

**ACCION TEXAS, INC.**

**Financial Statements and Additional Information**

**December 31, 2007 and 2006**

**With Independent Auditors' Report Thereon**

# ACCION TEXAS, INC.

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**Independent Auditors' Report**

Board of Directors  
Accion Texas, Inc.

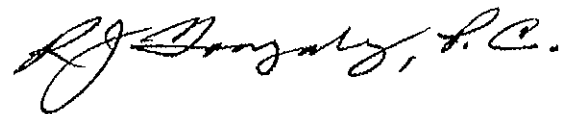
We have audited the accompanying statements of financial position of Accion Texas, Inc. (a nonprofit organization) as of December 31, 2007 and 2006, and the related statements of activities, cash flows, and functional expenses for the year ended December 31, 2007. These financial statements are the responsibility of Accion's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Accion Texas, Inc. as of December 31, 2007 and 2006, and the changes in net assets and its cash flows for the year ended December 31, 2007, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 18, 2008 on our consideration of Accion Texas, Inc.'s internal control over financial reporting and 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of Accion Texas, Inc. taken as a whole. The accompanying Schedule of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133 *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, appearing to read "R.J. Gonzalez, P.C.", written in a cursive style.

March 18, 2008

ACCION TEXAS, INC.

Statements of Financial Position  
December 31, 2007 and 2006

	<u>Assets</u>	
	<u>2007</u>	<u>2006</u>
Cash and cash equivalents	\$ 288,602	593,503
Receivables:		
Microenterprise loans receivable, net of allowance for loan losses of \$1,046,956 for 2007 and \$814,637 for 2006	15,946,760	12,623,123
Due from grantors	723,421	799,498
Accrued interest receivable	129,494	99,716
Late payment and NSF fees	21,004	14,430
Other	16,636	16,253
Prepaid expense	4,666	7,010
Recovered asset inventory	32,605	105,066
Property and equipment, net of accumulated depreciation of \$658,003 for 2007 and \$502,131 for 2006	1,477,636	1,040,674
Restricted cash	296,250	301,136
	<u>18,937,074</u>	<u>15,600,409</u>
Total assets	\$	

Liabilities and Net Assets

Liabilities:		
Accounts payable	\$ 285,839	212,782
Accrued liabilities	210,860	186,241
Other payables	6,264	11,341
Texas Capital Access Fund Reserve	47,916	43,514
Notes payable	13,128,409	9,932,082
Equity equivalents	1,250,000	1,700,000
	<u>14,929,288</u>	<u>12,085,960</u>
Total liabilities		
Net assets:		
Unrestricted	3,361,536	2,528,313
Temporarily restricted	296,250	636,136
Permanently restricted	350,000	350,000
	<u>4,007,786</u>	<u>3,514,449</u>
Total net assets		
Total liabilities and net assets	\$	
	<u>18,937,074</u>	<u>15,600,409</u>

See accompanying notes to financial statements.

ACCION TEXAS, INC.

Statement of Activities

Year Ended December 31, 2007  
(With Comparative Totals for 2006)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2007 Total</u>	<u>2006 Total</u>
Public support and revenues:					
Public support					
Contributions	\$ 505,131	424,000	-	929,131	1,378,471
Grants from government	1,415,543	-	-	1,415,543	970,632
Revenue:					
Interest	27,914	-	-	27,914	40,033
Microenterprise loan interest and fees	3,185,025	-	-	3,185,025	2,196,752
In-kind contributions	341,456	-	-	341,456	275,472
Miscellaneous revenue	(80)	-	-	(80)	4,460
Total public support and revenue	5,474,989	424,000	-	5,898,989	4,865,820
Net assets released from restrictions:					
Satisfaction of program restrictions	763,886	(763,886)	-	-	-
Total revenues and other support	6,238,875	(339,886)	-	5,898,989	4,865,820
Expenses:					
Program services	4,567,183	-	-	4,567,183	3,927,653
Administration	440,993	-	-	440,993	402,481
Fundraising	395,987	-	-	395,987	324,453
Total expenses	5,404,163	-	-	5,404,163	4,654,587
Change in net assets before loss on disposal of equipment	834,712	(339,886)	-	494,826	211,233
Loss on disposal of equipment	(1,489)	-	-	(1,489)	(11,780)
Change in net assets	833,223	(339,886)	-	493,337	199,453
Net assets, beginning	2,528,313	636,136	350,000	3,514,449	3,314,996
Net assets, ending	\$ 3,361,536	296,250	350,000	4,007,786	3,514,449

See accompanying notes to financial statements.

**ACCION TEXAS, INC.**

**Statements of Cash Flows**

**Years Ended December 31, 2007 and 2006**

	<u>2007</u>	<u>2006</u>
Cash flows from operating activities:		
Change in net assets	\$ 493,337	199,453
Adjustment to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	170,159	127,729
Increase in allowance for loan losses	232,319	157,537
(Increase) in microenterprise loans receivable	(3,555,956)	(2,098,821)
(Increase) decrease in due from grantors	76,077	(319,570)
(Increase) in accrued interest receivable	(29,778)	(23,213)
(Increase) decrease in late payment and NSF fees	(6,574)	2,179
(Increase) decrease in other receivables	(383)	1,223
(Increase) decrease in prepaid expense	2,344	5,965
(Increase) in recovered asset inventory	72,461	(53,729)
Increase (decrease) in accounts payable	73,057	124,932
Increase (decrease) in accrued liabilities	24,619	132,244
Increase (decrease) in other payables	(5,077)	(101,440)
Increase (decrease) in TCAF reserve	4,402	1,110
Net cash used by operating activities	<u>(2,448,993)</u>	<u>(1,844,401)</u>
Cash flows from investing activities:		
Additions of property and equipment, net	<u>(607,121)</u>	<u>(244,505)</u>
Net cash used by investing activities	<u>(607,121)</u>	<u>(244,505)</u>
Cash flows from financing activities:		
Net proceeds from notes payable	3,257,000	2,532,288
Payments on notes payable and equity equivalents	<u>(510,673)</u>	<u>(924,297)</u>
Net cash provided by financing activities	<u>2,746,327</u>	<u>1,607,991</u>
Net decrease in cash	(309,787)	(480,915)
Beginning cash and cash equivalents and restricted cash	<u>894,639</u>	<u>1,375,554</u>
Ending cash and cash equivalents and restricted cash	<u>\$ 584,852</u>	<u>894,639</u>
Supplemental data:		
Interest paid	<u>\$ 447,915</u>	<u>362,316</u>
Gifts of office space and interest	<u>\$ 341,456</u>	<u>275,471</u>

See accompanying notes to financial statements

ACCION TEXAS, INC.

Statement of Functional Expenses

Year Ended December 31, 2007  
(With Comparative Totals for 2006)

	Program Services	Management & General			Total 2007	Total 2006
		Administration	Fundraising	Total		
Salaries	\$ 1,175,022	258,255	180,975	439,230	1,614,252	1,583,839
Payroll taxes	101,942	23,243	16,288	39,531	141,473	151,804
Fringe benefits	244,580	51,651	36,195	87,846	332,426	289,445
Total salaries and related expenses	1,521,544	333,149	233,458	566,607	2,088,151	2,025,088
Advertising	12,630	4,911	7,360	12,271	24,901	17,477
Conference and meetings	30,418	15,906	37,029	52,935	83,353	26,956
Consultants	32,152	-	67,053	67,053	99,205	177,032
Contract service	8,600	-	-	-	8,600	12,834
Dues and subscriptions	41,282	2,600	6,764	9,364	50,646	24,996
Equipment rental and maintenance	78,662	5,250	2,600	7,850	86,512	50,264
Insurance	10,749	1,950	1,400	3,350	14,099	11,430
Interest paid or accrued	447,915	-	-	-	447,915	362,316
In kind interest	299,338	-	-	-	299,338	241,727
Mileage and parking	4,294	3,254	684	3,938	8,232	13,928
Occupancy	43,919	9,050	6,600	15,650	59,569	53,199
In kind occupancy	37,118	-	-	-	37,118	33,744
Office supplies	21,954	3,141	2,234	5,375	27,329	31,906
Portfolio expenses	483,901	-	-	-	483,901	344,233
Postage	39,441	4,930	4,930	9,860	49,301	41,852
Printing	18,456	1,502	10,082	11,584	30,040	30,624
Professional fees	25,200	-	-	-	25,200	13,950
Bad debt expense	999,932	-	-	-	999,932	704,238
Service charges and fees	34,874	-	-	-	34,874	13,215
Taxes	18,237	-	-	-	18,237	11,139
Telephone	187,968	22,260	975	23,235	211,203	257,035
Travel	17,600	20,317	8,431	28,748	46,348	27,675
Total expenses before depreciation	4,416,184	428,220	389,600	817,820	5,234,004	4,526,858
Depreciation	150,999	12,773	6,387	19,160	170,159	127,729
Total expenses	\$ 4,567,183	440,993	395,987	836,980	5,404,163	4,654,587
Percent of total expenses	84%	9%	7%	16%	100%	-

See accompanying notes to financial statements.



**ACCION TEXAS, INC.**

**Notes to Financial Statements**

**December 31, 2007**

**(1) Nature of Activities and Significant Accounting Policies**

**Nature of Activities**

Accion Texas, Inc. (Accion)'s mission is to stimulate local economic growth and facilitate local efforts to combat poverty through providing credit and other support services to small enterprises that generally do not have access to commercial business credit. Through its loans and services, Accion helps micro entrepreneurs strengthen their businesses, stabilize and increase their incomes, create additional employment and contribute to the economic revitalization of their communities. Accion conducts special outreach efforts to reach disenfranchised, low income, and minority entrepreneurs and is an intermediary lender between commercial banks and micro-entrepreneurs.

Accion is funded primarily by governmental grants, contributions from banks, foundations, corporate and individual contributors. Representatives of these banks and other organizations often serve as members of the board of directors.

**Organization**

Accion is a Texas non-profit corporation organized March 1994.

**Significant Accounting Policies**

**Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Cash and Cash Equivalents**

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

(Continued)

# ACCION TEXAS, INC.

## Notes to Financial Statements

December 31, 2007

### (1) Nature of Activities and Significant Accounting Policies (continued)

#### Receivables

Microenterprise loans, and other receivables are stated at the amount management expects to collect from balances outstanding at year-end. Based on management's assessment of the credit history with clients having outstanding balances and current relationships with them, it has concluded that realization losses on microenterprise loan balances outstanding at year-end have been adequately provided for by the allowance for loan losses.

#### Property and Equipment

Property and equipment are valued at cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their estimated fair market value on the date donated. Expenses for repairs that materially extend the useful life of an asset are capitalized at cost. Depreciation is recorded using the straight-line method over the estimated useful lives of the assets which range from 5 to 39 years. Accion capitalizes all purchases of property and equipment exceeding \$500.

#### Financial Statement Presentation

Accion's financial statements have been prepared on the accrual basis of accounting and current provisions applicable to nonprofit organizations.

Under these provisions, net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, Accion's net assets and changes therein are classified and reported as follows:

**Unrestricted** – Net assets that are not subject to donor-imposed stipulations.

**Temporarily restricted** – Net assets subject to temporary restrictions imposed by donors.

**Permanently restricted** – Net assets with the donor imposed stipulation that the assets be designated toward the creation of an opportunity fund.

(Continued)

# ACCION TEXAS, INC.

## Notes to Financial Statements

December 31, 2007

### (1) Nature of Activities and Significant Accounting Policies (continued)

#### Financial Statement Presentation (continued)

When a restriction expires, (that is, when a stipulated time restriction ends or purpose for the restriction is accomplished) temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

Contributions are considered to be available for unrestricted use unless specifically restricted by donor. Contributions, including unconditional promises to give, are recorded when the donor makes a promise to give to Accion, that is in substance, unconditional.

#### Donated Facilities and Services

Donated facilities and services are reflected in the accompanying financial statements at fair market value at the time of receipt. Donated facilities, which include office space at various locations where Accion operates and interest on below-market interest rate notes payable, are recorded as an expense.

#### Provision for Loan Losses

Accion's Board approved the current Loan Loss provision policy in 2006. Since then, the adequacy of the reserves is evaluated monthly by management and quarterly by the Board. The Loan Loss Reserve Policy is reviewed on an annual basis. Following the current loan loss reserve policy, the reserve reached to 6.2% of outstanding portfolio as of December 31, 2007. This excludes the cash reserves available to Accion from Texas Capital Access Program (TCAF) and Communities of Churches for Social Action (CCSA). These reserves can be drawn upon a loan enrolled on those programs defaults. Including these funds, the total reserves as of December 31, 2007 were 6.4% of outstanding portfolio.

#### Revenue Recognition

Accion recognizes loan interest revenue over the term of the loan. Loan fees are earned when the loan transaction is finalized.

Grants from governmental agencies are earned as the related expenses stipulated by the grants are incurred.

(Continued)

# ACCION TEXAS, INC.

## Notes to Financial Statements

December 31, 2007

### (1) Nature of Activities and Significant Accounting Policies (continued)

#### Functional Allocation of Costs

The costs of providing the program and other activities have been summarized on a functional basis in the statements of activities. Accordingly, costs are allocated to program, fund-raising and general and administrative expenses based on actual use or estimated use if actual use is not readily determinable.

#### Tax Status

Accion is exempt from federal income taxes under Section 501(c) (3) of the Internal Revenue Code.

#### Comparative Financial Information

The statements of activities and of functional expenses include prior-year comparative total amounts. Such total amounts do not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such amounts should be read in conjunction with Accion's financial statements for the year ended December 31, 2006, from which the comparative total amounts were derived.

### (2) Restricted Cash

Restricted cash consists of cash accounts that are required to be maintained for a specific purpose or required by the grantor. Cash accounts restricted are the Individual Development Account Program account, the Eastside Loan Guarantee Program account, the Texas Capital Access Fund accounts, and the Small Business Administration Microloan Reserve Accounts.

### (3) Microenterprise Loans Receivable

Accion offers loans to qualifying businesses. These loans are offered to startup or established businesses. Loans range from \$500 to \$50,000 with loan terms of 5 to 72 months. Borrower must have sufficient collateral to cover loan amount. Individual and group loans carry an 8.00% to 18% annual interest rate, calculated on the declining balance of the loan.

1,714 loans receivable were outstanding as of December 31, 2007 for a total balance receivable of \$16,993,716, less an allowance for loan losses of \$1,046,956.

(Continued)

ACCION TEXAS, INC.

Notes to Financial Statements

December 31, 2007

(3) Microenterprise Loans Receivable (continued)

Loan Delinquency Status:

	Regular Portfolio	%	Bounce Back (Katrina Loans)	%	Total	%
Current	\$ <u>16,242,003</u>	<u>96%</u>	\$ <u>42,166</u>	<u>73%</u>	\$ <u>16,284,169</u>	<u>96%</u>
Past due						
31-60 days	218,319	1%	-	0%	218,319	1%
61-90 days	86,721	1%	2,957	5%	89,678	1%
91-120 days	68,489	0%	2,607	4%	71,096	0%
Over 120 days	<u>319,997</u>	<u>2%</u>	<u>10,457</u>	<u>18%</u>	<u>330,454</u>	<u>2%</u>
Sub total	<u>693,526</u>	<u>4%</u>	<u>16,021</u>	<u>27%</u>	<u>709,547</u>	<u>4%</u>
Total	\$ <u>16,935,529</u>	<u>100%</u>	\$ <u>58,187</u>	<u>100%</u>	\$ <u>16,993,716</u>	<u>100%</u>

Loans are considered delinquent if past due over 31 days and delinquent loans over 180 days are charged off.

Non-performing loans fall into one of the following categories: (1) loans in Chapter 7 bankruptcy that are expecting a reaffirmation agreement, (2) loans enrolled in the Texas Capital Access Program that will be charged off upon confirmation from the Office of the Governor-Economic Development and Tourism, and (3) loans in the process of real estate foreclosure. There were no non-performing loans at December 31, 2007.

(4) Property and Equipment

Property and equipment as of December 31, 2007 consisted of the following:

Land	\$ 250,000
Buildings	1,090,121
Equipment	508,343
Software	262,175
Vehicles	<u>25,000</u>
Total cost	<u>2,135,639</u>
Less: Accumulated depreciation	<u>658,003</u>
Net property and equipment	\$ <u>1,477,636</u>

Depreciation charged to 2007 expense was \$170,159.

ACCION TEXAS, INC.

Notes to Financial Statements

December 31, 2007

(5) Notes Payable

Notes payable consist of the following:

<u>Lender</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance 12/31/2007</u>	<u>Collateral</u>
Adorers of the Blood of Christ	2.00%	Oct-09	\$ 50,000	-
Amegy Bank	7.75%	Jul-08	250,000	-
American Bank	6.75%	Mar-08	200,000	-
Annie E. Casey Foundation	3.00%	Oct-10	500,000	-
Bank of America	3.00%	Dec-12	1,050,000	-
Broadway National Bank	7.25%	Jul-08	75,000	-
Broadway National Bank	7.75%	Oct-08	500,000	-
Calvert Foundation	4.50%	Mar-10	200,000	-
Community Development Financial Institutions Fund	0.00%	May-09	500,000	-
Community Development Financial Institutions Fund	2.12%	Jan-11	1,000,000	-
Community Development Financial Institutions Fund	0.00%	Jul-09	200,000	-
Christus Health	2.00%	Dec-09	400,000	-
Christus Health	2.00%	Dec-10	450,000	-
Compass Bank	7.50%	Nov-08	25,000	-
Debra Salgae	4.00%	Jan-08	1,000	-
Dr. Charles Conlon	1.00%	Jan-08	25,000	-
Charles A. Gonzalez	0.00%	Oct-09	1,000	-
Elena Guajardo	4.00%	Aug-08	5,000	-
Episcopal Church in the USA	4.00%	Sep-11	250,000	-
Frost National Bank	7.25%	Dec-08	200,000	-
Frost National Bank	7.25%	Feb-08	198,625	-
Guaranty Federal Bank	8.50%	Mar-08	150,000	-
Harry Shafer	4.00%	Oct-08	2,000	-
International Bank of Commerce	6.25%	Nov-08	25,000	-
Inwood National Bank	8.00%	Oct-09	63,830	-
Jefferson State Bank	7.75%	Jul-08	60,000	-
JP Morgan Chase	6.25%	Nov-08	1,025,000	-

(Continued)

ACCION TEXAS, INC.

Notes to Financial Statements

December 31, 2007

(5) Notes Payable (continued)

<u>Lender</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance 12/31/07</u>	<u>Collateral</u>	
Laredo National Bank	7.75%	Oct-08	100,000	-	
Michael Villarreal	4.00%	Oct-09	5,000	-	
Monarch Fund	4.50%	Apr-10	200,000	-	
Opportunity Finance Network	4.00%	Mar-11	400,000	-	
Raza Development Fund	5.00%	Jan-08	500,000	-	
River City Capital Corporation	3.50%	Nov-09	161,079	-	
Rosemary Fry	4.50%	Aug-08	1,000	-	
Sisters of the Charity of Cincinnati	3.00%	Jan-10	76,112	-	
Sisters of Charity of the Incarnate Word	2.00%	Jun-10	100,000	-	
Sisters of the Incarnate Word – Corpus Christi	5.00%	Aug-08	200,000	-	
Sisters of St. Dominic	2.00%	Nov-08	50,000	-	
Sisters of the Incarnate Word & Blessed Sacrament	4.50%	Aug-09	310,000	-	
Sisters of the Incarnate Word - Houston	2.00%	Jan-10	100,000	-	
Small Business Administration	5.00%	Jul-10	236,780	37,272	cash
Small Business Administration	3.12%	Sep-11	329,757	51,908	cash
Small Business Administration	7.50%	Jun-16	550,692	86,686	cash
Small Business Administration	2.63%	May-17	500,000	78,706	cash
Society of the Divine Word	3.00%	Mar-10	50,000	-	
Sterling Bank	7.75%	Feb-08	75,000	-	
Sterling Bank	8.05%	Mar-08	150,000	-	
Texas Community Capital	3.00%	Jul-08	15,000	-	
Texas Mezzanine Fund, Inc.	5.00%	May-08	39,319	-	
USDA	1.00%	Apr-34	451,215	-	
US Trust Company of Texas	3.00%	Sep-11	70,000	-	
Washington Mutual	4.00%	Dec-11	500,000	-	
Wells Fargo Bank	2.00%	Aug-13	200,000	-	
Wells Fargo Bank	3.00%	Jun-11	250,000	-	
Wells Fargo Bank - El Paso	0.00%	Mar-10	100,000	-	
William Elizondo	1.00%	Oct-08	1,000	-	
			\$ 13,128,409	254,572	

(Continued)

ACCION TEXAS, INC.

Notes to Financial Statements

December 31, 2007

(5) Notes Payable (continued)

Scheduled principal payments of notes payable are as follows:

Year ending December 31,

2008	\$	4,686,842
2009		2,154,205
2010		2,008,255
2011		2,894,186
2012		391,747
Thereafter		993,174
	\$	<u>13,128,409</u>

(6) Equity Equivalents

An equity equivalent is an unsecured general obligation. It is fully subordinated to the right of repayment of all other creditors. The obligation has a rolling term and therefore, an indeterminate maturity. The interest rate for the following notes is 1.00 to 2.00% and payment of interest is required quarterly and semi-annually. Interest payments are current at December 31, 2007. Equity equivalents consist of the following loans:

Guaranty Bank	\$	100,000
Guaranty Bank		100,000
Guaranty Bank		500,000
Raza Development Fund		100,000
Raza Development Fund		200,000
Wells Fargo		<u>250,000</u>
	\$	<u>1,250,000</u>



ACCION TEXAS, INC.

Notes to Financial Statements

December 31, 2007

**(7) Restrictions on Net Assets**

Temporarily restricted net assets are available for the following purposes:

For subsequent years' activities:

Texas Capital Access Fund	\$	11,068
Community of Churches for Social Action		<u>30,610</u>
Subtotal		41,678

For required reserves:

Small Business Administration		<u>254,572</u>
	\$	<u>296,250</u>

The net assets for all programs are restricted to use as defined by the grantor.

Net assets were released from donor restrictions by incurring expenses satisfying the purpose or time restrictions specified by the donors as follows:

Economic Development Administration	\$	424,000
Community Development Financial Institution		335,000
Cash released from restrictions		<u>4,886</u>
	\$	<u>763,886</u>

Permanently restricted net assets consist of various contributions received from banks and individuals restricted in perpetuity for loans to micro enterprises.

**(8) Retirement Plan**

Accion has a defined contribution 401(k) plan covering all employees with at least one year of service who agree to make contributions to the plan. Under the plan, Accion contributes 50 cents for every dollar contributed by the participant up to 6% of the employee's salary on an annual basis. Total retirement plan expense charged to operations was \$19,250 in 2007.

ACCION TEXAS, INC.

Notes to Financial Statements

December 31, 2007

**(9) Concentrations**

Financial instruments which potentially subject Accion to credit risk consist of periodic temporary investments of excess cash and loan receivables. Accion places its temporary excess cash in high quality short-term money market instruments and certificates of deposit at local banks. At times such instruments may be in excess of the federally insured limit of \$100,000. Microenterprise loans receivable which can be affected by the economic climate are considered to be a concentration of credit risk.

To conduct its microenterprise loan operations, Accion depends on the availability of financing primarily from commercial banks and the federal government. At December 31, 2007, the largest two sources of financing, Community Development Financial Institutions Fund and Small Business Administration, represented approximately 23% of notes payable and equity equivalents.

**(10) Contingencies**

Contracts with governmental agencies are subject to final determination of the eligibility of costs by the grantor. Should any costs be found ineligible, Accion will be responsible for reimbursing the Grantor for these amounts.

**(11) Operating Leases**

Accion leases copiers and a router system under operating leases expiring through August 2009. Lease expense charged to operations for the year ended December 31, 2007 was \$50,265.

Future minimum lease payments under the operating leases in excess of one year as of December 31, 2007 are:

2008	\$ 57,494
2009	7,801
2010	6,663
2011	2,689
2012	<u>2,328</u>
	\$ <u>76,975</u>

**SINGLE AUDIT COMPLIANCE INFORMATION**

## ACCION TEXAS, INC.

## Schedule of Federal Awards

Year ended December 31, 2007

<u>Disbursements/Grantor/ Pass Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Program or Award Amount</u>	<u>Expenditures</u>
<b><u>CDFI</u></b>				
Technical Assistance - 2005	21.020	041-FA-005-227	\$ 1,340,000	335,000
<b><u>US Small Business Administration</u></b>				
Microloan Demonstration Program - Grant	59.046	SBA-HQ 03 Y 01 00	350,045	350,045
Microloan Program - Loans	59.046	375-138-4009	2,250,000	1,128,289
Microloan Program - Loans	59.046	489-163-4204	500,000	520,526
Total US Small Business Administration				1,998,860
<b><u>US Department of Housing and Urban Development (HUD)</u></b>				
RHED-2004 Support for Capacity	14.251	RH 04 TX C 0189	150,000	43,577
RHED-2005 Support for Operations	14.252	RH 05 TX I 40520	216,000	74,542
Passed through City of El Paso:				
Empowerment Zone	14.244		171,000	24,927
Enterprise Communities	14.235		100,000	45,111
Total Department of Housing and Urban Development				188,157
<b><u>US Department of Agriculture</u></b>				
Rural Business Enterprise Grant (RBEG)	10.769		100,000	59,755
Intermediary Relending Program	10.767		750,000	207,926
Total Department of Agriculture				267,681
<b><u>Economic Development Administration</u></b>				
Public Work and Economic Development Program	11.300	EDA 08-04-04168	424,000	424,000
Total Federal Awards			\$	3,213,698

See independent auditors' report on supplementary data.

ACCION TEXAS, INC.

Notes to Schedule of Federal Awards

Year ended December 31, 2007

(1) Basis of Presentation

The accompanying schedule of federal awards includes the federal grant activity of Accion and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the financial statements.

(2) Loans Outstanding

Accion had the following loan balances outstanding at December 31, 2007. Amounts of new loans made are included in the following loan balances outstanding and are also included in the expenditures presented in the schedule.

<u>Program</u>	<u>Federal CDFFA Number</u>	<u>New Loans</u>	<u>Amount Outstanding</u>
CDFI – Microloan Support Program	21.020	\$ N/A	1,700,000
Small Business Administration Microloan Demonstration Program	59.046	1,664,313	1,617,228
Department of Housing and Urban Development	14.252	N/A	33,159
Department of Agriculture	10.767	207,926	451,215
El Paso – Empowerment Zone	14.244	24,927	150,000
El Paso – Enterprise Communities	14.235	<u>45,111</u>	<u>92,163</u>

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**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***

Board of Directors  
Accion Texas, Inc.

We have audited the financial statements of Accion Texas, Inc. as of and for the year ended December 31, 2007, and have issued our report thereon dated March 18, 2008. We conducted our audit 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.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Accion Texas, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures 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 Texas, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Accion Texas, Inc.'s internal control over financial reporting.

A *control deficiency* 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 misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

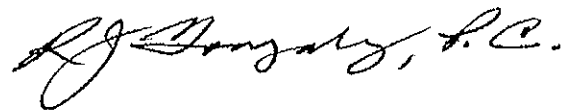
A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether Accion Texas, Inc.'s financial statements are free of 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*.

This report is intended solely for the information and use of the audit committee, management, others within the organization and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.



March 18, 2008

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**Report on Compliance with Requirements Applicable to  
each Major Program and Internal Control over Compliance  
in Accordance with OMB Circular A-133**

Board of Directors  
Accion Texas, Inc.

**Compliance**

We have audited the compliance of Accion Texas, Inc. with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2007. Accion Texas, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Accion Texas, Inc.'s management. Our responsibility is to express an opinion on Accion Texas, Inc.'s compliance based on our audit.

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; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 Texas, Inc.'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. Our audit does not provide a legal determination on Accion Texas, Inc.'s compliance with those requirements.

In our opinion, Accion Texas, Inc. complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2007.



## Internal Control Over Compliance

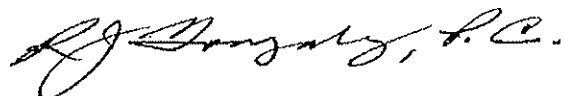
The management of Accion Texas, Inc. is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Accion Texas, Inc.'s internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 Texas, Inc.'s internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned function, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended for the information of the audit committee, management, others within the organization and federal awarding entities and is not intended to be and should not be used by anyone other than these specified parties.



March 18, 2008

ACCION TEXAS, INC.

Schedule of Prior Audit Findings and Questioned Costs

Year ended December 31, 2007

<u>Program</u>	<u>Prior Year's Finding/Noncompliance</u>	<u>Questioned Costs</u>
	None.	

ACCION TEXAS, INC.

Schedule of Findings and Questioned Costs

Year ended December 31, 2007

Summary of Auditors' Results

Financial Statements

Type of auditor's report issued	Unqualified
Internal control over financial reporting:	
Material weakness(es) identified	None
Significant deficiencies identified that are not considered to be material weakness(es)	None
Noncompliance material to the financial statements.	None

Federal Awards

Internal control over major programs:	
Material weakness(es) identified	None
Significant deficiencies identified that are not considered to be material weakness(es)	None
Type of auditor's report issued on compliance for major programs	Unqualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133	None

Major Program

Federal Program

CFDA 59.046 U.S. Small Business Administration Micro Loan Program

Dollar threshold used to distinguish between type A and type B programs	\$300,000
Auditee qualified as low-risk auditee	Yes

Findings – Financial Statements Audit None

Findings and Questioned Costs – Major Federal Award Programs Audit None