VAVRINEK, TRINE, DAY & CO., LLP
Certified Public Accountants

CONSOLIDATED FINANCIAL STATEMENTS

CDC
Small Business Finance

SEPTEMBER 30, 2016

CDC SMALL BUSINESS FINANCE

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FINANCIAL SECTION

Vavrinek, Trine, Day & Co., LLP
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Board of Directors
CDC Small Business Finance Corp.
San Diego, California

Report on Financial Statements

We have audited the accompanying consolidated financial statements of CDC Small Business Finance Corp. ("CDC") a nonprofit organization, which comprise the consolidated statements of financial position as of September 30, 2016 and 2015, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of CDC Small Business Finance Corp. as of September 30, 2016 and 2015, 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.

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
December 22, 2016

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CDC SMALL BUSINESS FINANCE CORP.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
SEPTEMBER 30, 2016 AND 2015

	2016	2015
ASSETS		
Current Assets:		
Cash and Cash Equivalents (Note 1)	$ 15,864,113	$ 13,894,352
Certificates of Deposit	702,419	501,167
Grants Receivable (Note 2)	125,000	-
Accounts Receivable:		
Processing and Servicing (net of $687,457 and $563,582 allowance for unfunded accounts in 2016 and 2015)	4,481,075	4,104,568
Other Receivables	522,568	597,831
Loans Available for Sale	1,793,245	1,394,257
Deposits and Prepaid Expenses	424,248	387,908
Total Current Assets	23,912,668	20,880,083
Non-Current Assets:		
Restricted Cash (Note 1)		
PCLP Program Reserve Requirements	6,340,790	8,045,590
Community Loan Programs	2,367,051	2,045,059
	8,707,841	10,090,649
Loans Receivable, (net of $567,239 and $531,077 allowance for loan receivable losses in 2016 and 2015) (Note 3 and 4)	14,072,938	9,374,512
Grants Receivable (Note 2)	100,000	-
Other Assets	912,472	999,265
Property and equipment, net of accumulated depreciation (Note 7)	6,918,823	7,175,172
Total Assets	$ 54,624,742	$ 48,519,681
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts Payable and Accrued Expenses	$ 2,622,335	$ 2,341,167
Due to Small Business Administration	23,868	407,587
Deposits	869,426	796,318
Current Portion of Long-Term Debt (Note 9)	1,195,890	679,597
Total Current Liabilities	4,711,519	4,224,669
Capital Lease Liability (Note 11)	26,067	52,168
Loan Loss Reserves (Note 1 and 5)	2,648,757	4,096,901
Other Borrowings (Note 10)	5,624,151	3,299,871
Long-Term Debt (Note 9)	6,994,764	7,185,889
Total Liabilities	20,005,258	18,859,498
Net Assets:		
Temporarily Restricted Assets		
Contributed for Loan Loss Reserves	198,267	386,499
Contributed for Lending Programs	425,000	210,000
Contributed for Technical Assistance	232,238	274,474
Unrestricted Net Assets	33,763,978	28,789,210
Total Net Assets	34,619,483	29,660,183
Total Liabilities and Net Assets	$ 54,624,742	$ 48,519,681

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

CDC SMALL BUSINESS FINANCE CORP.

CONSOLIDATED STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015

	2016	2015
UNRESTRICTED		
REVENUES AND SUPPORT		
Interest Income:		
Loans	$ 671,234	$ 572,768
Time Deposits	30,709	36,072
Interest Income	701,943	608,840
Other Income:		
Net Processing and Servicing Fees	17,283,215	17,120,072
Management Fees	520,321	530,744
Gain on Sale of 7a Loans	465,892	241,227
Rental Income	529,265	531,473
Software Licensing and Support	190,021	66,750
504 Escrow Accounts	683,260	544,674
Other Income	282,497	582,955
Other Income	19,954,471	19,617,895
Total Revenues and Support	20,656,414	20,226,735
EXPENSES		
Program Services:		
Loan Processing and Servicing	6,652,771	6,911,261
Community Loan Programs	2,264,447	2,448,735
Software	705,552	596,732
Technical Assistance Program	305,582	270,034
Total Program Services	9,928,352	10,226,762
General and Administrative	5,753,294	5,185,899
Total Expenses	15,681,646	15,412,661
CHANGE IN UNRESTRICTED NET ASSETS	4,974,768	4,814,074
TEMPORARILY RESTRICTED:		
Contributions for Loan Loss Reserves	(188,232)	23,999
Contributions for Lending Programs	215,000	-
Contributions for Technical Assistance Programs	(42,236)	37,391
Contributions for Scholarships	-	(45,000)
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS	(15,468)	16,390
CHANGE IN NET ASSETS	4,959,300	4,830,464
NET ASSETS AT BEGINNING OF YEAR	29,660,183	24,829,719
NET ASSETS AT END OF YEAR	$ 34,619,483	$ 29,660,183

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

CDC SMALL BUSINESS FINANCE CORP.

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	$ 4,959,300	$ 4,830,464
Adjustments to Reconcile Changes in Assets to Net Cash From Operating Activities:		
Decrease in Reserves on PCLP Loans	(1,448,143)	(1,756,683)
Increase (decrease) in Allowance for Unfunded Accounts	79,057	(440,404)
Gain on sale of 7a loans	(465,892)	(241,227)
Depreciation	414,318	401,463
Increase in Allowance for Credit Losses	274,973	82,057
Originations of Loans Held for Sale	(4,308,728)	(3,421,188)
Sales of Loans Held for Sale	4,386,429	2,868,065
(Increase) Decrease in Operating Assets:		
Processing and Servicing Receivables	(455,564)	4,457
Other Receivables	75,263	(20,443)
Deposits, Prepaid Expenses and Other Assets	39,656	106,418
Grants Receivable	(225,000)	-
Decrease in Loan Cash Reserve Requirements	1,704,800	1,626,790
Change in Loan Origination Costs	(134,685)	(182,977)
Increase (Decrease) in Operating Liabilities:		
Accounts Payable and Accrued Expenses	281,168	318,447
Due to Small Business Administration	(383,719)	(806,763)
Net Cash Provided by Operating Activities	4,793,233	3,368,476
CASH FLOWS FROM INVESTING ACTIVITIES		
Lending of Funds	(6,677,923)	(7,822,509)
Receipts on Long Term Loans Receivable	1,813,108	3,484,293
Community Loan Programs Cash Requirement	(321,992)	538,024
(Purchases) Withdrawals of Certificate of Deposits, net	(201,252)	249,942
Increase in Deposits	73,108	394,809
Proceeds from the Sale of Property and Equipment	23,096	-
Purchase of Property and Equipment	(181,065)	(264,260)
Net Cash Used in Investing Activities	(5,472,920)	(3,419,701)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Long-Term Debt	1,000,000	-
Payments on Long-Term Debt	(674,832)	(665,866)
Proceeds on Other Borrowings	2,817,301	3,394,418
Payments on Other Borrowings	(493,021)	(94,547)
Net Cash Provided by Financing Activities	2,649,448	2,634,005
INCREASE IN CASH	1,969,761	2,582,780
CASH AT BEGINNING OF YEAR	13,894,352	11,311,572
CASH AT END OF YEAR	$ 15,864,113	$ 13,894,352
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest Paid	$ 155,329	$ 258,957

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

NOTE 1 - NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

CDC Small Business Finance Corp. ("CDC") is a not-for-profit organization committed to serving the capital needs of small businesses in California, Nevada, and Arizona. Its mission is to champion the growth of diverse small companies in our communities through advocacy and lending services. CDC arranges industrial and commercial real estate, and business development loans for small business concerns located throughout the states of California, Nevada, and Arizona.

CDC's primary source of revenue is the servicing and processing of the Small Business Administration's ("SBA") 504 loan programs.

In addition, CDC originates, services, and sells loans guaranteed by the Small Business Administration under its Community Advantage 7a Program. These loans are used by the borrowers for a variety of purposes and are capped at $250,000 per loan.

CDC also administers a few other smaller lending programs including the SBA microloan program and a state sponsored community adjustment and investment loan program.

CDC had elected to participate in the Small Business Association's Premier Certified Lender Program ("PCLP"). CDC must maintain cash reserves in an amount equal to ten percent of its liability based on the original loan amount. CDC does not own any part of a PCLP loan and only shares in the loss risk, accordingly no assets are recorded related to this liability. CDC no longer participates in this program but must continue meeting the requirement until the last of these loans is paid off. See Note 4 for additional information.

Principles of Consolidation

The consolidated financial statements include the accounts of CDC and other organizations under the control of CDC. These organizations are San Diego Region Small Business Development Corporation, a tax exempt entity, and CDC Direct Capital and CDC Ventures, which are both wholly owned subsidiaries. All significant inter-company accounts and transactions have been eliminated.

Method of Accounting

The accompanying financial statements have been prepared on the accrual basis. The significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader.

Financial Statement Presentation

Net assets and revenues and other support are classified as unrestricted, temporarily restricted, and permanently restricted based on the existence or absence of donor restrictions on when and how CDC is to use the net assets. There were no permanently restricted net assets as of September 30, 2016 and 2015.

NOTE 1 - NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect 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. Significant estimates in the financial statements are the allowance for unfunded loans, the loan loss reserves, and depreciation expense.

Subsequent Events

Subsequent events are events or transactions that occur after the statement of financial position date but before financial statements are available to be issued. CDC recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at that date, including the estimates inherent in the process of preparing financial statements. CDC's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the statement of financial position, but arose after that date and before the financial statements are available to be issued.

In December 2016, CDC acquired 90 percent of the stock (through San Diego Region) of Bankers Small Business CDC, a CDFI lending organization operating in Southern California. CDC has managed the entity under an administrative agreement for 20 years. The acquisition will allow CDC to expand its lending in underserved markets. The purchase price was less than $500,000 and the total asset size is under $3,000,000.

CDC has evaluated all other subsequent events for recognition and disclosure through December 22, 2016, which is the date the financial statements were available to be issued, and concluded that there were no other items that should be disclosed.

Cash and Cash Equivalents

CDC considers all cash accounts that are not subject to withdrawal restrictions or penalties, with initial maturity of three months or less, to be cash equivalents.

Cash Balances

At times, CDC maintains cash balances in excess of the insurance limit provided by the Federal Deposit Insurance Corporation (FDIC). CDC has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash. As of September 30, 2016 and 2015, such balances in excess of the FDIC limit were $13,013,766 and $11,236,905, respectively.

NOTE 1 - NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Certificate of Deposits and Other Investments

Certificate of deposits, not subject to withdrawal restrictions, have original staggered maturity dates greater than 90 days, to afford increased liquidity.

CDC accounts for one of its investments using the equity method whereby the investment was originally recorded at cost. Subsequent to the original purchase date, this investment is increased or decreased for the CDC's proportionate share of the investee's earnings or losses. While the CDC will track all losses, the lowest the CDC's statement of financial position investment balance will reflect will be zero at any given time.

CDC also made an investment of less than ten percent of the voting securities in a Northern California 501(c)(3) nonprofit organization, that helps create jobs and economic opportunities in lower-income communities through direct support of small businesses, much like CDC. CDC began contributing capital to the entity in February 2008, and as of September 30, 2016 and 2015, the balance of this investment was $455,639 and $442,999, respectively. This balance is included in the other assets section of the statement of financial position.

Management evaluates the investment for impairment on a periodic basis. If management determines the investment to be impaired, they consider the extent and duration of the loss and whether they intend to sell the investment and if it is more likely than not that they will be required to sell the investment before recovery of the loss happens. If it is determined that the extent and duration of the loss is severe, and that the CDC will need to sell the investment before recovery is expected, or that recovery is not expected, the entire amount of the estimated impairment would be recognized through earnings.

Grants Receivable

Grants are recognized when the donor makes a promise to the Organization that is, in substance, unconditional. Grants 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 grants are recognized. All other donor-restricted grants are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted assets are reclassified to unrestricted net assets. The Organization uses the allowance method to determine uncollectible unconditional promises receivable. The allowance is based on prior years' experience and management's analysis of specific promises made.

Property and Equipment

Property and equipment are recorded at cost, except for donated items, which are recorded at fair value as of the date received. CDC capitalizes assets with an individual cost of over $1,000 and expenditures for ordinary repairs and maintenance are charged to operations as incurred.

Depreciation is provided on the straight-line method over the estimated useful lives of the assets which range from five to thirty-nine years for buildings and building improvements; three to five years for leasehold improvements, and three to ten years for furniture and equipment.

NOTE 1 - NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loans Receivable

CDC operates several community loan programs whereby credit in the form of loans receivable is extended. A provision for credit loss is provided for in the financial statements through a charge to operations. As a condition of these loan programs, CDC is required to restrict cash and maintain cash reserves. The restricted cash and reserve balance is $2,367,051 at September 30, 2016 and was $2,045,059 at September 30, 2015.

Loans receivable that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at their outstanding unpaid principal balances reduced by any charge-offs or specific valuation accounts and net of any deferred fees or costs on originated loans, or unamortized premiums or discounts on purchased loans. They are classified as loans receivable on the statements of financial position. Loan origination fees and certain direct origination costs are capitalized and recognized as an adjustment of the yield of the related loan. Amortization of deferred loan fees is discontinued when a loan is placed on nonaccrual status. Interest rates on loans range from 3.00% to 12.50% and maturities from three years to twenty years.

Loans are designated as nonaccrual loans when principal or interest is past due 90 days based on the contractual terms of the loan or when, in the opinion of management, there is reasonable doubt as to the collectability. Income on nonaccrual loans is subsequently recognized only to the extent that cash is received and the loan's principal balance is deemed collectible.

Reserve for PCLP Loan Losses and PCLP Loan Guarantees

Participation in the PCLP requires CDC to guarantee an amount equal to ten percent of the net debenture of loans made, in the event a loss occurs if a loan under the program is charged off. The loan loss estimate is based on the entire PCLP portfolio and is an estimate of potential losses for loans that have not yet been charged off by the SBA using the methodology as described above.

PCLP Contractual Cash Reserves

CDC is required to maintain cash reserves equal to one percent of the gross debenture amount. CDC may fund the reserve over a two year period. One half of one percent must be reserved upon funding of the debenture and an additional one quarter of one percent must be funded at the end of the first and second year. CDC's contractual cash reserve is $6,340,790 as of September 30, 2016 and $8,045,590 as of September 30, 2015.

PCLP Loan Loss Reserve

As noted in Note 4, in addition to the one percent of the net debenture that is contractually held in cash reserves, CDC has accrued loan loss reserves of $2,648,757 and $4,096,901 that has been recorded as a liability at September 30, 2016 and 2015, respectively, to address the residual risk associated with these types of loans. This is not a requirement of the program.

Due to the level of risk associated with the loans and the PCLP, it is reasonably possible that changes in the values of loans and losses could occur in the PCLP in the near term and that such change could materially affect amounts reported on the financial statements.

NOTE 1 - NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Loan Receivable Losses

The allowance for loan losses is a valuation allowance for probable incurred credit losses. Loan losses are charged against the allowance when management believes a loan balance will not be collected. Subsequent recoveries, if any, are credited to the allowance. The allowance is consistently monitored by management. Management estimates the allowance balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other factors. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged off. Amounts are charged-off when available information confirms that specific loans or portions thereof, are uncollectible. This methodology for determining charge-offs is consistently applied to each segment.

The Organization determines a separate allowance for each portfolio segment. The allowance consists of specific and general components. The specific component relates to loans that are individually classified as impaired. A loan is impaired when, based on current information and events, it is probable that the lender will be unable to collect all amounts due according to the contractual terms of the loan agreement. Factors considered in determining impairment include payment status, collateral value and the probability of collecting all amounts when due. Measurement of impairment is based on the expected future cash flows of an impaired loan, which are to be discounted at the loan's effective interest rate, or measured by reference to an observable market value, if one exists, or the fair value of the collateral for a collateral-dependent loan. The Organization selects the measurement method on a loan-by-loan basis except that collateral-dependent loans for which foreclosure is probable are measured at the fair value of the collateral.

The Organization recognizes interest income on impaired loans based on its existing methods of recognizing interest income on nonaccrual loans. Loans, for which the terms have been modified resulting in a concession, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings and classified as impaired with measurement of impairment as described above.

If a loan is impaired, a portion of the allowance is allocated so that the loan is reported, net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral. Smaller balance, homogeneous loans are collectively evaluated for impairment.

The general component covers non-impaired loans and is based on historical loss rates for each portfolio segment, adjusted for the effects of qualitative or environmental factors that are likely to cause estimated credit losses as of the evaluation date to differ from the portfolio segment's historical loss experience. Qualitative factors include consideration of the following: changes in lending policies and procedures; changes in economic conditions; changes in the nature and volume of the portfolio; changes in the experience, ability and depth of lending management and other relevant staff; changes in the volume and severity of past due, nonaccrual and other adversely graded loans; changes in the loan review system; changes in the value of the underlying collateral for collateral-dependent loans; concentrations of credit and the effect of other external factors such as competition and legal and regulatory requirements.

Portfolio segments identified by the CDC include SBA Microloans, SBA 7a loans, Community Adjustment and Investment Program ("CAIP"), Other and PCLP 504 loans. Relevant risk characteristics for these portfolio segments generally include debt service coverage, loan-to-value ratios, collateral type and financial performance.

NOTE 1 - NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loans Available for Sale

Management designates loans as available for sale based on intent. Generally all the guaranteed portion of SBA 7a loans meeting salability requirements, or expected to become saleable within nine months, are designated as available for sale. The unguaranteed portion is retained with a discounted carrying value to account for the higher credit risk associated with it.

These loans are carried at the lower of cost or estimated market value in the aggregate. Net unrealized losses, if any, are recognized through a valuation allowance by charges to net income. Gains or losses realized on the sale of loans are recognized at the time of sale and are determined by the difference between the net sales proceeds and the carrying value of the loans sold, adjusted for any servicing asset or liability. Gains and losses on the sale of loans are included in noninterest income.

Advertising Costs

The Organization expenses the costs of advertising in the period incurred. Advertising costs are included in the general and administrative expense balance on the statement of activities and totaled approximately $356,000 and $382,000 as of September 30, 2016 and 2015, respectively.

Concentration of Revenue

CDC receives the majority of its revenue in the form of processing and servicing fees on loans guaranteed by the SBA. As with any government-related program, there is a risk that funding could be reduced or discontinued.

Small Business Administration 504 Processing Fees

CDC recognizes processing fee revenue when authorization for funding is received from the SBA. SBA 504 loan servicing fees are recognized when earned.

Small Business Administration Community Advantage 7a Loans

CDC originates loans to customers under the SBA 7a program that generally provides guarantees for 75 percent to 85 percent of each loan, subject to maximum guaranteed amounts. CDC generally sells the guaranteed portion of the loan in an active secondary market and retains the unguaranteed portion in its portfolio. Servicing rights are recognized separately when they are acquired through sale of loans.

The sale of SBA guaranteed loans are controlled by the SBA Secondary Participation Guaranty Agreement (1086 agreement). Transfers of financial assets are accounted for as sales, when control over the assets has been relinquished. Control over transferred assets is deemed to be surrendered when the assets have been isolated from the Organization, the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and the Organization does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity. In accordance with current accounting guidance, only certain sales of guaranteed loans were eligible for sales accounting treatment by the CDC during 2016. Those not eligible for sales accounting treatment were treated as secured borrowings as more fully described in Note 9.

NOTE 1 - NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Small Business Administration Community Advantage 7a loans (Continued)

Gain on Sale of 7a Loans

All sales of SBA guaranteed loans are executed on a servicing retained basis, and CDC retains the rights and obligations to service the loans. The standard sales structure under the 1086 agreements provide for CDC to retain a portion of cash flow from the interest payment received on each loan. This cash flow is commonly known as a "servicing spread". The servicing spread is recognized as a "servicing asset" to the extent the spread exceeds "adequate compensation" for the servicing function. Industry practice recognizes adequate compensation as 40 basis points. The fair value of the servicing asset is measured at the discounted present value of the excess servicing spread over the life of the related loan using appropriate discount rates and assumptions based on industry statistics for prepayment speeds.

When a loan sale involves the transfer of an interest in less than the entire loan, the controlling accounting method under current accounting guidance requires the seller to reallocate the carrying basis between the assets transferred and the assets retained based on the relative fair value of the respective assets as of the date of sale. The maximum gain on the sale that can be recognized is the difference between the fair value of the assets sold and the reallocated basis of assets sold. CDC measures the fair value of the guaranteed portion sold by the cash premium paid by the broker/dealer. The fair value of the servicing asset and the unguaranteed portion retained are based on discounted cash flow calculations explained above.

The gain on sale is immediately recognized in income and is made up of the sum of the cash premium on the guaranteed loan, the fair value of the servicing asset recognized less the discount recorded on the unguaranteed portion retained. CDC's portfolio of unguaranteed loans retained from sales transaction is significantly discounted.

SBA Servicing Assets

Servicing assets are recognized using the amortization and impairment method. These assets are initially recorded at fair value and amortized over the life of the related loans as a reduction of the servicing income recognized from the servicing spread. The amortized basis in the asset is compared against the fair value of the asset on a regular basis. If the carrying amount exceeds the fair value, the asset is considered impaired and is written down to fair value through a valuation allowance on the asset and a charge against earnings. Management does not believe the asset is impaired at September 30, 2016.

Reclassifications

Certain reclassifications were made to the prior year's presentation to conform to the current year. These reclassifications are of a normal recurring nature and do not impact the change in net assets.

NOTE 1 - NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recent Accounting Guidance

In May 2014, the FASB issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This Update requires an entity to recognize revenue as performance obligations are met, in order to reflect the transfer of promised goods or services to customers in an amount that reflects the consideration the entity is entitled to receive for those goods or services. The following steps are applied in the updated guidance: (1) identify the contract(s) with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract; and (5) recognize revenue when, or as, the entity satisfies a performance obligation.

This update was originally effective for annual reporting periods beginning on or after December 15, 2016, and interim periods therein for public business entities and for annual reporting periods beginning on or after December 15, 2017, and for interim reporting periods within annual reporting periods beginning after December 15, 2018, for all other entities. In July 2015 the FASB issued ASU 2015-14, which provided for a deferral of ASU 2014-09 effective dates for one year for all entities while also permitting early adoption as of annual reporting periods beginning after December 15, 2016. The Organization is currently evaluating the effects of ASU 2014-09 on its financial statements and disclosures, if any.

In August 2016, the FASB issued ASU 2016-15 *"Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments"* which provides guidance for eight specific cash flow issues. FASB issued the standard to clarify areas where GAAP has been either unclear or lacking in specific guidance. This update is effective for the Organization for annual periods beginning after December 15, 2017, and interim periods within those annual periods. The Organization is currently evaluating the effects of ASU 2016-15 on its financial statements and disclosures.

In June 2016, the FASB issued ASU 2016-13 *"Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments"* which introduces new guidance for the accounting for credit losses on certain types of financial instruments. It also provides for a simplified accounting model for purchased financial assets with credit deterioration since their origination. The new model, referred to as the current expected credit losses (CECL) model, will apply to financial assets subject to credit losses, measured at amortized cost, and certain off-balance sheet credit exposures. Upon initial recognition of the exposure, the CECL model requires an entity to estimate the credit losses expected over the life of an exposure. This update is effective for the Organization for annual periods beginning after December 15, 2020, and interim periods within those annual periods. The Organization is currently evaluating the effects of ASU 2016-13 on its financial statements and disclosures.

On February 25, 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The most significant change for lessees is the requirement under the new guidance to recognize right-of-use assets and lease liabilities for all leases not considered short-term leases, which is generally defined as a lease term of less than 12 months. This change will result in lessees recognizing right-of-use assets and lease liabilities for most leases currently accounted for as operating leases under current lease accounting guidance. The amendments in this update are effective for interim and annual periods beginning after December 15, 2019. The Organization is currently evaluating the effects of ASU 2016-02 on its financial statements and disclosures.

NOTE 1 - NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recent Accounting Guidance (Continued)

On August 18, 2016, the FASB issued Accounting Standards Update No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities* that simplifies and improves how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance, and cash flows.

The ASU requires improved presentation and disclosures to help not-for-profits provide more relevant information about their resources (and the changes in those resources) to donors, grantors, creditors, and other users.

These include qualitative and quantitative requirements in the following areas:

- Net Asset Classes
- Investment Return
- Expenses
- Liquidity and Availability of Resources
- Presentation of Operating Cash Flows

The amendments in the standard are effective for annual financial statements issued for fiscal years beginning after December 15, 2017, and for interim periods within fiscal years beginning after December 15, 2018. Application to interim financial statements is permitted but not required in the initial year of application. Early application of the amendments in this update is permitted. The Organization is currently evaluating the effects of ASU 2016-02 on its financial statements and disclosures.

NOTE 2 - GRANTS RECEIVABLE

As of September 30, 2016, Grants Receivable consisted of the following:

Unrestricted Grants	$ -
Temporarily Restricted for:	
Technical Assistance	75,000
Lending Programs	150,000
	$ 225,000

Amounts due in less than one year	$ 125,000
Amounts due in one to five years	100,000
	$ 225,000

There were no grants receivable as of September 30, 2015.

NOTE 3 - LOANS RECEIVABLE

The composition of the CDC's loans receivable at September 30 is as follows:

	2016	2015
SBA Microloan Program	$ 1,508,225	$ 1,640,327
SBA 7a Loans	10,242,184	6,707,021
CAIP	447,481	437,711
Other Loan Programs	2,261,434	1,043,265
	14,459,324	9,828,324
Discount on 7a Loans	(207,714)	(176,617)
Deferred Costs	388,567	253,882
Allowance for Loans Receivable Losses	(567,239)	(531,077)
	$ 14,072,938	$ 9,374,512

The CDC originates loans for sale to governmental agencies and institutional investors. At September 30, 2016 and 2015, the CDC was servicing approximately $2,738,000 and $1,581,000 in SBA loans previously sold, respectively. The carrying value of the servicing rights associated with these loans was approximately $285,000 and $296,000 as of September 30, 2016 and 2015, respectively. The carrying value approximated the fair value as of the financial statement dates.

NOTE 4 - ALLOWANCE FOR LOAN RECEIVABLE LOSSES

A summary of the changes in the allowance for loan losses for loans held as investment by CDC as of September 30 are as follows:

	2016	2015
Balance at Beginning of Year	$ 531,077	$ 449,020
Provision for Loan Losses	156,948	68,431
Loans Charged-off	(141,124)	(22,105)
Recoveries	20,338	35,731
Total Balance at End of Year	$ 567,239	$ 531,077

The following is the activity in the allowance for loan loss by portfolio segment for the periods ended September 30:

	Loan Programs				
September 30, 2016	SBA Microloan	SBA 7a	CAIP	Other	Total
Beginning Balance	$114,823	$ 340,948	$ 29,393	$ 45,913	$ 531,077
Provision (Credit) for Loan Losses	24,807	57,493	(3,381)	78,029	156,948
Loans Charged-Off	(65,392)	(75,732)	-	-	(141,124)
Recoveries	16,256	4,082	-	-	20,338
Total Ending Loan Loss Reserve	$ 90,494	$ 326,791	$ 26,012	$ 123,942	$ 567,239

	Loan Programs				
September 30, 2015	SBA Microloan	SBA 7a	CAIP	Other	Total
Beginning Balance	$141,380	$ 229,703	$ 30,980	$ 46,957	$ 449,020
Provision (Credit) for Loan Losses	(44,295)	115,357	(1,587)	(1,044)	68,431
Loans Charged-Off	(17,134)	(4,971)	-	-	(22,105)
Recoveries	34,872	859	-	-	35,731
Total Ending Loan Loss Reserve	$114,823	$ 340,948	$ 29,393	$ 45,913	$ 531,077

CDC categorizes its loans receivable into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. CDC analyzes loans individually by classifying the loans as to credit risk. This analysis is performed on a quarterly basis. CDC uses the following definitions for its risk ratings:

Pass - Loans that are current in payments and in general compliance with all debt covenants. Management considers the likelihood of loss on these credits to be low.

Special Mention - Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date.

Substandard - Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

Liquidation - Loans classified as liquidation have all the weaknesses inherent in those classified as substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis currently existing facts, conditions, and value, highly questionable and improbable.

NOTE 4 - ALLOWANCE FOR LOAN RECEIVABLE LOSSES (Continued)

Based on the most recent analysis performed, the risk category of the loans receivable as of September 30 is as follows:

September 30, 2016	Pass	Special Mention	Substandard	Liquidation	Total
SBA Microloan Program	$ 1,508,225	$ -	$ -	$ -	$ 1,508,225
SBA 7a Loans	9,895,785	191,672	12,982	141,745	10,242,184
CAIP	433,539	-	13,942	-	447,481
Other Loan Programs	2,261,434	-	-	-	2,261,434
	$ 14,098,983	$ 191,672	$ 26,924	$ 141,745	$ 14,459,324
September 30, 2015					
SBA Microloan Program	$ 1,589,363	$ 50,000	$ 964	$ -	$ 1,640,327
SBA 7a Loans	5,639,791	679,773	30,689	356,768	6,707,021
CAIP	419,897	-	17,814	-	437,711
Other Loan Programs	1,043,265	-	-	-	1,043,265
	$ 8,692,316	$ 729,773	$ 49,467	$ 356,768	$ 9,828,324

Past due and nonaccrual loans receivable were as follows as of September 30:

		Still Accruing				
September 30, 2016	Current	30-59 Days Past Due	60-89 Days Past Due	Over 90 Days Past Due	Nonaccrual	Total
SBA Microloan Program	$ 1,508,225	$ -	$ -	$ -	$ -	$ 1,508,225
SBA 7a Loans	10,108,837	68,733	-	-	64,614	10,242,184
CAIP	447,481	-	-	-	-	447,481
Other	2,261,434	-	-	-	-	2,261,434
	$ 14,325,977	$ 68,733	$ -	$ -	$ 64,614	$ 14,459,324
September 30, 2015						
SBA Microloan Program	$ 1,635,755	$ 3,356	$ 1,216	$ -	$ -	$ 1,640,327
SBA 7a Loans	6,365,695	-	157,410	17,442	166,474	6,707,021
CAIP	437,711	-	-	-	-	437,711
Other	1,043,265	-	-	-	-	1,043,265
	$ 9,482,426	$ 3,356	$ 158,626	$ 17,442	$ 166,474	$ 9,828,324

NOTE 4 - ALLOWANCE FOR LOAN RECEIVABLE LOSSES (Continued)

Information relating to individually impaired loans receivable presented by class of loans was as follows as of September 30:

	Impaired Loans						
September 30, 2016	Unpaid Principal Balance	Recorded Investment	With Specific Allowance	Without Specific Allowance	Related Allowance	Average Recorded Investment	Interest Income Recognized
SBA 7a Loans	$ 141,745	$141,745	$ 141,745	$ -	$ 113,396	$ 110,920	$ 37,309
September 30, 2015							
SBA 7a Loans	$ 356,758	$356,758	$ 356,758	$ -	$ 137,399	$ 154,521	$ 16,949

There was no interest income recognized on a cash basis during the year ending September 30, 2016. Interest income included above recognized on the cash basis amounted to $7,573 in 2015.

The CDC has no loans receivable that were modified in troubled debt restructurings as of September 30, 2016 and 2015, respectively.

NOTE 5 - RESERVE FOR PCLP LOAN LOSSES

At September 30, 2016, CDC has approximately $441,459,000 in its PCLP Portfolio. CDC's guarantee amount is approximately $44,103,000. At September 30, 2015, CDC has approximately $585,272,000 in its PCLP Portfolio. CDC's guarantee amount is approximately $58,527,000. CDC's management has made provisions for PCLP loan loss guarantees in the amounts of $2,648,757 and $4,096,901 as of September 30, 2016 and 2015, respectively. These reserves are management's estimates of potential losses under the PCLP loan participation program. CDC's management continually monitors this group of loans approved under the PCLP (PCLP Portfolio). Separate accruals of $23,868 and $407,587 have been made for loans that have been charged off and are payable to the Small Business Administration as of September 30, 2016 and 2015, respectively.

CDC employs a risk-based analysis of the PCLP loan portfolio to estimate the potential liability under its guarantee. Each loan in the PCLP Portfolio is risk rated and given a loan grade. Each loan grade is assigned a range of anticipated default rates. CDC uses this analysis along with its understanding of past loan loss experience, the nature, and volume of the portfolio, borrower specific information, estimated collateral values, general economic conditions and other factors to determine the estimate for its guarantee liability. The evaluation of the allowance is continuous and subjective as estimates are modified with changing conditions. The results are then used to support management's estimate for loan loss guarantee and the loan loss reserve is adjusted.

NOTE 5 - RESERVE FOR PCLP LOAN LOSSES (Continued)

The following table presents the activity in the PCLP loan loss reserve for the period ending September 30:

	2016	2015
Balance at Beginning of Year	$ 4,096,901	$ 5,853,584
Provision for Loan Loss	(1,499,771)	(1,476,373)
Amounts Paid to SBA	(96,447)	(345,686)
Recoveries on Loans Charged Off	148,074	65,376
	$ 2,648,757	$ 4,096,901

<u>PCLP Shared Loss Exposure</u>

CDC categorizes its PCLP loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. CDC analyzes loans individually by classifying the loans as to credit risk. This analysis is performed on a quarterly basis. CDC uses the following definitions for its risk ratings:

Pass - Loans that are current in payments and in general compliance with all debt covenants. Management considers the likelihood of loss on these credits to be low.

Special Mention - Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date.

Substandard - Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

Liquidation - Loans classified as liquidation have all the weaknesses inherent in those classified as substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis currently existing facts, conditions, and value, highly questionable and improbable.

The risk categories of PCLP loans were as follows:

September 30, 2016	Pass	Special Mention	Substandard	Liquidation	Total
PCLP Shared Loss Exposure	$ 38,640,168	$ 2,688,331	$ 1,463,440	$ 1,354,007	$ 44,145,946
September 30, 2015					
PCLP Shared Loss Exposure	$ 50,806,948	$ 3,760,622	$ 2,201,120	$ 1,758,466	$ 58,527,156

NOTE 6 - RELATED PARTIES

CDC contributed $35,000 to an affiliated company during the period of November 2012 through February 2013, and reports this ownership of equity to the statement of financial position in the other assets category using the equity method of accounting. This method is used due to the fact that the investment represented a 33 percent share in the Organization as of September 30, 2016 and September 30, 2015. The value of this investment was $98,790 and $38,795 as of the year ended 2016 and 2015, respectively.

CDC advanced a line of credit to this affiliated company at a fixed six percent interest rate with a maturity date of September 30, 2017. The outstanding balance as of September 30, 2016 and 2015 on this line of credit was $125,000.

NOTE 7 - PROPERTY AND EQUIPMENT

The detail of property and equipment at September 30, 2016 and 2015 are as follows:

	2016	2015
Land	$ 2,300,000	$ 2,300,000
Building	6,044,345	6,044,345
Software Development	2,979,429	2,608,576
Furniture and Fixtures	992,153	999,720
Building Improvements	677,461	677,461
Leasehold Improvements	58,417	55,583
	13,051,805	12,685,685
Less Accumulated Depreciation	(6,132,972)	(5,510,513)
	$ 6,918,833	$ 7,175,172

Depreciation and amortization expense for the years ended September 30, 2016 and 2015 amounted to approximately $415,000 and $401,000, respectively.

NOTE 8 - CONTINGENCIES

CDC is a party to certain legal actions arising in the ordinary course of business. In the opinion of management, additional liabilities, if any, under these actions will not result in material charges against net assets.

NOTE 9 - LONG-TERM DEBT

Long-term debt at September 30, 2016 and 2015 consist of the following:

	2016	2015
Note Payable, Bank, payable in 217 monthly payments of $34,440 interest and principal, interest at 4.35 percent, due May 2029, secured by Building.	$ 4,044,346	$ 4,273,180
Note Payable, with Bank, due April 2017, collateralized by the loans made and reserve account, interest payments to be made quarterly, with no principal payments due until the maturity date. Interest rate on note is three percent.	500,000	500,000
Note Payable, Small Business Administration (SBA), due 2022, collateralized by the loans made and reserve account, no payments due the first year, subsequent payments of $6,945 per month are payable over the remaining term of the loan. Interest at approximately zero percent . The remaining balance of the note is due at maturity. CDC can borrow up to $750,000 to reloan to qualified borrowers.	472,222	555,556
Note Payable, Small Business Administration (SBA), due 2021, collateralized by the loans made and reserve account, no payments due the first year, subsequent payments of $5,064 per month are payable over the remaining term of the loan. Interest at approximately 0.875 percent. The remaining balance of the note is due at maturity. CDC can borrow up to $500,000 to reloan to qualified borrowers.	294,471	351,773
Note Payable, Small Business Administration (SBA), due 2020, collateralized by the loans made and reserve account, no payments due the first year, subsequent payments of $7,084 per month are payable over the remaining term of the loan. Interest at approximately 1.625 percent . The remaining balance of the note is due at maturity. CDC can borrow up to $750,000 to reloan to qualified borrowers.	343,404	426,717
Note Payable, Small Business Administration (SBA), due 2020, collateralized by the loans made and reserve account, no payments due the first year, subsequent payments of $6,464 per month are payable over the remaining term of the loan. Interest at approximately 2.625 percent. The remaining balance of the note is due at maturity. CDC can borrow up to $650,000 to reloan to qualified borrowers.	269,744	340,498

NOTE 9 - LONG-TERM DEBT (Continued)

	2016	2015
Note Payable, Small Business Administration (SBA), due 2019, collateralized by the loans made and reserve account, no payments due the first year, subsequent payments of $6,679 per month are payable over the remaining term of the loan. Interest at approximately 2.5 percent. The remaining balance of the note is due at maturity. CDC can borrow up to $640,000 to reloan to qualified borrowers.	$ 210,956	$ 287,359
Note Payable, Small Business Administration (SBA), due 2018, collateralized by the loans made and reserve account, no payments due the first year and subsequent payments of $4,299 per month are payable over the remaining term of the loan. Interest at approximately two percent. The note is due at maturity. CDC can borrow up to $400,000 to reloan to qualified borrowers.	105,035	153,704
Note Payable, Bank, payable in monthly payments of $5,692 interest and principal, interest at 4.29 percent, due January 2038, secured by loan made.	950,476	976,699
Note Payable, Banc of America Community Development Corporation, collateralized by the loans made. The note bears a fixed interest rate of three percent, with annual payments of $250,000 starting on May 15, 2022 and maturing on May 15, 2025.	1,000,000	-
	8,190,654	7,865,486
Less current maturities	1,195,890	679,597
Total	$ 6,994,764	$ 7,185,889

Principal payments for the years ending September 30 are due as follows:

Fiscal Year	
2017	$ 1,195,890
2018	715,464
2019	649,450
2020	581,098
2021	458,902
2022	638,463
Thereafter	3,951,387
Total	$ 8,190,654

NOTE 10 - OTHER BORROWINGS

As of September 30, 2016 and 2015, other borrowings on the consolidated statements of financial position of $5,624,151 and $3,299,871, respectively, consisted of the guaranteed portion of SBA loans sold in the secondary market that could not be accounted for as loan sales according to current accounting guidance. Consistent with this accounting treatment, the premium received for these transfers are recorded as a liability and amortized over the estimated life of the loan into interest income. The premium on these loans as of September 30, 2016 and 2015, is $479,696 and $316,273, respectively, and is included in the accounts payable and accrued expenses account on the consolidated statements of financial condition.

NOTE 11 - COMMITMENTS

Operating Leases

CDC leases offices, office equipment, and automobiles in California, Arizona, and Nevada under leases that expire through the year 2020. Total rent expense for the years ended September 30, 2016 and 2015, was $390,891 and $421,193, respectively. The CDC receives rental income from five tenants who lease space in the San Diego Building that is its main office. The amounts that were received in 2016 and 2015 are shown on the consolidated statement of activities.

Capital Lease

CDC leases equipment under a lease agreement expiring in August 2017, at a discount rate of 9 percent. For the years ended September 30, 2016 and 2015, the CDC made lease payments of $29,731, of which $26,102 were amortized and $3,629 were recorded as interest in 2016 and $23,867 were amortized and $5,863 were recorded as interest in 2015. Depreciation expense on the capital lease for the years ended September 30, 2016 and 2015, were $23,880 and $23,867, respectively.

Total future minimum lease payments under the operating and capital lease agreements for the years ending September 30 are as follows:

Fiscal Year	Operating	Capital
2017	$ 234,517	$ 27,253
2018	165,040	-
2019	94,344	-
2020	37,697	-
2021	-	-
	531,598	27,253
Less amounts attributed to interest	-	(1,188)
Total	$ 531,598	$ 26,065

NOTE 12 - 401(k) PLAN

CDC adopted a 401(k) Plan effective January 1, 1997 that allows participating employees to contribute from one percent of their pretax annual compensation to the maximum amount permitted under law to the Plan. The Plan covers all employees who have at least six months of service. CDC's matching contributions for the years ended September 30, 2016 and 2015, were $656,464 and $615,705, respectively. CDC has accrued discretionary contributions of $300,000 and $304,000, for the years ended September 30, 2016 and 2015, respectively.

NOTE 13 - FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing the programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

NOTE 14 - INCOME TAX STATUS

CDC, a California not-for-profit corporation, is exempt from income taxes under Section 501(c)(4) of the Internal Revenue Code and Section 23701(f) of the California Revenue and Taxation Code. CDC has a controlling interest in San Diego Region Small Business Development Corporation ("SDR"), an organization exempt from income taxes under section 501(c)(3) of the Internal Revenue Code and Section 23701(f) of the California Revenue and Taxation Code. CDC also has a controlling interest in CDC Ventures and CDC Direct Capital, which are wholly owned for-profit corporations.

CDC Direct Capital and CDC Ventures did not have any taxable income during the year, and accordingly, no provision for income taxes has been made.

CDC's and SDR's Federal Exempt Organization Business Income Tax Returns (Forms 990T) for 2015, 2014, and 2013, are subject to examination by the IRS. CDC's and SDR's State Exempt Organization Business Income Tax Returns (Forms 109) for 2016, 2015, 2014, and 2013, are subject to examination by the state authorities. CDC Ventures and CDC Direct Capital are subject to Federal income tax and State of California franchise tax. Federal income tax returns for the years ended September 30, 2016, 2015, and 2014, are open to audit by the Federal authorities and California tax returns for the years ended September 30, 2016, 2015, 2014, and 2013, are open to audit by state authorities.

The Financial Accounting Standards Board (FASB) issued Accounting Standards Codification No. 740-10, *Accounting for Uncertainties in Income Tax*, which sets a minimum threshold for financial statement recognition of the benefit of a tax position taken or expected to be taken in a tax return. CDC has reviewed its positions for all open tax years and has determined that no provision for income tax positions is required.