

ACCION TEXAS, INC.

Financial Statements and Additional Information

December 31, 2006 and 2005

With Independent Auditors' Report Thereon

ACCION TEXAS, INC.

Table of Contents

Financial Statements:

Independent Auditors' Report	1-2
Statements of Financial Position	3
Statement of Activities	4
Statements of Cash Flows	5
Statement of Functional Expenses	6
Notes to Financial Statements	7-16

Single Audit Compliance Information:

Schedule 1 – Schedule of Federal Awards	17
Notes to Schedule of Federal Awards	18
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	19-20
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133	21-22
Schedule of Prior Audit Findings and Questioned Costs	23
Schedule of Findings and Questioned Costs	24

RINALDO J. GONZALEZ
A Professional Corporation
CERTIFIED PUBLIC ACCOUNTANT
7800 IH 10 West - Suite 505
San Antonio, Texas 78230
(210) 366-9430 FAX (210) 366-9451

Independent Auditors' Report

Board of Directors
Accion Texas, Inc.

We have audited the accompanying statement of financial position of Accion Texas, Inc. (a nonprofit organization) as of December 31, 2006, and the related statements of activities, cash flows, and functional expenses for the year then ended. 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. The financial statements of Accion Texas, Inc. as of December 31, 2005 were audited by other auditors whose report, dated March 22, 2006, expressed an unqualified opinion on these statements.

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, 2006, and the changes in net assets and its cash flows for the year then ended, 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 29, 2007 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 "J. Douglas, P.C.", written in a cursive style.

March 29, 2007

ACCION TEXAS, INC.

**Statements of Financial Position
December 31, 2006 and 2005**

<u>Assets</u>		
	<u>2006</u>	<u>2005</u>
Cash and cash equivalents	\$ 593,503	956,974
Receivables:		
Microenterprise loans receivable, net of allowance for loan losses of \$814,637 for 2006 and \$657,100 for 2005	12,623,123	10,681,839
Due from grantors	799,498	479,928
Accrued interest receivable	99,716	76,503
Late payment and NSF fees	14,430	16,609
Other	16,253	17,476
Prepaid expense	7,010	12,975
Recovered asset inventory	105,066	51,337
Property and equipment, net of accumulated depreciation of \$502,131 for 2006 and \$397,038 for 2005	1,040,674	923,898
Restricted cash	301,136	418,580
Total assets	\$ 15,600,409	13,636,119
<u>Liabilities and Net Assets</u>		
Accounts payable	\$ 212,782	87,850
Accrued liabilities	186,241	53,997
Other payables	11,341	112,781
Texas Capital Access Fund Reserve	43,514	42,404
Notes payable	9,932,082	9,474,091
Equity equivalents	1,700,000	550,000
Total liabilities	12,085,960	10,321,123
Net assets:		
Unrestricted	2,528,313	1,916,999
Temporarily restricted	636,136	1,072,847
Permanently restricted	350,000	325,150
Total net assets	3,514,449	3,314,996
Total liabilities and net assets	\$ 15,600,409	13,636,119

See accompanying notes to financial statements.

ACCION TEXAS, INC.

Statement of Activities

Year Ended December 31, 2006
(With Comparative Totals for 2005)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2006 Total</u>	<u>2005 Total</u>
Public support and revenues:					
Public support					
Contributions	\$ 929,186	449,285	-	1,378,471	684,924
Grants from government	945,632	25,000	-	970,632	1,807,786
Revenue:					
Interest	40,033	-	-	40,033	29,833
Microenterprise loan interest and fees	2,196,752	-	-	2,196,752	1,879,401
In-kind contributions	275,472	-	-	275,472	191,620
Miscellaneous revenue	4,460	-	-	4,460	394
Total public support and revenue	4,391,535	474,285	-	4,865,820	4,593,958
Net assets released from restrictions:					
Satisfaction of program restrictions	911,146	(910,996)	(150)	-	-
Total revenues and other support	5,302,681	(436,711)	(150)	4,865,820	4,593,958
Expenses:					
Program services	3,927,653	-	-	3,927,653	3,891,498
Administration	402,481	-	-	402,481	184,119
Fundraising	324,453	-	-	324,453	277,471
Total expenses	4,654,587	-	-	4,654,587	4,353,088
Change in net assets before loss on disposal of equipment	648,094	(436,711)	(150)	211,233	240,870
Loss on disposal of equipment	(11,780)	-	-	(11,780)	(2,772)
Loss on disposal of equipment - prior year adjustment	-	-	-	-	3,535
Change in net assets	636,314	(436,711)	(150)	199,453	241,633
Reclassification (note 7)	(25,000)	-	25,000	-	-
Net assets, beginning	1,916,999	1,072,847	325,150	3,314,996	3,073,363
Net assets, ending	\$ 2,528,313	636,136	350,000	3,514,449	3,314,996

See accompanying notes to financial statements.

ACCION TEXAS, INC.

Statements of Cash Flows

Years Ended December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:		
Change in net assets	\$ 199,453	241,633
Adjustment to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	127,729	125,869
Increase in allowance for loan losses	157,537	232,100
(Increase) in microenterprise loans receivable	(2,098,821)	(2,259,621)
(Increase) decrease in receivable from grantors	(319,570)	69,833
(Increase) in receivable from accrued interest	(23,213)	(2,565)
(Increase) decrease in late payment and NSF fees	2,179	(514)
(Increase) decrease in receivable from other	1,223	(4,304)
(Increase) decrease in prepaid	5,965	(12,975)
(Increase) in recovered asset inventory	(53,729)	(5,780)
Increase (decrease) in accounts payable	124,932	(70,016)
Increase (decrease) in accrued liabilities	132,244	(16,453)
Increase (decrease) in other payables	(101,440)	30,212
Increase (decrease) in TCAF reserve	1,110	(113,949)
Net cash used by operating activities	<u>(1,844,401)</u>	<u>(1,786,530)</u>
Cash flows from investing activities:		
Additions of property and equipment, net	<u>(244,505)</u>	<u>(47,783)</u>
Net cash used by investing activities	<u>(244,505)</u>	<u>(47,783)</u>
Cash flows from financing activities:		
Net proceeds from notes payable	2,532,288	1,759,053
Payments on notes payable	<u>(924,297)</u>	<u>(517,734)</u>
Net cash provided by financing activities	<u>1,607,991</u>	<u>1,241,319</u>
Net decrease in cash	(480,915)	(592,994)
Beginning cash and cash equivalents	<u>1,375,554</u>	<u>1,968,548</u>
Ending cash and cash equivalents	<u>\$ 894,639</u>	<u>1,375,554</u>
Supplemental data:		
Interest paid	<u>\$ 362,316</u>	<u>292,210</u>
Gifts of office space and interest	<u>\$ 275,471</u>	<u>358,587</u>

See accompanying notes to financial statements

ACCION TEXAS, INC.

Statement of Functional Expenses

Year Ended December 31, 2006
(With Comparative Totals for 2005)

	Program Services	Management & General		Total	Total 2006	Total 2005
		Administration	Fundraising			
Salaries	\$ 1,138,060	257,932	187,847	445,779	1,583,839	1,377,216
Payroll taxes	113,525	19,494	18,785	38,279	151,804	119,234
Fringe benefits	209,204	46,428	33,813	80,241	289,445	310,905
Total salaries and related expenses	1,460,789	323,854	240,445	564,299	2,025,088	1,807,355
Advertising	11,791	5,250	436	5,686	17,477	18,919
Conference and meetings	11,990	12,733	2,233	14,966	26,956	28,774
Consultants	128,636	-	48,396	48,396	177,032	90,232
Contract service	12,834	-	-	-	12,834	6,886
Dues and subscriptions	21,961	2,500	535	3,035	24,996	28,255
Equipment rental and maintenance	42,725	5,026	2,513	7,539	50,264	50,651
Insurance	8,207	1,865	1,358	3,223	11,430	13,769
Interest paid or accrued	362,316	-	-	-	362,316	302,354
In-kind interest	241,727	-	-	-	241,727	154,155
Mileage and parking	10,725	2,826	377	3,203	13,928	11,209
Occupancy	38,196	8,681	6,322	15,003	53,199	40,432
In kind occupancy	33,744	-	-	-	33,744	29,964
Office supplies	25,860	4,735	1,311	6,046	31,906	21,076
Portfolio expenses	344,233	-	-	-	344,233	292,753
Postage	33,482	4,185	4,185	8,370	41,852	30,643
Printing	24,213	1,531	4,880	6,411	30,624	29,916
Professional fees	13,950	-	-	-	13,950	15,522
Bad debt expense	704,238	-	-	-	704,238	1,032,424
Service charges and fees	13,215	-	-	-	13,215	7,145
Taxes	11,139	-	-	-	11,139	11,317
Telephone	245,310	10,411	1,314	11,725	257,035	180,341
Travel	17,802	6,111	3,762	9,873	27,675	23,127
Total expenses before depreciation	3,819,083	389,708	318,067	707,775	4,526,858	4,227,219
Depreciation	108,570	12,773	6,386	19,159	127,729	125,869
Total expenses	\$ 3,927,653	402,481	324,453	726,934	4,654,587	4,353,088
Percent of total expenses	84%	9%	7%	16%	100%	-

See accompanying notes to financial statements.

ACCION TEXAS, INC.

Notes to Financial Statements

December 31, 2006

(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, 2006

(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 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.

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, 2006

(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 has approved a loan loss provision policy to establish an adequate allowance for loan losses of 6.5% of the 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.

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.

(Continued)

ACCION TEXAS, INC.

Notes to Financial Statements

December 31, 2006

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

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, 2005, from which the comparative total amounts were derived. Certain amounts from 2005 have been reclassified to conform to 2006 presentations.

(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 14.50% annual interest rate, calculated on the declining balance of the loan.

1,624 loans receivable were outstanding as of December 31, 2006 for a total balance receivable of \$13,437,760, less an allowance for loan losses of \$814,637.

(Continued)

ACCION TEXAS, INC.

Notes to Financial Statements

December 31, 2006

(3) Microenterprise Loans Receivable (continued)

Loan Delinquency Status:

	Regular Portfolio	%	Bounce Back (Katrina Loans)	%	Total	%
Current	\$ <u>12,413,308</u>	94%	\$ <u>234,279</u>	87%	\$ <u>12,647,587</u>	94%
Past due						
31-60 days	341,809	3%	20,255	2%	362,064	3%
61-90 days	145,785	1%	5,412	2%	151,197	1%
91-120 days	137,966	1%	4,330	2%	142,296	1%
Over 120 days	<u>129,616</u>	<u>1%</u>	<u>5,000</u>	<u>2%</u>	<u>134,616</u>	<u>1%</u>
Sub total	<u>755,176</u>	<u>6%</u>	<u>34,997</u>	<u>13%</u>	<u>790,173</u>	<u>6%</u>
Total	\$ <u>13,168,484</u>	<u>100%</u>	\$ <u>269,276</u>	<u>100%</u>	\$ <u>13,437,760</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, 2006.

(4) Property and Equipment

Property and equipment consisted of the following:

Land	\$ 25,000
Buildings	789,720
Equipment	467,079
Software	236,006
Vehicles	<u>25,000</u>
Total cost	<u>1,542,805</u>
Less: Accumulated depreciation	<u>502,131</u>
Net property and equipment	<u>\$ 1,040,674</u>

Depreciation charged to 2006 expense was \$127,729.

ACCION TEXAS, INC.

Notes to Financial Statements

December 31, 2006

(5) Notes Payable

Notes payable consist of the following:

<u>Lender</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance 12/31/2006</u>	<u>Collateral</u>
Adorers of the Blood of Christ	2.00%	Oct-09	\$ 50,000	-
American Bank	7.75%	Mar-08	200,000	-
Annie E. Casey Foundation	3.00%	Oct-10	500,000	-
Bank of America	3.00%	Dec-12	1,250,000	-
Broadway National Bank	8.25%	Jul-07	75,000	-
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-07	200,000	-
Christus Health	2.00%	Nov-07	400,000	-
Compass Bank	8.25%	Oct-07	25,000	-
Dr. Charles Conlon	1.00%	Jan-07	25,000	-
Charles A. Gonzalez	0.00%	Oct-09	1,000	-
Episcopal Church in the USA	4.00%	Sep-11	250,000	-
Frost National Bank	8.25%	Dec-07	300,000	-
Guaranty Federal Bank	7.25%	Mar-07	150,000	-
Harry Shafer	4.00%	Oct-07	2,000	-
International Bank of Commerce	6.25%	Nov-07	25,000	-
Inwood National Bank	8.00%	Oct-09	94,932	-
Jefferson State Bank	8.25%	Jul-07	60,000	-
JP Morgan Chase	7.25%	Nov-07	1,025,000	-
Laredo National Bank	6.50%	Sep-07	100,000	-
Michael Villarreal	4.00%	Oct-09	5,000	-
North Houston Bank	0.00%	Jan-07	10,000	-
Opportunity Finance Network	4.00%	Mar-11	400,000	-
River City Capital Corporation	3.50%	Nov-09	200,000	-

(Continued)

ACCION TEXAS, INC.

Notes to Financial Statements

(5) Notes Payable (continued)

<u>Lender</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance 12/31/06</u>	<u>Collateral</u>	
Sisters of Charity of Cincinnati	3.00%	Jan-10	\$ 100,000	-	
Sisters of Charity of the Incarnate Word	2.00%	Jun-10	100,000	-	
Sisters of St. Dominic	2.00%	Nov-08	50,000	-	
Sisters of the Incarnate Word & Blessed Sacrament	2.00%	Jul-07	10,000	-	
Sisters of the Incarnate Word & Blessed Sacrament	3.00%	Aug-09	300,000	-	
Small Business Administration	5.00%	Jul-10	327,598	59,266	cash
Small Business Administration	3.12%	Sep-11	414,148	74,924	cash
Small Business Administration	7.50%	Jun-16	624,774	113,028	cash
Society of the Divine Word	3.00%	Mar-07	50,000	-	
Sterling Bank	7.50%	Feb-07	75,000	-	
Texas Community Capital	3.00%	Jul-08	15,000	-	
Texas Mezzanine Fund, Inc.	5.00%	May-08	98,342	-	
USDA	1.00%	Apr-34	243,288	-	
US Trust Company of Texas	3.00%	Sep-11	75,000	-	
Washington Mutual	4.00%	Dec-11	500,000	-	
Wells Fargo Bank - El Paso	0.00%	Mar-10	100,000	-	
William Elizondo	1.00%	Oct-07	1,000	-	
			<u>\$ 9,932,082</u>	<u>247,218</u>	

Scheduled principal payments of notes payable are as follows:

Year ending December 31,

2007	\$ 2,792,155
2008	634,561
2009	1,334,546
2010	1,007,573
2011	2,356,985
Thereafter	<u>1,806,262</u>
	<u>\$ 9,932,082</u>

ACCION TEXAS, INC.

Notes to Financial Statements

December 31, 2006

(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 3.00% and payment of interest is required quarterly and semi-annually. Interest payments are current at December 31, 2006. 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>700,000</u>
	\$	<u>1,700,000</u>

(7) Restrictions on Net Assets

Temporarily restricted net assets are available for the following purposes:

For subsequent years' activities:

Texas Capital Access Fund	\$	24,127
Community of Churches for Social Action		29,790
Community Development Financial Institution		<u>335,000</u>
Subtotal		388,917

For required reserves:

Small Business Administration		<u>247,219</u>
	\$	<u>636,136</u>

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

(Continued)

ACCION TEXAS, INC.

Notes to Financial Statements

December 31, 2006

(7) Restrictions on Net Assets (continued)

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

Bounce Back Funds	\$	381,449
Texas Capital Access Fund		11,405
Small Business Administration		106,942
Other		92,200
Community Development Financial Institution		<u>319,000</u>
	\$	<u>910,996</u>

Net assets in the amount of \$25,000 were reclassified in 2006 from unrestricted net assets to permanently restricted net assets to more accurately reflect the intentions of the donor. 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 \$25,351 in 2006.

(9) Concentrations of Credit Risk

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.

(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.

ACCION TEXAS, INC.

Notes to Financial Statements

December 31, 2006

(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, 2006 was \$50,265.

Future minimum lease payments under the operating leases in excess of one year as of December 31, 2006 are:

2007	\$ 44,400
2008	43,248
2009	<u>14,532</u>
	\$ <u>102,180</u>

SINGLE AUDIT COMPLIANCE INFORMATION

ACCION TEXAS, INC.

Schedule of Federal Awards

Year ended December 31, 2006

<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>
<u>CDFI</u>				
Technical Assistance - 2005	21.020	041-FA-005-227	\$ 1,340,000	319,000
Technical Assistance - 2006	21.020	061-TA-006-587	82,000	82,000
Total CDFI				<u>401,000</u>
<u>US Small Business Administration</u>				
Microloan Demonstration Program - Grant	59.046	SBA-HQ 03 Y 01 00	393,048	393,048
Microloan Program - Loans	59.046	375-138-4009	2,250,000	1,607,242
Total US Small Business Administration				<u>2,000,290</u>
<u>US Department of Housing and Urban Development (HUD)</u>				
RHED-2003 Support for Operations	14.250	RH 03 TX I 0072	400,000	17,610
RHED-2004 Support for Capacity	14.251	RH 04 TX C 0189	150,000	50,158
RHED-2005 Support for Operations	14.252	RH 05 TX I 40520	216,000	108,816
RHED-2005 Support Loan Fund	14.252	RH 05 TX I 40520	184,000	184,000
Passed through City of El Paso: Enterprise Communities	14.235		100,000	69,614
Total Department of Housing and Urban Development				<u>430,198</u>
<u>US Department of Agriculture</u>				
Intermediary Relending Program	10.767		750,000	243,289
Total Federal Awards			\$	<u>3,074,777</u>

See independent auditors' report on supplementary data.

ACCION TEXAS, INC.

Notes to Schedule of Federal Awards

Year ended December 31, 2006

(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, 2006. 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 CDFA Number</u>	<u>New Loans</u>	<u>Amount Outstanding</u>
Small Business Administration Microloan Demonstration Program	59.046	\$ 1,607,242	1,366,520
Department of Agriculture	10.767	243,289	243,288
El Paso – Enterprise Communities	14.235	<u>69,614</u>	<u>87,375</u>

RINALDO J. GONZALEZ

A Professional Corporation
CERTIFIED PUBLIC ACCOUNTANT
7800 IH 10 West - Suite 505
San Antonio, Texas 78230

(210) 366-9430 FAX (210) 366-9451

**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, 2006, and have issued our report thereon dated March 29, 2007. 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.

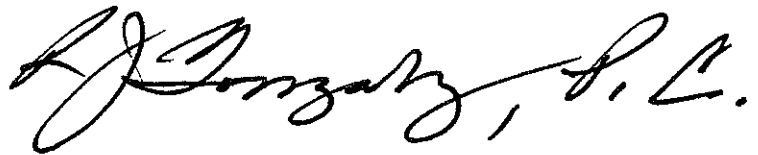
Internal Control Over Financial Reporting

In planning and performing our audit, we considered Accion Texas, Inc.'s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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 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.

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

March 29, 2007

RINALDO J. GONZALEZ

A Professional Corporation
CERTIFIED PUBLIC ACCOUNTANT
7800 IH 10 West - Suite 505
San Antonio, Texas 78230

(210) 366-9430 FAX (210) 366-9451

**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, 2006. 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, 2006.

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 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 and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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.

A handwritten signature in black ink, reading "R. J. D'Amico, P. C." The signature is written in a cursive style with a large, looped initial "R".

March 29, 2007

ACCION TEXAS, INC.

Schedule of Prior Audit Findings and Questioned Costs

Year ended December 31, 2006

<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, 2006

<u>Program</u>	<u>Description</u>
Section I – Summary of Auditors’ Results	
Type of Report on Financial Statements	Unqualified
Reportable Conditions	None
Material Weaknesses Involving Reportable Conditions	None
Noncompliance Material to the Financial Statements	None
Type of Report on Compliance with Major Programs	Unqualified
Findings and Questioned Costs for Federal and State Awards as Defined in Section 510 (a), OMB Circular A-133	None
Dollar Threshold Considered Between Type A and Type B Federal Programs	\$300,000
Low Risk Auditee Statements	The Organization was classified as a low-risk auditee in the context of OMB Circular A-133
Major Federal Programs	U.S. Small Business Administration Micro Loan Program, CFDA 59.046
Section II – Financial Statement Findings	None
Section III – Federal Award Findings and Questioned Costs	None