets	$ 593,917	$ 1,222,193
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	10,075	12,100
Provision for loan losses	148,048	221,361
(Increase) Decrease in:		
Contributions receivable	(5,613)	-
Grants receivable	93,839	89,586
Other receivables	50,596	(84,778)
Loan interest and fees receivable	(12,606)	19,977
Deposits and prepaid expenses	(15,200)	(11,156)
Loan loss reserve	(31,394)	(12,576)
Increase (Decrease) in:		
Accounts payable and accrued expenses	(21,913)	33,478
Deferred revenue	(18,990)	(50,059)
Net Cash Provided by Operating Activities	790,759	1,440,126
Cash Flows From Investing Activities:		
Funding of loans receivable	(4,723,867)	(3,615,158)
Repayment of loans receivable	3,447,187	2,785,078
Loan loss reserve funded by lender	-	40,000
Purchase of property and equipment	(12,688)	(23,237)
Net Cash Used in Investing Activities	(1,289,368)	(813,317)
Cash Flows From Financing Activities:		
Proceeds from notes payable	200,000	200,000
Payments on notes payable	-	(400,000)
Net Cash Provided by (Used in) Financing Activities	200,000	(200,000)
Net (Decrease) Increase in Cash and Cash Equivalents	(298,609)	426,809
Cash and Cash Equivalents at Beginning of Year	3,867,529	3,440,720
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 3,568,920	$ 3,867,529
Supplemental Disclosure of Cash Flow Information:		
Cash paid for interest	$ 20,000	$ 28,957

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. The Organization has since 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.

Financial Statement Presentation

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes thereon are classified and reported as follows:

- Net Assets Without Donor Restrictions - Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

Note 2 - Significant Accounting Policies: (Continued)

Financial Statement Presentation (Continued)

- Net Assets With Donor Restrictions - Net assets subject to donor (or certain grantor) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

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, 2018 and 2017.

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, 2018 and 2017.

Note 2 - Significant Accounting Policies: (Continued)

Loans Receivable

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 31 and 8 loans on nonaccrual status at December 31, 2018 and 2017, 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.

Management evaluates loans for credit quality monthly, 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.

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 $148,048 and $221,361 for the years ended December 31, 2018 and 2017, 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. 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 $89,079 and $72,634 at December 31, 2018 and 2017, 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 $9,597 and $12,574 related to TDR's at December 31, 2018 and 2017, respectively.

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.

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 $269,606 and $238,212 at December 31, 2018 and 2017, respectively.

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 support without donor restrictions 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 support with donor restrictions. 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 net assets with donor restrictions to net assets without donor restrictions at that time. Property and equipment are depreciated using the straight-line method over the estimated useful asset lives as follows:

Note 2 - Significant Accounting Policies: (Continued)

Capitalization and Depreciation (Continued)

Leasehold improvements	10 years
Computer software	3 years
Computer equipment	3 years
Furniture and equipment	3 years

Depreciation totaled $10,075 and $12,100 for the years ended December 31, 2018 and 2017, 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.

Compensated Absences

Accumulated unpaid paid time off (PTO) totaling $86,051 and $73,750 at December 31, 2018 and 2017, respectively, is accrued when incurred and included in incentive and PTO payable as a component of accounts payable and accrued expenses.

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 $8,553 and $4,892 at December 31, 2018 and 2017, 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. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions are recorded as without donor restriction or with donor restriction depending on the existence or nature of any donor restrictions. All donor-restricted support is reported as an increase in net assets with donor restrictions. When the stipulated time restriction ends or purpose restriction is accomplished, donor restricted net assets are reclassified to net assets without donor restrictions. Contributions to be received in future periods are discounted at an appropriate discount rate. Amortization of discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions.

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.

Note 2 - Significant Accounting Policies: (Continued)

Donated Services, Facilities and Below Market Interest

The Organization has received donations for professional services, supplies and below market rent and interest. The professional services and supplies are recorded at their fair value. The Organization recorded in-kind contributions, as well as rent and interest expense using the difference between the actual rent or interest rate charged and the fair value of the rent or loan interest rate. Donated services, facilities, and below market interest totaled $102,556 and $126,923 for the years ended December 31, 2018 and 2017, respectively, and have been reported as in-kind contributions and expenses.

	2018	2017
Below market interest on notes payable	$ 71,500	$ 82,000
Donated legal loan collection services	18,696	18,959
Donated workshop presenter services	10,229	7,995
Donated rent	2,131	3,120
Donated services for office expansion	-	7,389
Donated software equipment	-	4,960
Donated office equipment	-	2,500
Total In-Kind Contributions	$ 102,556	$ 126,923

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.

Functional Allocation of 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, 2018, 2017, 2016 and 2015 are subject to examination by the Internal Revenue Service and State taxing authorities, generally three to four years after the returns were filed.

Note 2 - Significant Accounting Policies: (Continued)

Concentrations

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. Additionally, financial instruments that potentially subject the Organization to credit risk are primarily loans receivable.

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.

Accounting Pronouncements Adopted

In August 2016, the FASB issued ASU 2016-14, "Presentation of Financial Statements of Not-for-Profit Entities" (Topic 958). The ASU amends the current reporting model for nonprofit organizations and enhances their required disclosures. The major changes include: (a) requiring the presentation of only two classes of net assets now entitled "net assets without donor restrictions" and "net assets with donor restrictions", (b) modifying the presentation of underwater endowment funds and related disclosures, (c) requiring the use of the placed in service approach to recognize the expirations of restrictions on gifts used to acquire or construct long-lived assets absent explicit donor stipulations otherwise, (d) requiring that all nonprofits present an analysis of expenses by function and nature in either the statement of activities, a separate statement, or in the notes and disclose a summary of the allocation methods used to allocate costs, (e) requiring the disclosure of quantitative and qualitative information regarding liquidity and availability of resources, (f) presenting investment return net of external and direct internal investment expenses, and (g) modifying other financial statement reporting requirements and disclosures intended to increase the usefulness of nonprofit financial statements. The Organization has adopted this ASU as of and for the year ended December 31, 2018.

Subsequent Events

The Organization has evaluated subsequent events through May 31, 2019, 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 - Liquidity and Availability:

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, comprise the following:

Financial assets at year-end:	
Cash and cash equivalents	$ 3,568,920
Receivables, net - current	2,179,869
Financial assets available to meet cash needs for general expenditures within one year	$ 5,748,789

As part of the liquidity management plan of the Organization, cash in excess of daily requirements are invested in short-term investments and money market funds.

Note 4 - Grants Receivable:

Grants receivable consist of the following at December 31:

	2018	2017
City of San Diego - Community Development Block Grant	$ 50,286	$ 27,347
Accion U.S. Network	8,944	-
City of San Diego - Small Business Enhancement Program	1,170	4,392
Community Development Financial Institution Program	-	122,500
Total Grants Receivable	$ 60,400	$ 154,239

Note 5 - Loans Receivable:

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

Funding Source	Interest Rates	2018	2017
Accion San Diego	9.00% - 18.00%	$ 3,429,421	$ 2,361,225
Community Development Financial Institution	10.00% - 18.00%	1,635,691	1,660,244
Wells Fargo Bank	9.00% - 18.00%	957,454	939,441
Comerica Bank	10.00% - 18.00%	849,954	882,634
Civic San Diego	10.00% - 18.00%	384,084	188,748
Pacific Western Bank	10.00% - 18.00%	238,725	277,001
Jacobs Foundation	14.00% - 18.00%	53,545	23,664
Private sources	10.00% - 18.00%	48,177	48,810
Torrey Pines Bank	14.00% - 18.00%	38,660	44,704
California Bank and Trust	18.00%	9,626	-
Kiva Microfunds	12.00% - 18.00%	-	23,999
Total Loans Receivable		7,645,337	6,450,470
Less: Allowance for loan losses		(460,523)	(394,288)
Loans receivable, net		7,184,814	6,056,182
Less: Current portion of loans receivable		(1,951,622)	(1,585,713)
Loans Receivable, Noncurrent		$ 5,233,192	$ 4,470,469

Note 5 - Loans Receivable: (Continued)

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

	2018	2017
Balance at Beginning of Year	$ 394,288	$ 301,313
Recoveries	370,217	173,281
Provision charged to expense	148,048	221,361
Loan loss reserve (used) funded by lender	(10,203)	40,000
Loans charged off	(441,827)	(341,667)
Balance at End of Year	$ 460,523	$ 394,288

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, $370,217 and $173,281 for the years ended December 31, 2018 and 2017, respectively, were covered by these agreements. (Note 12)

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

2018

		Past Due				Total	
Current	1-30 Days	31-60 Days	61-90 Days	91-120 Days	>120 Days	Past Due	Balance
$ 6,996,006	$ 292,338	$ 114,473	$ 47,382	$ 80,521	$ 114,617	$ 356,993	$ 7,645,337

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

2018			2017		
	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
$ 7,645,337	$ 289,149	$ -	$ 6,450,470	$ 43,738	$ -

The Organization sold 18 and 34 loans to Pacific Mercantile Bank in 2018 and 2017, respectively. 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, 2018, the principal balance of the sold loans totaled $125,385.

Note 6 - Property and Equipment:

Property and equipment consist of the following at December 31:

	2018	2017
Leasehold improvements	$ 70,421	$ 70,421
Computer software	43,484	43,484
Computer equipment	12,688	-
Furniture and equipment	7,092	7,092
Subtotal	133,685	120,997
Less: Accumulated depreciation	(100,136)	(90,061)
Property and Equipment, Net	$ 33,549	$ 30,936

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 all of those funds through December 31, 2018, and has recognized revenues of $743,000 and $912,500 for the years ended December 31, 2018 and 2017, 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.

The Organization was a field partner of Kiva Microfunds (Kiva), which connected local lenders that provide loans to individuals. Field partners use lender funds to replenish loans already made and collect payments from the borrowers which were remitted to the lenders through Kiva. This program ended on December 31, 2016.

Deferred revenue consists of the following at December 31:

	2018	2017
CDFI grants	$ 4,743,905	$ 4,743,905
CDFI grants unfunded	-	(794,405)
CDFI grants expended	(4,743,905)	(3,949,500)
Net CDFI Grants	-	-
Others	250	-
Kiva	4,759	23,999
Total Deferred Revenue	5,009	23,999
Less: Current Portion	(5,009)	(23,999)
Deferred Revenue, Net of Current Portion	$ -	$ -

Note 8 - Notes Payable:

Notes payable consist of the following at December 31:

	2018	2017
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 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.	400,000	200,000
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
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
Total Notes Payable	$ 1,650,000	$ 1,450,000

As of December 31, 2018 and 2017, accrued interest on notes payable totaled $1,556 and $2,534, respectively and is included in accounts payable and accrued expenses.

Future principal payments on notes payable are as follows:

Years Ended December 31	
2019	$ 250,000
2020	250,000
2021	-
2022	400,000
2023	-
Thereafter	750,000
	$ 1,650,000

Note 9 - Net Assets With Donor Restrictions:

Net assets released from donor restrictions by incurring expenses satisfying the restricted purpose or by the passage of time or other events specified by the donors are as follows for the years ended December 31:

	2018	2017
Purpose Restriction Accomplished:		
Loan participation	$ 29,500	$ 73,626

Note 10 - Loan Guarantee and Reserve Programs:

The Organization participates in the Nor-Cal FDC, the California Southern FDC 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. Minimum loan amount to qualify for this program is $25,000.

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

	2018	2017
Number of Loans	134	101
Loan Balance	$ 3,861,253	$ 2,781,913
Loan Guarantee	$ 3,082,896	$ 2,215,951

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 $25,000.

Note 10 - Loan Guarantee and Reserve Programs: (Continued)

California Southern FDC (Continued)

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

	2018	2017
Number of Loans	34	33
Loan Balance	$ 788,086	$ 874,497
Loan Guarantee	$ 630,185	$ 697,713

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)

Until December 31, 2017, Accion San Diego participated in Golden Gate FDC (FEDC) loan loss guarantee program, which guaranteed 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% was 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 was $10,000. The Organization ceased to participate in the FEDC program in 2018.

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

	2018	2017
Number of Loans	-	3
Loan Balance	$ -	$ 16,846
Loan Guarantee	$ -	$ 8,423

Note 10 - 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 (2% Accion San Diego, 2% CalCAP). CalCAP then adds 150% of premium (6%) to the reserve account until it reaches $500,000 in secured loans (3% thereafter). 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:

	2018	2017
Number of Loans	342	251
Loan Balance	$ 2,472,007	$ 2,159,342
Loan Loss Reserve	$ 334,909	$ 475,374

Note 11 - Access to Capital Program:

Until 2017, Accion San Diego participated in the Kiva microfunds program. Kiva allowed institutions around the world, called "Field Partners", to post profiles of qualified local entrepreneurs on its website, Kiva.org. Individual lenders browsed and chose an entrepreneur they wished to fund. The lenders transferred their funds to Kiva and after receiving a user's money, Kiva aggregated loan capital from individual lenders and transferred it to the appropriate Field Partners, who then replenished the capital used to fund the entrepreneur chosen by the lender. Even though Kiva itself did not charge interest on the loans, the Field Partners charge interest on the loan. As the entrepreneurs repaid their loans with interest, the Field Partners remitted the principal portions to Kiva. As the loan was repaid, the Kiva lenders could withdraw their principal or re-lend it to another entrepreneur. However, if the borrower did not repay the Field Partner, the Field Partner did 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 $2,520 and $2,247 at December 31, 2018 and 2017, respectively. As of December 31, 2018, Accion San Diego no longer participates in the program. The remaining deferred revenue balance (Note 7) represents the principal due back to KIVA which had not yet been remitted at the end of the year.

Note 11 - Access to Capital Program: (Continued

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 $2,520 and $2,247 at December 31, 2018 and 2017, respectively. As of December 31, 2018, Accion San Diego no longer participates in the program. The remaining deferred revenue balance (Note 7) represents the principal due back to KIVA which had not yet been remitted at the end of the year.

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:

	2018	2017
Number of Loans	-	17
Loan Balance	$ -	$ 23,999
Loan Loss Reserve	$ -	$ 23,999

Note 12 - 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 $127,895 and $110,294 for the years ended December 31, 2018 and 2017, respectively.

In addition, the Organization leases a digital copier under an operating lease agreement through June 2020. Equipment rental, including maintenance charges, totaled $7,418 and $6,664 for the years ended December 31, 2018 and 2017, respectively.

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

Years Ended December 31	Office Space	Equipment	Total
2019	$ 100,231	$ 6,120	$ 106,351
2020	8,373	2,550	10,923
Total	$ 108,604	$ 8,670	$ 117,274

Note 12 - 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 $32,861 and $28,883 to the Plan for the years ended December 31, 2018 and 2017 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, 2018 and 2017.

ACCION SAN DIEGO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2018

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	311071 / 311700	$ -	$ 176,679	$ 176,679
Total U.S. Department of Housing and Urban Development			-	176,679	176,679
U.S. Department of the Treasury:					
Direct Program:					
CDFI Cluster:					
Community Development Finanical Institutions Program	21.020	171FA021204	-	755,615	755,615
Total U.S. Department of the Treasury			-	755,615	755,615
Total Expenditures of Federal Awards			$ -	$ 932,294	$ 932,294

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, 2018. 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.

Note 3 - Federal Awards:

Total expenditures of the Community Development Institutions program included $12,615 of loan loss recoveries.

Total expenditures of federal awards	$ 932,294
Less: Loan loss recoveries	(12,615)
Federal Awards Revenue	$ 919,679

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, 2018, 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 May 31, 2019.

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.

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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
May 31, 2019

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, 2018. 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.

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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, 2018.

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 31, 2019

ACCION SAN DIEGO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2018

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