Exhibit F

BTH 2012 Audit

Annual Compliance and Credit Review
of
San Fernando Valley Financial
Development Corporation

For the Year Ended June 30, 2012

Business, Transportation and Housing Agency

Loan Guarantee Program

January 28, 2013

TABLE OF CONTENTS

PREFACE

On January 28, 2013, the Business, Transportation and Housing Agency (BTH) conducted an on-site compliance and credit review of San Fernando Valley Financial Development Corporation (San Fernando). BTH staff examined the outstanding loan guarantees for credit classification and compliance with the applicable provisions in the Corporations Code sections 14000 et seq., Title 10 of the California Code of Regulations, policies, and State Small Business Credit Incentive (SSBCI) loan guarantee program contract 10B940022. Additionally San Fernando was examined for compliance with other contract requirements.

In the area of loan guarantees, we sampled five loan guarantees consisting of SSBCI guarantees from an overall portfolio of thirteen loan guarantees. Our sample was based upon selecting a certain number of large loan guarantees, loan guarantees rated substandard or below and/or loan guarantees selected on a random bases. The loan guarantees were selected from a list of active loan guarantees in force at the time of the compliance review. On a dollar basis of an existing portfolio of $895,500 (initial guarantee liability), the sample was $800,000 or 89% for the federal loan guarantee program. Those loan guarantees selected were reviewed for documentation and policy compliance. In addition to routine documentation and policy review, all SSBCI guarantees were specifically reviewed for loan purpose compliance to federal guidelines.

Finally a review was conducted in area of contract compliance and organizational effectiveness which covered three compliance areas including the following:

1. Reporting requirements under provisions of the contract BTH Federal contract 10B940022 with San Fernando.
2. An evaluation of how well San Fernando covered their service area.
3. An evaluation of their corporate status including required insurance coverage.

SUMMARY OF FINDINGS and CONCERNS

This section of the review contains the summary of findings. The type of exceptions noted in this section of the review includes the following:

Audit Finding: An audit finding is a compliance requirement cited in statue, regulation or program policy. When a finding of noncompliance is made then a corrective action is required.

Audit Concern: An audit concern consists of an issue that may lead to an audit finding if not resolved. An audit concern may include recommended action.

State Small Business Credit Incentive Program (SSBCI)

II. Loan Guarantee Files Reviewed For Documentation

BTH reviewed five SSBCI guarantees outstanding as of June 30, 2012. Auditors use our standard guarantee file evaluation form for these five files. In addition to this, auditors also examined the loan purpose for all SSBCI guarantees outstanding at this time. Exceptions to the loan guarantee approval process, documentation policies and procedures, and requirements were noted as specified below:

A. Write-up/Credit Analysis

No exceptions noted.

B. Loan Committee and Board Approvals

1. Loan Committee Approval – Audit Finding (Policy Violation)
   In a number of loan guarantees the loan committee consisted only of San Fernando's president who reviewed and approved the loan guarantees. These include SFF-009 and SFF-14. When the matter was discussed with staff they informed the auditors that this was the standard policy for all loan guarantees $50,000 and under.

(1)Corrective Action

This is direct violation of program policy. All FDCs are to establish independent loan committees to review, consider and either approve or decline a loan guarantee. San Fernando will need to resubmit all loan guarantees approved only by the president to the Loan Committee and Board for corrective approvals on these loans. Place Loan Committee and Board minutes into loan guarantee files. Forward copies to BTH.

2. Loan Committee Approval – Audit Finding (Policy Violation)
   In a number of loan guarantees, minutes from the loan committee were missing. These include SFF-009 and SFF-014.

(2)Corrective Action

Obtain missing Loan Committee minutes and place them into appropriate loan guarantee files. Forward copies or minutes to BTH.

3. Loan Committee Approval – Audit Finding (Policy Violation)
   For loan guarantee SFF-013, the loan committee minutes did not reflect the voting record of the committee's members.

(3)Corrective Action

Verify the vote and attach the vote to the minutes to reflect voting. Place the complete minutes in the loan guarantee file. Forward copies to BTH.

4. Board of Director Approval – Audit Finding (Policy Violation)
   For SSBCI guarantee SFF-013, the minutes failed to reflect who voted for what.

(4)Corrective Action

Modify minutes to reflect voting and place them into loan guarantee files. Forward copies to BTH.

C. Reporting Requirements
No exceptions were noted.

D. Guarantee Documentation

1. Documentation Error Audit Finding (Policy Violation)
   There appears to be an error for loan guarantee SSF-009. The loan guarantee agreement declares the borrower as one entity while the lender's promissory note reflects the borrower as another entity. These documents are in conflict.

(5)Corrective Action
San Fernando is directed to meet with the lender in order to resolve conflict. Please forward a written explanation and describe what you have done to prevent this from happening in the future.

2. Documentation Error Audit Finding (Policy Violation)
   There appears to be an error for loan guarantee SSF-014. The loan guarantee agreement declares the borrower as one entity while the lender's promissory note reflects the borrower as another entity. These documents appear to be in conflict.

(6)Corrective Action
San Fernando is directed to meet with the lender in order to resolve conflict. Please forward corrected copies to BTH.

3. Audit Finding (Documentation Policy Violation)
   SSBCI loan guarantees (SFF-001, SSF-006, SSF-009, SSF-013, and SSF-014) were selected to have certifications reviewed. These certifications were present however the following errors were noted.

   - The certification (borrower use of proceeds) for SSF-019 did not show the legal name of the lender.

   - The certification (borrower and lender use of proceeds) for SFF-014 was not located.

(7)Corrective Action
San Fernando is directed to review and correct all certifications noted in this report. Provide BTH with copies of the corrected certifications; and provide copies of missing certification on SFF-014. Provide copies of certifications for SFF-019 and SFF-014

E. Lender's Promissory Note
No exceptions were noted.

G. Monitoring the Credit

1. Audit Finding – Monitoring (Policy Violation)
   During examination of loan guarantee files SFF-014 reviewers determined from observing files and in discussion with senior staff that annual monitoring was not being handled in a

consistent fashion. Requests for annual financial data as required by loan guarantee conditions were not followed in a consistent manner.

(8)Corrective Action

San Fernando is directed to follow up on required financial data as agreed upon in the loan guarantee documents and commitment letter. Develop a written policy to ensure the required financial documents agreed upon are reviewed by assigned staff. Submit a copy of the policy to BTH.

H. File Organization

No exceptions were noted.

I. General Compliance

Audit Concern – Program Billing Inadequacy

Although not specifically identified as an audit finding, San Fernando's management of the billing process did not follow the instruction memos disseminated by Jason Hone. Several weaknesses primarily inadequate documentation supporting San Fernando's expense allocations charged were identified by accounting staff at BTH. This deficiency resulted in disallowed expenses. San Fernando is encouraged to improve management of the billing process by submitting better documentation and aligning expenses with invoicing periods.

III. Outstanding Loan Guarantees Reviewed For Credit

BTH conducted a small sample of outstanding loan guarantees for credit quality. The guarantees were classified using standard grading system defined as follows:

Pass – Loan guarantee with an underlying loan that adequately complies with program guidelines for creditworthiness and has current repayment status.

Substandard – Loan guarantee where the underlying loan may or may not be current but requires special attention. Examples include any loan:

a) 30 days past due;
b) To a company that suffers significant financial deterioration;
c) Where the primary source of repayment has shifted from continuing profitable operations to collateral liquidation or refinancing;
d) That is in a formal workout situation; or,
e) Where borrowers have filed bankruptcy.

Doubtful – Loan guarantee that has an element of loss but the timing and amount are uncertain.

Default – Loan guarantee where the underlying loan has defaulted and the lender has requested the Corporation honor its guarantee. Payment will be made but paperwork is incomplete.

No exceptions were noted.

IV. Overall Contract Organizational Review

Office policies and procedures were observed and discussed with management. Exceptions to contract compliance are noted below:

A. Reporting – Audited Financial Statements and Quarterly Reporting:
No exceptions were noted.

B. Reporting – Special Reporting:
San Fernando provided a list of all employees, board of director and loan committee members and this was compared to a similar list maintained at BTH for the purpose of monitoring the Statement of Economic Interest forms (Form 700).

C. Performance Evaluation:
San Fernando Valley has under-performed in providing service coverage under the SSBCI contract when compared to the other southern California FDCs. San Fernando only issued fourteen loan guarantees over a twelve month SSBCI contract period:

The production under the State program (SBLGP) should reflect only maintenance-level activity, as all the FDCs have been provided guidance that the federal SSBCI program is to be their focus of production; and making guarantees under the SBLGP only in cases where the borrower could not meet the federal requirements; or renewals under the SBLGP.

This completes the written portion of the compliance review.

Exhibit G

Sjoberg 2013 Audit

San Fernando Valley Small Business Financial Development Corporation (SFVDC)

As of December 31, 2013, the SFVDC reported a portfolio of 21 SSBCI-guaranteed loans. As shown in Table 1, of those 21 loans, I-Bank previously reported to the U.S. Treasury one loan that could be unenrolled from the program—it was marked as "pending further review by I-Bank for potential unenrollment from the SSBCI program." For a second loan, the FDC informed us that it was unenrolled from SSBCI and transferred to SBGLP. Of the remaining 19 loans, our review found 3 loans compliant and 16 loans non-compliant or questionable.

Table 1: Loan Statistics - San Fernando

Total Loans	**21**
Unenrolled and/or Transferred to State SBLGP	2
Remaining Loans	**19**
Compliant	3
Non-Compliant	3
Questionable	13

Note: Inclusive of 1 loan (SFF004) with inconsistent loan data.

Two Loans Are Flagged for Unenrollment from the SSBCI Program

One of the two loans (SFF017) in this category was reported to the U.S. Treasury by I-Bank in its 9/30/13 quarterly report as "pending unenrollment" from the SSBCI program. For the second loan (SFF022), the FDC indicated that this loan was unenrolled from the federal program and transferred to the state program on 01/28/14. SEC recommends that I-Bank review its records and confirm that these loans were properly unenrolled (and, if applicable, transferred to the State Program), unenrollment was reported to the U.S. Treasury, and associated funds were unobligated from the SSBCI.

Table 2: Loans Flagged for Unenrollment

Loan No.	Guarantee Date	Borrower Name	Loan Amount	Guarantee Amount	Explanation
SFF017	08/01/12	[redacted]	SEC did not review		This loan is 1 of 14 loans I-Bank reported to U.S. Treasury with its 9/30/13 quarterly report as "pending unenrollment" from the SSBCI program.
SFF022	05/31/13	[redacted]	$25,000	$12,500	The FDC indicated that this loan was unenrolled from the SSBCI program on 01/28/14.

Compliance Review Results

Of the 19 remaining guarantees SFVDC had enrolled in the SSBCI program, SEC found 3 loans non-compliant and another 13 loans were questionable. Table 3 below summarizes the non-compliant issues found that are described in the next section.

Table 3: Issues with Noncompliant Loans by Major Category

Loan #	Noncompliant Loans				
	Incomplete Certifications	Ineligible Refinance	Ineligible Passive Real Estate	Ineligible Use of Funds	State Criteria
SFF001	Borrower certifications not dated.	-	-	-	-
SFF009	-	-	-	-	Incomplete Default Data.
SFF013	Borrower & Lender Certifications not dated.	-	-	-	-
Total	**2**	**-**	**-**	**-**	**1**

Two Loans were Not Compliant with Certification Requirements

Two loans contained use of proceeds/sex offender certifications that were not dated as shown in Table 4. Specifically, for guarantee SFF001, while borrower certifications were present and signed, they were not dated. Similarly for guarantee SFF013, both borrower and lender certifications were lacking dates.

Table 4: Non-Compliant Loans (Certifications)

Loan No.	Guarantee Date	Borrower Name	Loan Amount	Guarantee Amount	Non-Compliant Reason
SFF001	06/16/11	[redacted]	$150,000	$90,000	Borrower certifications not dated.
SFF013	05/02/12	[redacted] Unlimited, Inc.	$350,000	$280,000	Borrower and lender certifications not dated.
		Total	**$500,000**	**$370,000**	

One Loan Was Not Compliant with I-Bank Loan Default Procedures

Of the 21 loans SFVDC had enrolled in the SSBCI program, one loan that defaulted was not compliant with I-Bank's loan default procedures. While it appears that the default is still in progress and the lender has complied with some of the default procedures such as sending several delinquency notices and demand letters to the borrower with copy to SFVDC, there are some items that are missing from the default file. Specifically, the lender has not fully complied with the collateral liquidation requirements of Section 5004 of the California Code of Regulations which requires the lender to convert collateral to cash, demonstrate that collateral is

without sufficient value to convert to cash, or demonstrate that the borrower has filed for bankruptcy. None of these steps have been taken by the lender.

However, the lender has filed a lawsuit against the borrower in August 2012 requesting for judgment on the delinquent loan. There is no further documentation available in the loan file as to the current status of judgment and it appears that the lender has also not officially filed a demand on the guarantee with SFVDC. If the lender has filed a demand with SFVDC, then all of the steps required by Section 5003 of the California Code of Regulations were omitted by SFVDC.

Table 5: Non-Compliant Loans

Loan No.	Guarantee Date	Borrower Name	Loan Amount	Guarantee Amount	Non-Compliant Reason
SFF009	02/01/12	[redacted]	$25,000	$12,500	Missing Documentation Required for Defaults

13 Loans Were Found Questionable

For another 13 loans, we noted inconsistent loan data across guarantee and underwriting documentation. While we did not find these loans specifically non-compliant, SEC finds them questionable for a variety of reasons as listed in Table 6. For example, for SFF008 and SFF016, the promissory note listed a loan amount that was less than the loan amount shown on the SFVDC's guarantee documents. By guaranteeing loans for an amount greater than the actual loan as indicated on the promissory note, the FDC and I-Bank are at risk of disagreement over reimbursement amounts in the event of a default. What is more, I-Bank may be potentially paying the lender an amount greater than the original loan made.

Of the remaining questionable guarantees, we noted that none of the Board minutes approving the guarantees contained any information on the loan amount or guarantee percentage and loan committee minutes were not available for these loans. Therefore, it was not possible to determine whether the amounts per the guarantee were in-line with what was approved by SFVDC's oversight bodies.

Table 6: Questionable Loans

Loan No.	Guarantee Date	Borrower Name	Loan Amount	Guarantee Amount	Questionable Due To
SFF002	12/21/11	[redacted]	$15,000	$7,500	No loan or guarantee amounts on Board minutes and loan committee minutes not available.
SFF003	11/22/11	[redacted]	$11,000	$5,500	
SFF004	12/29/11	[redacted]	$20,000	$10,000	(1) Promissory Note $25,000 > Loan Guaranteed $20,000 (2) No loan or guarantee amounts on Board minutes and loan committee minutes not available.
SFF005	12/29/11	[redacted]	$25,000	$12,500	No loan or guarantee amounts on

Loan No.	Guarantee Date	Borrower Name	Loan Amount	Guarantee Amount	Questionable Due To
		[redacted]			Board minutes and loan committee minutes not available.
SFF007	02/15/12	[redacted]	$15,000	$7,500	
SFF008	02/01/12	[redacted]	$35,000	$17,500	(1) Promissory Note $15,000 < Loan Guaranteed $35,000 (2) No loan or guarantee amounts on Board minutes and loan committee minutes not available.
SFF010	02/22/12	[redacted]	$35,000	$17,500	No loan or guarantee amounts on Board minutes and loan committee minutes not available.
SFF011	03/13/12	[redacted]	$35,000	$17,500	
SFF014	05/24/12	[redacted]	$35,000	$17,500	No loan or guarantee amounts on Board minutes and loan committee minutes not available.
SFF015	04/19/12	[redacted]	$20,000	$10,000	
SFF016	08/17/12	[redacted]	$35,000	$17,500	(1) Promissory Note $30,000 < Loan Guaranteed $35,000 (2) No loan or guarantee amounts on loan committee minutes and Board minutes not available.
SFF018	09/28/12	[redacted]	$150,000	$120,000	No loan or guarantee amounts on Board minutes and loan committee minutes not available.
SFF021	04/25/13	[redacted]	$800,000	$640,000	
		Total:	**$1,231,000**	**$900,500**	

Exhibit H

SFV President Email

"late quarterly report for SSBCI"

Teveia Barnes

From: Roberto Barragan <roberto@vedc.org>
Sent: Friday, January 10, 2014 12:48 PM
To: Apodaca, Dan
Cc: richardlee@hsbfdc.org); Barnes, Teveia; Kawada, Karen; Lisa Hawkins
Subject: Re: late quarterly report for SSBCI

Dan

I will be in Sacramento Tuesday afternoon. It might be a good idea for me to stop by and see you and Tevia and tell you why we are not submitting our reports.

Roberto Barragan
President and CEO
SFV FDC
Sent from my iPad

On Jan 8, 2014, at 10:26 AM, "Apodaca, Dan"
<Dan.Apodaca@ibank.ca.gov<mailto:Dan.Apodaca@ibank.ca.gov>> wrote:

Gentlemen,

Would you please make the submittal a priority. They were due yesterday.

Remember, only those with approved certs and executed documents can be placed into the database.

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