

ACCION TEXAS, INC.

**Combined Financial Statements and
Additional Information**

December 31, 2008 and 2007

With Independent Auditors' Report Thereon

ACCION TEXAS, INC.

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Independent Auditors' Report

Board of Directors
ACCION Texas, Inc.

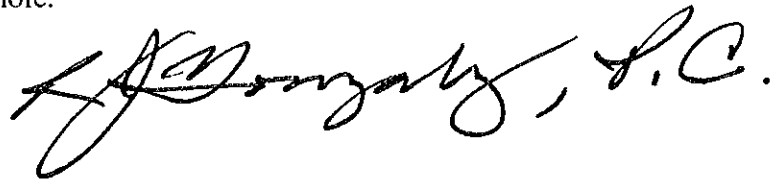
We have audited the accompanying combined statements of financial position of ACCION Texas, Inc. (a nonprofit organization) and subsidiary as of December 31, 2008, and the related combined statements of activities, cash flows, and functional expenses for the year then ended. These combined financial statements are the responsibility of ACCION's management. Our responsibility is to express an opinion on these combined 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 combined financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the combined financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall combined financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of ACCION Texas, Inc. and subsidiary as of December 31, 2008, 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 13, 2009 on our consideration of ACCION Texas, Inc. and subsidiary'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 combined financial statements of ACCION Texas, Inc. and subsidiary 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 combined financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic combined financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic combined financial statements taken as a whole.

A handwritten signature in black ink, reading "H. J. Donzaly, S.C.". The signature is written in a cursive style with a large, stylized initial "H".

March 13, 2009

ACCION TEXAS, INC.

Combined Statement of Financial Position
December 31, 2008
(With Comparative Figures for 2007)

	<u>Assets</u>	
	<u>2008</u>	<u>2007</u>
Cash and cash equivalents	\$ 1,261,200	288,602
Receivables:		
Microenterprise loans receivable, net of allowance for loan losses of \$1,248,917 for 2008 and \$1,046,956 for 2007	19,131,335	15,946,760
Participation in Citi portfolio, net of allowance for loan losses of \$59,126	50,357	-
Due from grantors, net of allowance for cost refunds of \$241,993 for 2008	1,311,619	723,421
Accrued interest receivable	200,849	129,494
Accrued late and NSF fees	34,475	21,004
Other	38,308	16,636
Prepaid expense and other	12,329	4,666
Recovered asset inventory	16,520	32,605
Property and equipment, net of accumulated depreciation of \$878,309 for 2008 and \$658,003 for 2007	1,689,971	1,477,636
Restricted cash	442,752	296,250
Total assets	<u>\$ 24,189,715</u>	<u>18,937,074</u>

Liabilities and Net Assets

Liabilities:		
Accounts payable	\$ 314,315	285,839
Accrued liabilities	297,472	210,860
Other payables	513	6,264
Texas Capital Access Fund Reserve	22,357	47,916
Deferred revenue	44,372	-
Notes payable	15,886,990	13,128,409
Equity equivalents	2,500,000	1,250,000
Total liabilities	<u>19,066,019</u>	<u>14,929,288</u>
Net assets:		
Unrestricted	2,725,259	3,361,536
Temporarily restricted	2,048,437	296,250
Permanently restricted	350,000	350,000
Total net assets	<u>5,123,696</u>	<u>4,007,786</u>
Total liabilities and net assets	<u>\$ 24,189,715</u>	<u>18,937,074</u>

See accompanying notes to financial statements.

ACCION TEXAS, INC.

Combined Statement of Activities

Year Ended December 31, 2008
(With Comparative Totals for 2007)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2008 Total	2007 Total
Public support and revenues:					
Public support					
Contributions	\$ 1,138,489	662,500	-	1,800,989	929,131
Grants from government	821,929	1,000,000	-	1,821,929	1,415,543
Revenue:					
Interest	17,827	-	-	17,827	27,914
Microenterprise loan interest and fees	3,856,936	-	-	3,856,936	3,185,025
In-kind contributions	181,048	-	-	181,048	341,456
Miscellaneous revenue	760	-	-	760	(80)
Total public support and revenue	6,016,989	1,662,500	-	7,679,489	5,898,989
Net assets released to/from restrictions:					
Increase in restricted cash reserves	(146,502)	146,502	-	-	-
Satisfaction of program restrictions	56,815	(56,815)	-	-	-
Total revenues and other support	5,927,302	1,752,187	-	7,679,489	5,898,989
Expenses:					
Program services	5,635,336	-	-	5,635,336	4,567,183
Administration	644,846	-	-	644,846	440,993
Fundraising	283,397	-	-	283,397	395,987
Total expenses	6,563,579	-	-	6,563,579	5,404,163
Change in net assets before loss on disposal of equipment	(636,277)	1,752,187	-	1,115,910	494,826
Loss on disposal of equipment	-	-	-	-	(1,489)
Change in net assets	(636,277)	1,752,187	-	1,115,910	493,337
Net assets, beginning	3,361,536	296,250	350,000	4,007,786	3,514,449
Net assets, ending	\$ 2,725,259	2,048,437	350,000	5,123,696	4,007,786

See accompanying notes to financial statements.

ACCION TEXAS, INC.

Combined Statement of Cash Flows

Year Ended December 31, 2008

(With Comparative Figures for 2007)

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities:		
Change in net assets	\$ 1,115,910	493,337
Adjustment to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	220,307	170,159
Increase in allowance for loan losses	261,087	232,319
(Increase) in microenterprise loans receivable	(3,386,536)	(3,555,956)
(Increase) in participation in Citi portfolio	(109,483)	-
Increase in allowance for cost refunds	241,993	-
(Increase) decrease in due from grantors	(613,579)	76,077
(Increase) in accrued interest receivable	(71,355)	(29,778)
(Increase) decrease in late payment and NSF fees	(13,471)	(6,574)
(Increase) decrease in other receivables	(238,284)	(383)
(Increase) decrease in prepaid expense and other	(7,663)	2,344
(Increase) in recovered asset inventory	16,085	72,461
Increase (decrease) in accounts payable	28,476	73,057
Increase (decrease) in accrued liabilities	86,612	24,619
Increase (decrease) in other payables	(5,751)	(5,077)
Increase (decrease) in TCAF reserve	(25,559)	4,402
Increase (decrease) in deferred revenue	44,372	-
Net cash used by operating activities	<u>(2,456,839)</u>	<u>(2,448,993)</u>
Cash flows from investing activities:		
Additions of property and equipment, net	<u>(432,642)</u>	<u>(607,121)</u>
Net cash used by investing activities	<u>(432,642)</u>	<u>(607,121)</u>
Cash flows from financing activities:		
Net proceeds from notes payable and equity equivalents	4,713,500	3,257,000
Payments on notes payable and equity equivalents	<u>(704,919)</u>	<u>(510,673)</u>
Net cash provided by financing activities	<u>4,008,581</u>	<u>2,746,327</u>
Net increase (decrease) in cash	1,119,100	(309,787)
Beginning cash and cash equivalents and restricted cash	<u>584,852</u>	<u>894,639</u>
Ending cash and cash equivalents and restricted cash	\$ <u><u>1,703,952</u></u>	\$ <u><u>584,852</u></u>
Supplemental data:		
Interest paid	\$ <u><u>567,975</u></u>	\$ <u><u>447,915</u></u>
Gifts of office space and interest	\$ <u><u>181,048</u></u>	\$ <u><u>341,456</u></u>

See accompanying notes to financial statements

ACCION TEXAS, INC.
Combined Statement of Functional Expenses
Year Ended December 31, 2008
(With Comparative Totals for 2007)

	Program Services	Management & General		Total 2008	Total 2007
		Administration	Fundraising	Total	
Salaries	\$ 1,518,771	267,294	187,309	454,603	1,973,374
Payroll taxes	114,846	24,056	16,858	40,914	155,760
Fringe benefits	183,038	53,459	37,462	90,921	273,959
Total salaries and related expenses	1,816,655	344,809	241,629	586,438	2,403,093
Advertising	25,336	5,838	1,500	7,338	32,674
Conference and meetings	21,836	19,676	118	19,794	41,630
Consultants	60,431	54,873	10,828	65,701	126,132
Contract service	8,062	-	-	-	8,062
Dues and subscriptions	18,022	14,383	1,487	15,870	33,892
Equipment rental and maintenance	46,382	21,468	-	21,468	67,850
Insurance	16,354	1,924	962	2,886	19,240
Interest paid or accrued	567,975	-	-	-	567,975
In kind interest	141,077	-	-	-	141,077
Mileage and parking	4,616	4,757	479	5,236	9,852
Occupancy	50,427	14,408	7,204	21,612	72,039
In kind occupancy	38,471	-	-	-	38,471
Office supplies	26,075	9,495	488	9,983	36,058
Portfolio expenses	522,074	-	-	-	522,074
Postage	36,844	2,141	260	2,401	39,245
Printing	14,875	14,438	3,257	17,695	32,570
Professional fees	33,839	38,282	-	38,282	72,121
Bad debt expense	1,475,970	-	-	-	1,475,970
Provision for cost refunds	241,993	-	-	-	241,993
Service charges and fees	30,954	5,578	-	5,578	36,532
Taxes	31	21,686	1,084	22,770	22,801
Telephone	218,819	22,483	427	22,910	241,729
Travel	30,958	26,576	2,658	29,234	60,192
Total expenses before depreciation	5,448,076	622,815	272,381	895,196	6,343,272
Depreciation	187,260	22,031	11,016	33,047	220,307
Total expenses	\$ 5,635,336	644,846	283,397	928,243	6,563,579
Percent of total expenses	86%	10%	4%	14%	100%

See accompanying notes to financial statements.

ACCION TEXAS, INC.

Notes to Combined Financial Statements

December 31, 2008

(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

Basis for Combination

During 2008, ACCION formed a wholly owned subsidiary named AT Microloans I LLC, a Texas limited liability company (Microloans) (see note 13).

The financial statements of ACCION and its wholly owned subsidiary, Microloans, are presented in the financial statements on a combined basis as both have common board members and management. Inter-organization transactions and balances have been eliminated for financial statement purposes.

(Continued)

ACCION TEXAS, INC.

Notes to Combined Financial Statements

December 31, 2008

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

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.

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.

(Continued)

ACCION TEXAS, INC.

Notes to Combined Financial Statements

December 31, 2008

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

Financial Statement Presentation (continued)

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.

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.

(Continued)

ACCION TEXAS, INC.

Notes to Combined Financial Statements

December 31, 2008

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

Allowance for Loan Losses

The adequacy of the allowance for loan losses is evaluated monthly by management and quarterly by the Board. Following current policy, the allowance reached 6.13% of outstanding portfolio as of December 31, 2008. This excludes the allowance for cost refunds, and the cash reserves available to ACCION from Texas Capital Access Program (TCAF). These reserves can be drawn upon if a loan enrolled on those programs defaults. Including these funds, the total allowance and reserves as of December 31, 2008 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.

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 services, fund-raising and administration 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, 2007, from which the comparative total amounts were derived.

(Continued)

ACCION TEXAS, INC.

Notes to Combined Financial Statements

December 31, 2008

(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 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 \$100,000 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. During 2008, ACCION disbursed \$14,333,205 in new loans including loans sold to Citi (see note 13).

1,817 loans receivable were outstanding as of December 31, 2008 for a total balance receivable of \$20,489,735 including participation in Citi portfolio, less an allowance for loan losses of \$1,308,043.

Loan Delinquency Status:

	ACCION Portfolio	%	Citi Portfolio Under ACCION Management	Total Portfolio
Current	\$ <u>18,996,376</u>	<u>92.7</u>	\$ <u>1,022,701</u>	<u>20,019,077</u>
Past due				
31-60 days	338,799	1.7	20,797	359,596
61-90 days	216,562	1.1	-	216,562
91-120 days	185,320	.9	-	185,320
Over 120 days	<u>643,195</u>	<u>3.1</u>	-	<u>643,195</u>
Sub total	<u>1,383,876</u>	<u>6.8</u>	<u>20,797</u>	<u>1,404,673</u>
Total ACCION portfolio	20,380,252			
Participation in Citi portfolio	<u>109,483</u>	<u>.5</u>		
Total portfolio	\$ <u>20,489,735</u>	<u>100.0</u>	\$ <u>1,043,498</u>	<u>21,423,750</u>

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

(Continued)

ACCION TEXAS, INC.

Notes to Combined Financial Statements

December 31, 2008

(3) Microenterprise Loans Receivable (continued)

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, 2008.

(4) Property and Equipment

Property and equipment as of December 31, 2008 consisted of the following:

Land	\$ 250,000
Buildings	1,316,912
Equipment	579,272
Software	337,096
Vehicles	<u>85,000</u>
Total cost	2,568,280
Less: Accumulated depreciation	<u>878,309</u>
Net property and equipment	\$ <u>1,689,971</u>

Depreciation charged to 2008 expense was \$220,306.

(Continued)

ACCION TEXAS, INC.

Notes to Combined Financial Statements

December 31, 2008

(5) Notes Payable

Notes payable consist of the following:

<u>Lender</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance 12/31/2008</u>	<u>Collateral</u>
Adorers of the Blood of Christ	2.00%	Oct-09	\$ 50,000	-
Adrian Dominican Generalate	3.50%	Aug-10	50,000	-
American Bank	2.75%	Apr-09	100,000	-
Annie E. Casey Foundation	3.00%	Apr-13	1,000,000	-
Bank of America	3.00%	Dec-12	850,000	-
Bank of America	3.00%	Sep-11	65,000	-
Broadway National Bank	3.25%	Jul-09	75,000	-
Broadway National Bank	3.25%	Oct-09	500,000	-
Calvert Foundation	5.00%	May-13	200,000	-
Calvert Social Investment Foundation	4.50%	Mar-10	500,000	-
Capital One	3.00%	Feb-11	400,000	-
Capital One	5.50%	Feb-11	200,000	-
Carolyn Courville	4.50%	Aug-12	22,500	-
Community Development Financial Institutions Fund	0.00%	Apr-09	500,000	-
Community Development Financial Institutions Fund	2.12%	Jan-11	1,000,000	-
Community Development Financial Institutions Fund	0.00%	May-09	200,000	-
Christus Health	2.00%	Dec-10	350,000	-
Christus Health	2.00%	Dec-09	220,000	-
Compass Bank	3.25%	Dec-09	23,797	-
Compass Bank	3.25%	Jun-09	100,000	-
Daniel Lopez & Gina Amatangelo	0.00%	Dec-10	5,000	-
Debra Salgae	4.00%	Febr-09	1,000	-
Dr. Charles Conlon	1.00%	Febr-09	25,000	-
Eliot Lee	5.00%	Sep-09	1,000	-
Charles A. Gonzalez	0.00%	Oct-09	1,000	-

(Continued)

ACCION TEXAS, INC.

Notes to Combined Financial Statements

December 31, 2008

(5) Notes Payable (continued)

<u>Lender</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance 12/31/2008</u>	<u>Collateral</u>
Episcopal Church in the USA	4.00%	Sep-11	\$ 250,000	-
Frost National Bank	4.00%	Dec-09	100,000	-
Harry Shafer	4.00%	Oct-09	2,000	-
Hector Noriega	4.50%	Jul-12	20,000	-
International Bank of Commerce	6.25%	Nov-09	25,000	-
Inwood National Bank	8.00%	Oct-09	30,109	-
Jefferson State Bank	4.00%	Feb-09	60,000	-
JP Morgan Chase	7.75%	Dec-11	1,025,000	-
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	-
Opportunity Finance Network	3.00%	Jan-18	2,500,000	-
Raul Rafael Barajas & Laquitez	3.50%	Sep-15	20,000	-
Raza Development Fund	7.00%	Sep-09	500,000	-
River City Capital Corporation	3.50%	Nov-09	120,778	-
Rose Mary Fry	4.50%	Aug-09	1,000	-
Seton Enablement Fund	3.00%	Dec-10	51,498	-
Sisters of Charity of the Incarnate Word	2.00%	Jun-10	100,000	-
Sisters of Inca Word & Blessed Sacrament	4.50%	Aug-09	310,000	-
Sisters of St. Dominic	2.00%	Nov-10	50,000	-
Sisters of the Incarnate Word - Corpus Christi	5.00%	Aug-09	200,000	-
Society of the Divine Word	3.00%	Mar-10	50,000	-
Southside Bank	.96%	Mar-13	20,000	-
Sterling Bank	5.50%	Feb-09	75,000	-
Sterling Bank	5.50%	Mar-09	150,000	-
Texas Bank and Trust Co.	3.00%	Mar-11	25,000	-
The Congregation of the Sister of C.I.W.	2.00%	Jun-10	100,000	-

(Continued)

ACCION TEXAS, INC.

Notes to Combined Financial Statements

December 31, 2008

(5) Notes Payable (continued)

<u>Lender</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance 12/31/2008</u>	<u>Collateral</u>
Small Business Association	5.00%	Jul-10	\$ 142,051	21,307
Small Business Association	3.12%	Sep-11	243,047	36,457
Small Business Association	.075%	Jun-16	449,153	67,372
Small Business Association	4.63%	Jul-17	717,983	107,697
USDA	0.00%	Apr-34	454,074	-
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-09	1,000	-
			<u>\$ 15,886,990</u>	<u>232,833</u>

Scheduled principal payments of notes payable are as follows:

Year ending December 31,

2009	\$ 3,960,399
2010	1,743,280
2011	4,375,009
2012	307,636
2013	1,435,136
Thereafter	4,065,530
	<u>\$ 15,886,990</u>

ACCION TEXAS, INC.

Notes to Combined Financial Statements

December 31, 2008

(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 4.50% and payment of interest is required quarterly and semi-annually. Interest payments are current at December 31, 2008. Equity equivalents consist of the following loans:

Guaranty Bank	\$ 100,000
Guaranty Bank	100,000
Guaranty Bank	500,000
Guaranty Federal Bank	1,000,000
Raza Development Fund	100,000
Raza Development Fund	200,000
Wells Fargo Bank	250,000
Wells Fargo CDC	250,000
	<u>\$ 2,500,000</u>

(7) Restrictions on Net Assets

Temporarily restricted net assets are available for the following purposes:

For subsequent years' activities:

Texas Capital Access Fund	\$ 19,573
The Rees-Jones Foundation – West Dallas Office	180,000
CDFI	1,000,000
Hurricane Ike Relief	200,685
United Way-Houston Opportunity Fund	225,000
Capital One IDA Program	<u>44,351</u>

Subtotal 1,669,609

For required reserves:

Small Business Administration 378,828

\$ 2,048,437

(Continued)

ACCION TEXAS, INC.

Notes to Combined Financial Statements

December 31, 2008

(7) Restrictions on Net Assets (continued)

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:

Hurricane Ike Relief	\$ <u>56,815</u>
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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 \$57,604 in 2008.

(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 \$250,000. 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, 2008, the largest two sources of financing, Community Development Financial Institutions Fund and Small Business Administration, represented approximately 17% of notes payable and equity equivalents.

ACCION TEXAS, INC.

Notes to Combined Financial Statements

December 31, 2008

(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 2013. Lease expense charged to operations for the year ended December 31, 2008 was \$50,265.

Future minimum lease payments under the operating leases in excess of one year as of December 31, 2008 are:

2009	\$ 65,439
2010	70,910
2011	40,036
2012	8,798
2013	<u>2,134</u>
	\$ <u>187,317</u>

(12) Fair Value of Financial Instruments

At December 31, 2008 and 2007 estimated fair values and carrying amounts of financial instruments, including cash and cash equivalents, microenterprise loans receivable, accounts payable, accrued and other liabilities, notes payable, and equity equivalents are identical.

(13) Loan Sale Agreement

ACCION and AT Microloans I LLC have entered into agreements with Citibank, National Association (Citi) for the periodic sale to Citi of loans originated by ACCION. The aggregate loan acquisition price of all loans under the agreements shall not exceed thirty million dollars. At December 31, 2008, approximately \$1,320,000 in loans had been sold to Citi under the agreement.

ACCION retains a participation in the expected cash flows and losses of the portfolio sold to Citi. It also services the loans. At December 31, 2008, the remaining participation in loans sold to Citi was \$109,483 which is reflected in the accompanying combined statement of financial position as participation in Citi portfolio.

SINGLE AUDIT COMPLIANCE INFORMATION

ACCION TEXAS, INC.

Schedule of Federal Awards

Year ended December 31, 2008

<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>US Small Business Administration</u>				
Microloan Demonstration Program - Grant	59.046	SBA-HQ 03 Y 01 00	\$ 430,616	430,616
Microloan Program - Loans	59.046	375-138-4009	2,250,000	1,588,213
Microloan Program - Loans	59.046	489-163-4204	<u>500,000</u>	<u>510,373</u>
Total US Small Business Administration				<u>2,529,202</u>
<u>US Department of Housing and Urban Development (HUD)</u>				
RHED-2005 Support for Operations	14.252	RH 05 TX I 40520	216,000	32,642
<u>U.S. Department of Commerce</u>				
Section 209 Economic Adjustment Program Passed through City of El Paso through North American Development Bank	11.307	2001-039-TX-P	<u>100,000</u>	<u>60,221</u>
Total Department of Housing and Urban Development				<u>92,863</u>
<u>Economic Development Administration</u>				
Public Work and Economic Development Program	11.300	EDA 08-04-04168	<u>720,000</u>	<u>202,852</u>
Total Federal Awards				<u>\$ 2,824,917</u>

See independent auditors' report on supplementary data.

ACCION TEXAS, INC.

Notes to Schedule of Federal Awards

Year ended December 31, 2008

(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, 2008. 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>
CDFI – Microloan Support Program	21.020	\$ N/A	1,700,000
Small Business Administration Microloan Demonstration Program	59.046	2,098,586	1,552,234
Department of Agriculture	10.767	N/A	<u>454,074</u>

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CERTIFIED PUBLIC ACCOUNTANT
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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. and subsidiary as of and for the year ended December 31, 2008, and have issued our report thereon dated March 13, 2009. 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.

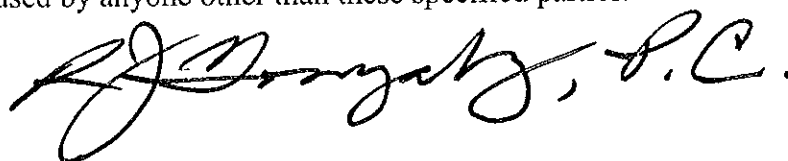
A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

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.

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

March 13, 2009

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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. and subsidiary 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, 2008. 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. and subsidiary 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, 2008.

Internal Control Over Compliance

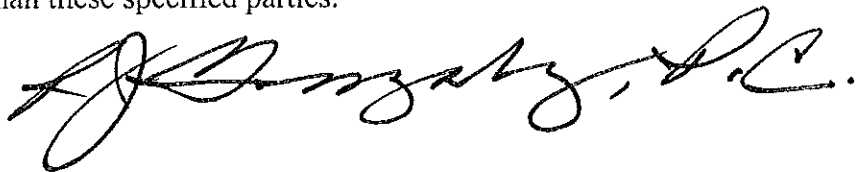
The management of ACCION Texas, Inc. and subsidiary is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered ACCION Texas, 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.

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

March 13, 2009

ACCION TEXAS, INC.

Schedule of Prior Audit Findings and Questioned Costs

Year ended December 31, 2008

<u>Program</u>	<u>Prior Year's Finding/Noncompliance</u>	<u>Questioned Costs</u>
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	None.	
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ACCION TEXAS, INC.

Schedule of Findings and Questioned Costs

Year ended December 31, 2008

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