

The logo for atkinson, featuring the word "atkinson" in a lowercase, serif font. A small green dot is positioned below the letter "i".

atkinson

A large, light green circle is positioned on the left side of the page, partially overlapping a larger, light gray circle that spans the background.

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**ACCION AND
SUBSIDIARIES**

**CONSOLIDATED FINANCIAL
STATEMENTS AND
REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS**

December 31, 2018 and 2017

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CERTIFIED PUBLIC ACCOUNTANTS | CONSULTANTS

CONTENTS

	Page
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS	1-2
CONSOLIDATED FINANCIAL STATEMENTS	
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION	3
CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS	4
CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES	5
CONSOLIDATED STATEMENTS OF CASH FLOWS	6-7
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS	8-32
SUPPLEMENTARY INFORMATION	
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	33
INDEPENDENT AUDITORS' 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	34-35
INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE	36-37
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	38-39
IDENTIFICATION OF AUDIT PRINCIPAL	40

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
Accion and Subsidiaries

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Accion (a nonprofit organization) and Subsidiaries, which comprise the consolidated statements of financial position as of December 31, 2018 and 2017, and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Accion and Subsidiaries as of December 31, 2018 and 2017, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note A14 to the consolidated financial statements, Accion and Subsidiaries adopted the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-14 *Not for Profit Entities – Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

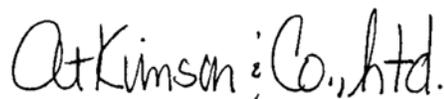
Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance), is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 24, 2019, on our consideration of Accion and Subsidiaries' internal control over financial reporting and on our tests of their 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Accion and Subsidiaries' internal control over financial reporting and compliance.



Atkinson & Co., Ltd.

Albuquerque, New Mexico
April 24, 2019

Accion and Subsidiaries

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

December 31,

ASSETS

	<u>2018</u>	<u>2017</u>
ASSETS		
Cash	\$ 9,679,802	\$ 6,885,678
Accrued interest on small business loans and other receivables	293,334	195,451
Contributions receivable, net of discounts and allowance for doubtful accounts of \$77,200 in 2018 and \$65,779 in 2017	494,401	249,374
Grants receivable	951,591	1,081,160
Small business loans receivable, net	40,095,643	38,635,512
Derivative instrument	165,886	189,106
Prepaid expenses	100,441	15,572
Investment securities	1,090,218	1,163,876
Property, equipment and software, net	2,272,027	1,942,381
Land	1,003,216	1,003,216
Property held for sale	<u>250</u>	<u>250</u>
Total assets	<u>\$ 56,146,809</u>	<u>\$ 51,361,576</u>

LIABILITIES AND NET ASSETS

	2018	2017
LIABILITIES		
Accounts payable	\$ 163,498	\$ 137,679
Accrued payroll	265,900	132,416
Third-party participation on small business loans	-	164,291
Other accrued liabilities	166,286	128,939
Unsecured lines-of-credit	6,600,000	6,600,000
Unsecured notes payable	18,056,112	15,090,203
Secured debt	7,330,207	7,332,653
Total liabilities	32,582,003	29,586,181
NET ASSETS		
Without donor restrictions		
Undesignated	11,114,161	10,966,985
Noncontrolling interest in LLC companies	8,187,194	8,170,705
With donor restrictions	4,263,451	2,637,705
Total net assets	23,564,806	21,775,395
Total liabilities and net assets	\$ 56,146,809	\$ 51,361,576

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

Accion and Subsidiaries

CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

Years Ended December 31,

	2018		
	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND SUPPORT			
Loan interest and fees	\$ 5,514,080	\$ 182,385	\$ 5,696,465
Contributions	625,097	4,133,508	4,758,605
Federal awards	930,334	-	930,334
In-kind contributions	248,508	-	248,508
Other revenue	56,186	-	56,186
Investment income, net	1,731	22,021	23,752
Loss on disposal of assets	(1,339)	-	(1,339)
Net realized/unrealized (losses) gains on investments	-	(95,634)	(95,634)
Total revenue and support	7,374,597	4,242,280	11,616,877
Net assets released from restrictions	2,616,534	(2,616,534)	-
EXPENSES			
Program services	9,004,331	-	9,004,331
Fundraising	502,263	-	502,263
Support	337,361	-	337,361
Total expenses	9,843,955	-	9,843,955
CHANGES IN NET ASSETS FROM OPERATIONS BEFORE NONCONTROLLING INTEREST IN LLC COMPANIES			
	147,176	1,625,746	1,772,922
CHANGES IN NET ASSETS FROM NONCONTROLLING INTEREST IN LLC COMPANIES			
Capital contributions	-	-	-
Gain on LLC activity	136,982	-	136,982
Distributions	(120,493)	-	(120,493)
Total changes in net assets from noncontrolling interest in LLC companies	16,489	-	16,489
CHANGES IN NET ASSETS	163,665	1,625,746	1,789,411
Net assets, beginning of year	19,137,690	2,637,705	21,775,395
Net assets, end of year	\$ 19,301,355	\$ 4,263,451	\$ 23,564,806

2017		
Without Donor Restrictions	With Donor Restrictions	Total
\$ 4,765,183	\$ 181,452	\$ 4,946,635
365,743	1,631,892	1,997,635
1,155,216	-	1,155,216
243,314	-	243,314
30,827	-	30,827
-	19,870	19,870
-	-	-
-	134,123	134,123
6,560,283	1,967,337	8,527,620
1,911,408	(1,911,408)	-
7,676,248	-	7,676,248
419,775	-	419,775
191,135	-	191,135
8,287,158	-	8,287,158
184,533	55,929	240,462
1,000,000	-	1,000,000
120,487	-	120,487
(95,163)	-	(95,163)
1,025,324	-	1,025,324
1,209,857	55,929	1,265,786
17,927,833	2,581,776	20,509,609
\$ 19,137,690	\$ 2,637,705	\$ 21,775,395

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

Accion and Subsidiaries

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES

Years Ended December 31,

	2018			Total
	Program Services	Fundraising	Support	
Salaries	\$ 2,800,645	\$ 285,579	\$ 196,295	\$ 3,282,519
Loan loss provision	2,523,222	-	-	2,523,222
Interest	1,136,427	-	-	1,136,427
Professional fees	734,827	77,426	58,271	870,524
Software fees and licensing	305,746	6,437	9,655	321,838
Loan servicing expense	257,336	-	-	257,336
Payroll taxes	210,229	21,437	14,735	246,401
Employee benefits	207,932	21,203	14,573	243,708
Travel	186,450	32,433	-	218,883
Telephone	118,798	8,316	5,716	132,830
Marketing and development	106,465	14,025	-	120,490
Occupancy	94,686	10,298	7,385	112,369
Depreciation and amortization	94,474	9,521	7,527	111,522
Conferences and meetings	56,821	1,148	789	58,758
Miscellaneous expense	48,905	4,512	1,192	54,609
Temporary services	34,488	2,463	12,318	49,269
Supplies	32,689	1,816	1,816	36,321
Insurance	21,268	-	7,089	28,357
Postage	18,594	2,066	-	20,660
Subscriptions and dues	14,329	3,583	-	17,912
Total	<u>\$ 9,004,331</u>	<u>\$ 502,263</u>	<u>\$ 337,361</u>	<u>\$ 9,843,955</u>

2017

Program Services	Fundraising	Support	Total
\$ 2,497,975	\$ 269,079	\$ 110,797	\$ 2,877,851
2,158,307	-	-	2,158,307
1,011,492	-	-	1,011,492
452,220	21,247	11,900	485,367
104,967	5,832	5,832	116,631
187,561	-	-	187,561
191,849	20,666	8,509	221,024
197,732	21,299	8,771	227,802
155,508	15,856	-	171,364
126,553	9,230	3,801	139,584
180,907	8,063	-	188,970
75,516	9,660	5,135	90,311
85,972	11,518	5,897	103,387
34,788	2,191	904	37,883
52,460	12,948	598	66,006
56,284	4,020	20,102	80,406
54,574	3,032	3,033	60,639
17,566	-	5,856	23,422
24,266	2,696	-	26,962
9,751	2,438	-	12,189
<u>\$ 7,676,248</u>	<u>\$ 419,775</u>	<u>\$ 191,135</u>	<u>\$ 8,287,158</u>

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31,

Increase (Decrease) in Cash

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Small business loan payments received	\$ 5,507,277	\$ 5,798,376
Contributions received	4,517,926	1,947,740
Federal awards received	1,059,903	2,225,776
Other cash receipts	140,690	120,089
Payments for salaries, benefits and payroll taxes	(3,627,962)	(3,450,514)
Payments to vendors	(2,261,425)	(1,543,735)
Interest paid	<u>(946,606)</u>	<u>(791,371)</u>
Net cash provided by operating activities	4,389,803	4,306,361
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	718,119	385,443
Purchase of investments	(684,394)	(384,583)
Change in restricted cash for long-term purposes	(45,605)	(1,107)
Purchase of property, equipment and software	(442,507)	(2,733)
Investment in small business loans	(18,733,974)	(21,630,241)
Repayments and recoveries of small business loans	<u>14,750,621</u>	<u>13,937,636</u>
Net cash used in investing activities	(4,437,740)	(7,695,585)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from secured debt	2,653,828	3,723,671
Repayment of secured debt	(2,656,274)	(3,334,597)
Contributions in noncontrolling interests in consolidated LLC companies	-	1,000,000
Proceeds from unsecured notes payable	2,965,000	1,000,000
Repayment of unsecured notes payable	-	(500,000)
Borrowings of unsecured lines-of-credit, net	-	4,000,000
Distributions to noncontrolling interests in consolidated LLC companies	<u>(120,493)</u>	<u>(95,163)</u>
Net cash provided by financing activities	<u>2,842,061</u>	<u>5,793,911</u>
NET INCREASE IN CASH	2,794,124	2,404,687
Cash, beginning of year	<u>6,885,678</u>	<u>4,480,991</u>
Cash, end of year	<u><u>\$ 9,679,802</u></u>	<u><u>\$ 6,885,678</u></u>

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

CONSOLIDATED STATEMENTS OF CASH FLOWS – CONTINUED

Years Ended December 31,

Increase (Decrease) in Cash

	<u>2018</u>	<u>2017</u>
RECONCILIATION OF CHANGES IN NET ASSETS TO NET CASH FROM OPERATING ACTIVITIES		
Changes in net assets from operations	\$ 1,772,922	\$ 240,462
Adjustments to reconcile changes in net assets to net cash provided by operating activities		
Net realized and unrealized losses (gains) on investments	95,634	(134,123)
Gain on LLC activity	136,982	120,487
Depreciation and amortization	111,522	103,387
Loss on disposal of assets	1,339	-
Amortization of note payable closing fee	909	1,090
Loan loss provision	2,523,222	2,158,307
Present value discount and amortization on contributions receivable	(1,673)	(1,213)
Uncollectible contribution expense	16,117	38,566
Donated stock	(10,096)	(20,233)
Change in fair value of derivative instrument	23,220	40,275
(Increases) decreases in operating assets:		
Accounts receivable	(97,883)	601,241
Contributions receivable	(259,471)	(87,248)
Grants receivable	129,569	1,070,560
Prepaid expenses	(84,869)	(4,655)
Increases (decreases) in operating liabilities:		
Accounts payable	25,819	86,235
Accrued payroll	133,484	(119,003)
Other accrued liabilities and third party participation on small business loans	(126,944)	212,226
	<u>\$ 4,389,803</u>	<u>\$ 4,306,361</u>

SUPPLEMENTAL DATA

Refinance of small business loans	<u>\$ 2,154,795</u>	<u>\$ 2,737,275</u>
In-kind revenues and expenses	<u>\$ 248,508</u>	<u>\$ 243,314</u>

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE A – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

A summary of significant accounting policies consistently applied in the preparation of the accompanying financial statements follows:

1. Organization

Accion, formerly ACCION New Mexico, Inc., was organized in March 1994 as an independent, private, New Mexico nonprofit corporation. Its sole program provides microenterprises and small businesses in New Mexico, Arizona, Colorado, Nevada, and Texas with credit and business support not otherwise available from the commercial lending sector. Accion's operations are subsidized by contributions from foundations and other grantors, individuals, banks, and other corporate contributors. Accion licenses its name from a supporting organization, Accion, U.S. Network.

During 2015, Accion was approved to be a Community Advantage (CA) Pilot Loan Program Lender with the U.S. Small Business Administration. As an approved lender, Accion is required to maintain a loan loss reserve bank account of a minimum of 5% of the unguaranteed portion of the CA loan portfolio. The deposits in the loan loss reserve account are required to be maintained in a separate bank account. At December 31, 2018 and 2017, the unguaranteed CA loan portfolio was \$855,966 and \$553,463, respectively, and the required loan loss reserve account was \$46,000 and \$40,000, respectively. Accion was in compliance with the loan loss reserve requirement.

Accion is managing member of several New Mexico limited liability companies (LLC). The purpose of each LLC is to further the mission of Accion by the formation of capital to be deployed by Accion. Accion holds a fifty-one percent (51%) voting interest in each LLC. The other members are nonmanaging members who have a voting interest of forty-nine percent (49%). Members share net income, gains, net losses, and distributions in accordance with their percentage interests of the aggregate capital accounts. Each LLC has a dissolution date unless the operating agreements are amended to extend the term.

Accion is also managing member of a Colorado limited liability company (ACCION 2014E LLC). The purpose of the LLC is to further the mission of Accion by the formation of capital to be deployed by Accion. Nonmanaging members' units do not have voting rights, except as otherwise agreed. Members share net income, gain, net loss, and distributions of the LLC in accordance with their percentage of units. The LLC has a dissolution date unless the operating agreements are amended to extend the term.

The noncontrolling activities of the LLCs are as follows:

Accion and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

December 31, 2018 and 2017

NOTE A – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

1. Organization – Continued

	ACCION NM 2007A, LLC	ACCION NM 2011B, LLC	ACCION NM 2011C, LLC	ACCION NM 2013D, LLC	ACCION 2014E, LLC	ACCION 2017G, LLC	Total
Formation date	August 2007	December 2011	December 2011	August 2013	February 2014	August 2017	
Dissolution date	December 2022	December 2021	December 2021	December 2026	December 2023	December 2027	
Balance at December 31, 2016	\$ 1,200,194	\$ 250,022	\$ 255,020	\$ 3,044,960	\$ 2,395,185	\$ -	\$ 7,145,381
Contributions	-	-	-	-	-	1,000,000	1,000,000
Distributions	-	-	(5,019)	(44,959)	(45,185)	-	(95,163)
Net income	<u>1</u>	<u>1</u>	<u>5,000</u>	<u>59,992</u>	<u>47,000</u>	<u>8,493</u>	<u>120,487</u>
Balance at December 31, 2017	1,200,195	250,023	255,001	3,059,993	2,397,000	1,008,493	8,170,705
Distributions	-	-	(5,000)	(60,000)	(47,000)	(8,493)	(120,493)
Net income	<u>1</u>	<u>1</u>	<u>5,000</u>	<u>59,992</u>	<u>47,000</u>	<u>24,988</u>	<u>136,982</u>
Balance at December 31, 2018	<u>\$ 1,200,196</u>	<u>\$ 250,024</u>	<u>\$ 255,001</u>	<u>\$ 3,059,985</u>	<u>\$ 2,397,000</u>	<u>\$ 1,024,988</u>	<u>\$ 8,187,194</u>

The accompanying consolidated financial statements include the accounts of Accion and its Subsidiaries listed in the above table (collectively the Company). All material intercompany accounts and transactions have been eliminated.

2. Federal Income Taxes

Accion is exempt from federal income tax under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3), except to the extent it has unrelated business income. Accion had no material unrelated business taxable income for the years ended December 31, 2018 and 2017. The 2007A LLC, 2011B LLC, 2011C LLC, 2013D LLC, 2014E LLC and 2017G LLC, all pass-through taxable entities, had no material taxable income in 2018 or 2017.

Accion has adopted the provision of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 740, *Income Taxes*. There were no uncertain tax positions taken by Accion or any of the limited liability companies for the years ended December 31, 2018 and 2017. Accion's policy is to classify income tax penalties and interest, when applicable, according to their natural classification. Under the statute of limitations, Accion's tax returns and each respective LLC's tax returns are no longer subject to examination by tax authorities for years prior to 2015.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

December 31, 2018 and 2017

NOTE A – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

3. Use of Estimates

The preparation of the accompanying consolidated financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results may differ from those estimates. It is reasonably possible that conditions which existed at the date of the consolidated financial statements could change in the near term due to current volatility in market and economic conditions. Such future changes, if significant, could lead to changes in estimates used in calculating the allowance for loan losses and uncollectible contributions receivable. Changes in those estimates resulting from continuing changes in the economic environment will be reflected in the consolidated financial statements in future periods.

4. Cash

For purposes of the accompanying consolidated statements of cash flows, Accion considers all highly liquid instruments with original maturities of three months or less to be cash, unless restricted for long-term purposes by a donor. Cash includes cash on hand, cash in banks, and money market accounts held with a brokerage firm.

5. Concentrations of Risk

Financial instruments that potentially subject Accion to concentration of credit risk include cash balances and investment accounts. Accion's cash is held with various financial institutions. At times, such amounts may exceed Federal Deposit Insurance Corporation limits (currently \$250,000); insurance limits on investment accounts vary by investment brokerage firm and by type of investment. Accion limits the amount of credit exposure with any one financial institution and believes that no significant credit risk exists with respect to its cash balances and investment accounts.

Additionally, financial instruments that potentially subject Accion to credit risk are primarily loans receivable. See Note E for all policies concerning credit risk. Accion provides micro and small business lending to qualifying small business entities in New Mexico, Arizona, Colorado, Nevada and Texas. Accion considers these locations as geographic concentrations potentially subject to risk.

6. Investments

Investments are carried at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Realized gains and losses are recorded using the specific identification method upon the sale of investment assets. The fair value of investments is subject to ongoing fluctuation. The amount ultimately realized upon disposition will differ from the amounts reported in these consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

December 31, 2018 and 2017

NOTE A – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

7. Accounts and Microenterprise and Small Business Loans Receivable

The allowance for loan losses is increased by charges to income and decreased by charge-offs, net of recoveries. Loan losses (charge-offs) are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed or 180 days delinquency, whichever is first. Repossessed collateral is reported at net realizable value on or soon after acquisition based on an evaluation completed on the collateral. Foreclosed real property is reported at market value less sales costs upon official acquisition based on the average value of the market analyses or appraisal value of the property. Management's periodic evaluation of the adequacy of the allowance is based on Accion's past and current loan-loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, and estimated value of any underlying collateral and current economic conditions.

The provision for loan losses in the statements of activities and changes in net assets results from the combination of an estimate by management of loan losses that occurred during the current period and the ongoing adjustment of estimates of losses occurring in prior periods. Because of these factors, it is reasonably possible that the allowances for losses on loans and the valuation of foreclosed real estate may change materially in the near term. While management uses available information to recognize losses on loans, future additions or reductions to the allowances may be necessary based on changes in local economic conditions.

Accrual of interest on a loan is discontinued when the loan is considered delinquent. A loan is considered delinquent when a payment is not made within 30 days of the scheduled due date. Uncollectible interest previously accrued is charged off by means of a charge to interest income. Income is subsequently recognized only to the extent cash payments are received until, in management's judgment, the borrower's ability to make periodic interest and principal payments is back to normal, in which case the loan is returned to accrual status.

Loans that have been modified and economic concessions that have been granted to borrowers who have experienced financial difficulties are considered troubled debt restructurings (TDR). These concessions typically would result from Accion's loss mitigation activities and may include suspension of interest, payment extensions, forgiveness of principal, forbearance, and other actions. Certain TDRs are classified as nonperforming at the time of restructuring and typically are returned to performing status after considering the borrower's sustained repayment performance for a reasonable period.

When Accion modifies loans in a TDR, it evaluates any possible impairment similar to other impaired loans based on the present value of expected future cash flows, discounted at the contractual interest rate of the original loan agreement, or uses the current fair value of collateral, less selling costs for collateral dependent loans. If Accion determines that the value of the modified loan is less than the recorded investment in the loan (net of previous charge-offs, deferred loan fees or costs and unamortized premium or discount), impairment is recognized through an allowance estimate or a charge-off to the allowance. In periods subsequent to modification, Accion evaluates TDR's, including those that have payment defaults, for possible impairment and recognizes impairment through the allowance.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

December 31, 2018 and 2017

NOTE A – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

8. Derivative Financial Instrument

Accion has an agreement used to minimize the amount of loss Accion could be exposed to by nonperforming participation loans. See Note F. Under generally accepted accounting principles, the agreement is treated as a derivative financial instrument of which the fair value is reported as an asset in the accompanying consolidated statements of financial position. The change in fair value is recognized as an addition to or deduction from net assets in the accompanying consolidated statements of activities and changes in net assets. The derivative is considered a Level 3 investment within the fair value hierarchy.

9. Property, Equipment and Software

Property, equipment and software are stated at cost. Accion capitalizes all acquisitions greater than \$2,500 for the years ended December 31, 2018 and 2017. Donated property is recorded at estimated fair value as of the date of donation. Depreciation is provided for all depreciable assets on a straight-line basis over the estimated useful lives of the assets ranging from 3 to 40 years and is allocated to each functional category based on utilization. Land is not depreciated. Depreciation and amortization expense for the years ended December 31, 2018 and 2017, was \$111,522 and \$103,387, respectively.

10. Net Assets

The accompanying consolidated financial statements are prepared in accordance with generally accepted accounting principles for nonprofit organizations. Under these provisions, net assets, revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of Accion and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – net assets that are not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Board of Directors. No designations have been made for specific purposes at December 31, 2018 and 2017.

Net Assets With Donor Restrictions – net assets that are subject to donor-imposed stipulations. Some donor-imposed restrictions are temporary in nature, as such those will be met either by actions of Accion and/or the passage of time. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

December 31, 2018 and 2017

NOTE A – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES – CONTINUED11. Donated Services

Contributed services are recognized if the services received create or enhance nonfinancial assets or require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. Contributed services are recorded at the fair value of the service received. For the years ended December 31, 2018 and 2017, Accion received and recognized \$68,140 and \$59,764 of donated services and \$180,368 and \$183,550 of imputed interest on below market interest bearing notes, respectively. The recognized donated services included legal, marketing, and other professional services related to the programs, management, and general operations of Accion.

12. Functional Allocation of Expenses

The costs of providing the fundraising activities, various programs, and supporting services have been allocated to functions based on payroll hours, square footage utilized, and/or actual expenses incurred in the accompanying consolidated statements of functional expenses. Allocation of joint costs involving fundraising activities was allocated among the functional categories as Accion satisfied the criteria of FASB ASC 958-720-45, *Not-for-Profit Entities*. Activities involving joint costs typically comprise public relations type events that include both a program and fundraising intent. Joint costs were allocated as follows:

	<u>2018</u>	<u>2017</u>
Program services	\$ 7,253	\$ 18,782
Fundraising	<u>9,105</u>	<u>2,087</u>
Total joint costs	<u>\$ 16,358</u>	<u>\$ 20,869</u>

13. Advertising Costs

Advertising costs are expensed as incurred. Advertising expenses were \$93,301 and \$161,899 for the years ended December 31, 2018 and 2017, respectively, and are included in marketing and development expenses.

14. Change in Accounting Principle

During 2018, the Organization adopted Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classifications, improves disclosures of information about liquidity and availability of resources, and improves disclosure about the type of information provided about expenses and investment returns. The Organization applied the change retrospectively to all periods presented except for the disclosures on liquidity as allowed under the ASU. There was no effect on net asset amounts or classifications as a result of this change.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

December 31, 2018 and 2017

NOTE A – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

15. Reclassified Amounts

Certain 2017 amounts have been reclassified to be consistent with the presentation of 2018 amounts.

16. Subsequent Events

Subsequent events have been evaluated through April 24, 2019, the date the consolidated financial statements were available to be issued, to determine whether such events should be recorded or disclosed in the consolidated financial statements for the year ended December 31, 2018. Management does not believe any subsequent events have occurred that would require accrual or disclosure in these accompanying consolidated financial statements.

NOTE B – LIQUIDITY AND AVAILABILITY

Accion’s operations require financial assets available for general expenditures and for lending purposes, not restricted by donors or others. Following is a summary of liquidity sources available at December 31, 2018, to meet operating and lending liquidity needs during fiscal year 2019:

Total cash	\$ 9,679,802
Less: net assets with donor restrictions	(2,061,780)
Interest and other receivables	293,334
Contribution receivables expected to be received during 2019	571,601
Federal award receivables expected to be received during 2019	951,591
Small business loans receivable estimated to be collected during 2019	17,800,000
Undrawn lines-of-credit and other debit	<u>4,000,000</u>
	<u>\$ 31,234,548</u>

In addition, the majority of the \$2,057,280 net assets with donor restrictions are expected to be released to net assets without donor restrictions available for operations during 2019. Cash is deposited in demand deposit accounts with a number of financial institutions.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

December 31, 2018 and 2017

NOTE C – INVESTMENTS

Investments, including restricted endowment investment securities, are stated at fair value and consist of the following at December 31:

	2018		
	Cost	Fair Value	Unrealized Gain (Loss)
Equity securities	\$ 747,846	\$ 719,799	\$ (28,047)
Mutual funds	151,349	145,037	(6,312)
Government and agency securities	96,423	94,840	(1,583)
Corporate bonds	55,205	52,209	(2,996)
Cash and cash equivalents	78,333	78,333	-
Total	<u>\$ 1,129,156</u>	<u>\$ 1,090,218</u>	<u>\$ (38,938)</u>
	2017		
	Cost	Fair Value	Unrealized Gain (Loss)
Equity securities	\$ 634,062	\$ 803,551	\$ 169,489
Mutual funds	163,540	164,518	978
Government and agency securities	106,228	106,102	(126)
Corporate bonds	55,906	56,977	1,071
Cash and cash equivalents	32,728	32,728	-
Total	<u>\$ 992,464</u>	<u>\$ 1,163,876</u>	<u>\$ 171,412</u>

Investment returns consist of the following at December 31:

	2018	2017
Interest and dividends	\$ 33,977	\$ 30,539
Investment fees	(10,225)	(10,669)
	<u>\$ 23,752</u>	<u>\$ 19,870</u>
	2018	2017
Realized gains	\$ 117,000	\$ 55,580
Unrealized (losses) gains	(212,634)	78,543
	<u>\$ (95,634)</u>	<u>\$ 134,123</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

December 31, 2018 and 2017

NOTE D – CONTRIBUTIONS RECEIVABLE

Contributions received, including unconditional promises to give, are recognized as revenue in the period received and are recorded based on the existence of any donor restrictions.

Contributions receivable that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discount on pledges is computed using the risk-free interest rate applicable to the year in which the promise is received in addition to a credit risk factor determined by management. The effective rate used to discount unconditional promises to give was 8.5% at December 31, 2018 and 2017.

Amortization of the discount is included in contribution revenue. Accion has provided an allowance for doubtful accounts which includes all pledges outstanding greater than 90 days, unless specifically excluded by management, and an additional 2% of the remaining outstanding balances.

Contributions receivable for each of the years succeeding December 31, 2018 and 2017, are expected to occur as follows:

	<u>2018</u>	<u>2017</u>
In less than one year	\$ 565,601	\$ 277,899
In one to five years	<u>6,000</u>	<u>37,254</u>
	571,601	315,153
Less: Allowance for doubtful accounts	(76,308)	(63,214)
Less: Discount to net present value	<u>(892)</u>	<u>(2,565)</u>
	<u>\$ 494,401</u>	<u>\$ 249,374</u>

Contributions receivable are primarily from individuals, major charitable foundations, and local businesses. Contributions made by either Accion's Board of Directors or employees were approximately \$81,750 and \$86,792 as of December 31, 2018 and 2017, respectively, with approximately \$20,198 and \$55,066 recorded as outstanding contribution receivables as of December 31, 2018 and 2017, respectively.

Accion is the beneficiary of several bequests. No value has been assigned to the conditional promises as no formal documentation has been obtained from the donors.

During 2018, Accion was awarded \$4,700,000 of conditional multi-year grants from two foundations. The grants reimburse Accion for certain specified expenses as incurred. Because of these conditions, the full amount of the award was not recorded. Revenues recognized during 2018 for these grants totaled \$2,050,000.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

December 31, 2018 and 2017

NOTE D – CONTRIBUTIONS RECEIVABLE – CONTINUED

During 2015, Accion was awarded a \$750,000 conditional multi-year grant from a foundation. The grant reimburses Accion for certain specified expenses as incurred. Because of these conditions, the full amount of the award was not recorded. Expenses reimbursed to date under this grant totaled \$137,433 in 2018 and \$152,433 in 2017.

NOTE E – SMALL BUSINESS LOANS RECEIVABLE

Loans receivable are recorded at unpaid principal balances, less an allowance for loan losses. Interest on loans is recognized as income based on the daily principal amount outstanding. A loan is considered delinquent when a payment is not made within 30 days of the scheduled due date and is placed on nonaccrual status. When interest accrual is discontinued, all unpaid accrued interest is reversed. Interest income is subsequently recognized only to the extent cash payments are received. An allowance for loan losses is maintained to absorb potential losses inherent in the loan portfolio. When all or a portion of a loan balance reaches 180 days delinquency, it is deemed uncollectible, and the remaining loan balance is charged off to the allowance for loan losses. Recoveries of loans previously charged off are credited to the allowance for loan losses. The provision for loan losses charged to expense is determined monthly based on past delinquency and write-off trends.

Collateral is secured based on the particular loan profile. Generally, collateral on loans will cover only a portion of the loan balance. Impaired loans are recorded at unpaid principal balances, net of an allowance for uncollectible balances, which approximates the present value of expected future cash flows. For loans that are considered impaired, the provision for loan losses charged to expense is determined monthly based on past delinquency and write-off trends. The interest income on impaired loans is recognized in the same manner as noted above.

Activity in the allowance for loan loss follows:

	<u>2018</u>	<u>2017</u>
Balance at beginning of year	\$ 3,638,204	\$ 2,996,662
Provision charged to expense	2,523,222	2,158,307
Loans charged off	(2,109,280)	(1,604,583)
Recoveries	95,988	87,818
	<u> </u>	<u> </u>
Balance at end of year	<u>\$ 4,148,134</u>	<u>\$ 3,638,204</u>

Accion has a secured debt agreement that limits its risk of loan loss on certain loans. Of the loans charged off reflected in the table above, approximately \$232,900 and \$186,700 in 2018 and 2017, respectively, were covered by this agreement resulting in the lender taking losses of approximately \$174,600 and \$140,000 in 2018 and 2017, respectively. See Note F for further details about this agreement.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

December 31, 2018 and 2017

NOTE E – SMALL BUSINESS LOANS RECEIVABLE – CONTINUED

Management evaluates loans for credit quality at least quarterly, but more frequently if certain circumstances occur, such as material new information which becomes available and indicates a potential change in credit risk. Credit quality is based on the aging status of the loan and by payment activity.

When loans have been modified and economic concessions are granted to borrowers who have experienced financial difficulties, these loans are considered a troubled debt restructuring (TDR). Specifically, loans are considered TDRs when, in order to stay current on loan payments, a borrower has needed one payment extension of longer than three months duration, or two payment extensions of three months duration in the life of the loan. If these clients perform pursuant to the modified terms, the loans may be placed back on accrual status, but they will still be reported as TDRs. After a loan is restructured once, it may not be modified again. Total TDRs outstanding as of December 31, 2018 and 2017, were \$1,916,414 and \$1,600,259, respectively. The specific valuation allowance for these TDRs has been calculated based on the reserve factor as calculated by management in the evaluation of the allowance for loan losses. Included within the allowance for TDR loan losses was \$727,434 and \$529,536 at December 31, 2018 and 2017, respectively.

The following table presents informative data for financial receivables regarding their aging at December 31:

	<u>Small business loans receivable</u>	
	<u>2018</u>	<u>2017</u>
Current	\$ 39,970,173	\$ 38,891,352
1-30 Days	1,875,105	1,604,886
<u>Past due and non accrual:</u>		
31-60 Days	625,952	431,016
61-90 Days	563,699	396,605
91-120 Days	464,411	453,015
120-180 Days	744,437	454,421
>180 Days	-	42,421
Total past due and non accrual	<u>2,398,499</u>	<u>1,777,478</u>
Small business loans receivable	44,243,777	42,273,716
Less: Loan loss reserve allowance	<u>(4,148,134)</u>	<u>(3,638,204)</u>
Total small business loans receivable	<u>\$ 40,095,643</u>	<u>\$ 38,635,512</u>
Small business loans receivable past due > 90 days and still accruing interest	<u>\$ -</u>	<u>\$ -</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

December 31, 2018 and 2017

NOTE F – SECURED DEBT AND DERIVATIVE FINANCIAL INSTRUMENT

Accion has an ongoing Memorandum of Agreement (MOA), which was restated and amended in 2013, with a third-party to purchase a portion of loans made in New Mexico by Accion. The third-party will purchase 75% of the principal disbursed for individual loans designated for participation by Accion (participation loans). In accordance with generally accepted accounting principles, this agreement does not qualify as a sale and, therefore, is accounted for as secured debt. The agreement was amended in 2016 to increase funding up to \$7,750,000. Third party losses on participation loans made prior to November 2013 are shared according to the participation percentage. Losses to the third party on participation loans made subsequent to October 2013 are limited to 1% annually of the average outstanding balance.

Accion must repay the secured debt as Accion collects principal payments on the participation loans. This arrangement is considered an embedded derivative, and its fair value of \$165,886 and \$189,106 as of December 31, 2018 and 2017, respectively, is recorded as an asset on the accompanying consolidated statements of financial position. The fair value is estimated based on the present value of the estimated allowance for loan loss on 75% of the participation loans.

Additions are included in other revenue on the accompanying consolidated statements of activities and changes in net assets. Reductions are recorded as decreases in the derivative instrument and other revenue.

The secured debt bears interest, payable monthly as collected on the participation loans, at 3% of the outstanding balances of \$7,330,207 and \$7,306,941 as of December 31, 2018 and 2017, respectively. The remaining interest earned on the participation loans is retained by Accion. Interest expense on the secured debt was \$223,205 and \$218,327 for the years ended December 31, 2018 and 2017, respectively. The MOA does not have a specified expiration date but has a termination provision requiring reasonable notice from either party. In the event of termination, outstanding loans will be handled in the ordinary course of business under the terms of the MOA until the joint portfolio is collected.

Included in secured debt, there are smaller participations with other third parties in Arizona which totaled \$0 and \$25,712 as of December 31, 2018 and 2017, respectively.

NOTE G – PROPERTY, EQUIPMENT AND SOFTWARE

During 2018, the Organization entered into an asset purchase agreement for the purchase of intellectual property in the form of a software application. The purchase price was \$250,000. As part of the purchase agreement, the Organization also agreed to contracts with software developers. The Organization used the purchased software and is developing it to the Organization's specifications. The Organization is planning to launch the software in three phases. Phase 1 was launched during 2018 and is included in computer equipment and software. Phases 2 and 3 are included as software under development.

Accion and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

December 31, 2018 and 2017

NOTE G – PROPERTY, EQUIPMENT AND SOFTWARE – CONTINUED

Property, equipment and software consists of the following at December 31:

	<u>2018</u>	<u>2017</u>
Building	\$ 2,235,906	\$ 2,235,906
Furniture and office equipment	265,306	260,026
Computer equipment and software	410,859	188,704
Software under development	<u>159,685</u>	<u>-</u>
	3,071,756	2,684,636
Less accumulated depreciation	<u>(799,729)</u>	<u>(742,255)</u>
Total	<u>\$ 2,272,027</u>	<u>\$ 1,942,381</u>
Land	<u>\$ 1,003,216</u>	<u>\$ 1,003,216</u>

NOTE H – UNSECURED LINES-OF-CREDIT OUTSTANDING

Accion has unsecured lines-of-credit with financial institutions as follows:

Financial Institution	Limit	Interest Rate	Maturity Date	Restrictive Covenants	Outstanding Balance	
					2018	2017
Bank of the West	\$ 600,000	2.00%	Full payment with written termination	Yes	\$ 600,000	\$ 600,000
First National, a division of Sunflower Bank N.A.	1,000,000	2.00%	August 2019	Yes	1,000,000	1,000,000
First National, a division of Sunflower Bank N.A.	1,000,000	2.00%	October 2020	Yes	1,000,000	1,000,000
Charles Schwab Bank	5,000,000	Greater of LIBOR reference rate + 1.75% or 3%	March 2022	Yes	4,000,000	4,000,000
Mutual of Omaha Bank	1,000,000	2.00%	October 2022 subject to an extension to October 2027	Yes	-	-
Compass Bank	1,000,000	2.50%	June 2022	Yes	-	-
United Business Bank	2,000,000	2.00%	October 2019	Yes	-	-
					<u>\$ 6,600,000</u>	<u>\$ 6,600,000</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

December 31, 2018 and 2017

NOTE H – UNSECURED LINES-OF-CREDIT OUTSTANDING – CONTINUED

Accion was in compliance with all restrictive covenants on the unsecured lines-of-credit.

NOTE I – UNSECURED NOTES PAYABLE

Unsecured notes payable consist of the following at December 31:

	<u>2018</u>	<u>2017</u>
Note payable with Bank of America, due as follows: \$1,000,000 due September 2019, September 2020, September 2021, \$2,000,000 due September 2022, \$1,500,000 due September 2023, with remaining balance due September 2024; 2% interest per annum through February 2017 and 3% interest per annum thereafter.	\$ 7,496,112	\$ 7,495,203
Subordinated note payable with Wells Fargo, full payment due June 2028, 2% interest per annum.	2,425,000	2,425,000
Note payable with The Colorado Health Foundation, due 2023, 1% interest per annum.	1,750,000	-
Note payable with Washington Federal, due December 2020, 2.5% interest per annum.	1,500,000	1,500,000
Note payable with Kellogg Foundation, \$200,000 due 2021 - 2025, 1% interest per annum.	1,000,000	1,000,000
Note payable with Piton Foundation, full payment due September 2020, 2% interest per annum.	1,000,000	1,000,000
Subordinated note payable with First Bank, due September 2029, 2% interest per annum.	1,000,000	1,000,000
Subordinated note payable with Compass Bank, due 2025, 2.5% interest per annum.	1,000,000	-
Subordinated note payable with Wells Fargo, due December 2025, 2% interest per annum.	400,000	400,000
Subordinated note payable with Wells Fargo, due September 2026, 2% interest per annum.	250,000	250,000
Note payable with Colorado Department of Local Affairs, due upon mutual agreed terms, 0% interest per annum.	215,000	-

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

December 31, 2018 and 2017

NOTE I – UNSECURED NOTES PAYABLE – CONTINUED

	<u>2018</u>	<u>2017</u>
Note payable with Valero Payment Services Company, an affiliate of DSRM National Bank, full payment due April 2021, 2% interest per annum.	<u>20,000</u>	<u>20,000</u>
	<u>\$ 18,056,112</u>	<u>\$ 15,090,203</u>

At December 31, 2018, future principal repayments are as follows:

2019	\$ 1,000,000
2020	3,715,000
2021	1,220,000
2022	2,200,000
2023	2,950,000
Thereafter	<u>6,971,112</u>
	<u>\$ 18,056,112</u>

Accion incurred \$732,854 and \$609,670 in interest expense for these unsecured notes payable and lines-of-credit for the years ended December 31, 2018 and 2017, respectively. Additionally, Accion also recorded in-kind contributions and in-kind expense totaling \$180,368 and \$183,550 in imputed interest, using rates between 3.25% - 5.25% and 3.25% - 4.25% during the years ended December 31, 2018 and 2017, respectively, to recognize the interest savings benefit realized on zero-percent and below market rate notes.

The terms of the notes payable to the banks and foundations place certain restrictions on Accion, principally to meet certain financial position and performance tests. The primary requirements include minimum capital requirements, minimum loan loss allowance requirements, and maximum bank concentration requirements. At December 31, 2018, Accion was in compliance with all such requirements.

NOTE J – FAIR VALUE MEASUREMENTS

GAAP establishes a framework for measuring fair value. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described as follows:

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

December 31, 2018 and 2017

NOTE J – FAIR VALUE MEASUREMENTS – CONTINUED

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that Accion has the ability to access.

Level 2 Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used from December 31, 2017 through 2018.

Mutual funds: Valued at the net asset value (NAV) of shares held by the respective mutual fund. Net asset value is based on aggregate fair values of all individual shares traded on active markets.

Equity securities: Valued at publicly traded market value.

Embedded derivative instrument: Estimated based on the present value of the estimated allowance for loan loss on 75% of participation loans.

Government and agency securities and corporate and other bonds: Valued at an evaluated price which is based on a compilation of primarily observable market information or a broker quote in a nonactive market.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

December 31, 2018 and 2017

NOTE J – FAIR VALUE MEASUREMENTS – CONTINUED

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although Accion believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Cash is not subject to a fair value measurement but is included in the following tables to reconcile to the consolidated statements of financial position.

Fair values of assets measured are as follows:

Assets at Fair Value as of December 31, 2018

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Government and agency securities:				
Long-term bond	\$ 15,402	\$ 55,597	\$ -	\$ 70,999
Short-term bond	18,097	-	-	18,097
Intermediate-term bond	3,046	2,698	-	5,744
Corporate and other bonds:				
Long-term bond	-	13,024	-	13,024
Intermediate-term bond	-	26,483	-	26,483
Short-term bond	-	12,702	-	12,702
Equity securities:				
Information technology	105,333	-	-	105,333
Financials	110,641	-	-	110,641
Health care	91,364	-	-	91,364
Real estate	96,387	-	-	96,387
Industrials	81,840	-	-	81,840
Consumer discretionary	61,529	-	-	61,529
Consumer staples	55,913	-	-	55,913
Energy	31,445	-	-	31,445
Materials	32,829	-	-	32,829
Utilities	20,071	-	-	20,071
Telecommunication services	32,447	-	-	32,447
Mutual funds:				
Fixed income	145,037	-	-	145,037
Cash	78,333	-	-	78,333
Embedded derivative instrument	-	-	165,886	165,886
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total assets at fair value	<u>\$ 979,714</u>	<u>\$ 110,504</u>	<u>\$ 165,886</u>	<u>\$ 1,256,104</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

December 31, 2018 and 2017

NOTE J – FAIR VALUE MEASUREMENTS – CONTINUED***Assets at Fair Value as of December 31, 2017***

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Government and agency securities:				
Long-term bond	\$ 17,451	\$ 58,394	\$ -	\$ 75,845
Short-term bond	3,018	21,227	-	24,245
Intermediate-term bond	3,183	2,829	-	6,012
Corporate bonds:				
Long-term bond	-	16,371	-	16,371
Intermediate-term bond	-	27,922	-	27,922
Short-term bond	-	12,684	-	12,684
Equity securities:				
Information technology	186,105	-	-	186,105
Financials	119,835	-	-	119,835
Health care	84,803	-	-	84,803
Real estate	84,674	-	-	84,674
Industrials	77,598	-	-	77,598
Consumer discretionary	72,641	-	-	72,641
Consumer staples	56,208	-	-	56,208
Energy	55,323	-	-	55,323
Materials	38,074	-	-	38,074
Utilities	16,381	-	-	16,381
Telecommunication services	11,909	-	-	11,909
Mutual funds:				
Fixed income	164,518	-	-	164,518
Cash	32,728	-	-	32,728
Embedded derivative instrument	-	-	189,106	189,106
Total assets at fair value	<u>\$ 1,024,449</u>	<u>\$ 139,427</u>	<u>\$ 189,106</u>	<u>\$ 1,352,982</u>

The following table sets forth a summary of changes in the fair value of Accion's level 3 assets for the year ended December 31, 2018:

	<u>Embedded Derivative Instrument</u>
Balance, beginning of year	\$ 189,106
Change in fair value	(23,220)
Purchases, sales, and settlements	
Purchases	-
Sales	-
Balance, end of year	<u>\$ 165,886</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

December 31, 2018 and 2017

NOTE K – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted for the following at December 31:

	<u>2018</u>	<u>2017</u>
Restricted for purpose:		
Specified grant expenses	\$ 1,665,879	\$ 186,660
Restricted for time:		
Pledges receivable	473,101	315,153
Less: Allowance for uncollectible unconditional promises to give	(76,308)	(63,214)
Less: Discount on unconditional promises to give	<u>(892)</u>	<u>(2,565)</u>
	<u>2,061,780</u>	<u>436,034</u>
Endowments:		
Subject to Accion's endowment spending policy and appropriation:		
Loan portfolio	1,495,493	1,495,493
General operations	<u>706,178</u>	<u>706,178</u>
Tota endowments	<u>2,201,671</u>	<u>2,201,671</u>
	<u>\$ 4,263,451</u>	<u>\$ 2,637,705</u>

Endowment restricted net assets may be invested in Accion's loan portfolio, cash, or investments, as designated by the donor.

The pledge receivable amounts above for 2018 do not include \$98,500 of pledges that were intended for use in 2018 and therefore are not restricted for time.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

December 31, 2018 and 2017

NOTE K – NET ASSETS WITH DONOR RESTRICTIONS – CONTINUED

Net assets released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by the donors as follows for the years ended December 31:

	<u>2018</u>	<u>2017</u>
Restricted for time and/or purpose:		
Specified grant expenses	\$ 708,213	\$ 183,399
Various grants and donations	694,447	1,111,498
Restricted for time:		
Pledges receivable	<u>1,105,102</u>	<u>281,066</u>
	<u>2,507,762</u>	<u>1,575,963</u>
Restricted-purpose spending-rate distributions and appropriations:		
General operations	<u>108,772</u>	<u>335,445</u>
	<u>108,772</u>	<u>335,445</u>
	<u>\$ 2,616,534</u>	<u>\$ 1,911,408</u>

NOTE L – ENDOWMENT FUNDS1. Interpretation of Relevant Law

Accion's Board of Directors has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) adopted by the State of New Mexico during 2009 as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, Accion classifies as endowment restricted net assets (1) the original value of gifts donated to the endowment, (2) the original value of subsequent gifts to endowments, and (3) accumulations to the endowment funds made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. Absent any donor restrictions, investment income will be classified as unrestricted. Accion's endowments include only donor-restricted endowment funds.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

December 31, 2018 and 2017

NOTE L – ENDOWMENT FUNDS – CONTINUED1. Interpretation of Relevant Law – Continued

The following table reflects endowment restricted net assets subject to UPMIFA:

Endowment Net Asset Composition by Type of Fund as of December 31, 2018

	Without Donor Restriction	With Donor Restriction	Total
Donor-restricted endowment funds	\$ -	\$ 2,201,671	\$ 2,201,671
Total funds	<u>\$ -</u>	<u>\$ 2,201,671</u>	<u>\$ 2,201,671</u>

Changes in Endowment Net Assets for the Fiscal Year Ended December 31, 2018

	Without Donor Restriction	With Donor Restriction	Total
Endowment net assets, beginning of year	\$ -	\$ 2,201,671	\$ 2,201,671
Investment return:			
Investment income	-	214,425	214,425
Net depreciation (realized and unrealized)	-	(95,701)	(95,701)
	-	2,320,395	2,320,395
Contributions	-	-	-
Appropriation of endowment assets for expenditure	-	(108,772)	(108,772)
Other changes:			
Administration fees	-	(9,952)	(9,952)
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 2,201,671</u>	<u>\$ 2,201,671</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

December 31, 2018 and 2017

NOTE L – ENDOWMENT FUNDS – CONTINUED1. Interpretation of Relevant Law – Continued***Endowment Net Asset Composition by Type of Fund as of December 31, 2017***

	Without Donor Restriction	With Donor Restriction	Total
	<u> </u>	<u> </u>	<u> </u>
Donor-restricted endowment funds	\$ -	\$ 2,201,671	\$ 2,201,671
Total funds	<u>\$ -</u>	<u>\$ 2,201,671</u>	<u>\$ 2,201,671</u>

Changes in Endowment Net Assets for the Fiscal Year Ended December 31, 2017

	Without Donor Restriction	With Donor Restriction	Total
	<u> </u>	<u> </u>	<u> </u>
Endowment net assets, beginning of year	\$ -	\$ 2,164,671	\$ 2,164,671
Investment return:			
Investment income	-	210,893	210,893
Net appreciation (realized and unrealized)	<u>-</u>	<u>134,732</u>	<u>134,732</u>
	-	2,510,296	2,510,296
Contributions	-	37,000	37,000
Appropriation of endowment assets for expenditure	-	(335,445)	(335,445)
Other changes:			
Administration fees	<u>-</u>	<u>(10,180)</u>	<u>(10,180)</u>
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 2,201,671</u>	<u>\$ 2,201,671</u>

	<u>2018</u>	<u>2017</u>
Endowment restricted net assets		
The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or by UPMIFA	<u>\$ 2,201,671</u>	<u>\$ 2,201,671</u>
Total endowment restricted net assets	<u>\$ 2,201,671</u>	<u>\$ 2,201,671</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

December 31, 2018 and 2017

NOTE L – ENDOWMENT FUNDS – CONTINUED

2. Investment and Spending Objectives

Endowment funds may be invested in Accion’s loan portfolio, cash, or investments, as designated by the donor. Portions of Accion’s investment balances meet liquidity needs and preserve capital. Investment and interest income earned on endowment restricted assets are considered unrestricted and are available for spending. The overall return goal targets an excess of the current bond yield while protecting principal. The primary risk control mechanism for endowment funds is asset allocation, and within the asset allocation, diversification between asset classes. Currently, the target asset allocation model for endowment funds is 60% equities, 25% fixed income, and 15% alternative investments (such as gold and real estate). These targets were met during the current year. Investment advisors have been retained for investment purposes and the investment committee periodically monitors performance.

The following table reflects the assets held for the endowment funds:

	<u>2018</u>	<u>2017</u>
Restricted endowment investment securities	\$ 706,178	\$ 706,178
Investments in loan portfolio	<u>1,495,493</u>	<u>1,495,493</u>
	<u>\$ 2,201,671</u>	<u>\$ 2,201,671</u>

From time to time, the fair value of assets associated with individual donor-restricted funds may fall below the level that the donor requires Accion to retain as a fund of perpetual duration. There was no deficiency in endowment funds at December 31, 2018 and 2017.

NOTE M – EMPLOYEE SAVINGS PLAN

Accion sponsors a SIMPLE IRA tax-deferred saving incentive match plan, which covers full-time employees who earned at least \$5,000 with Accion in the previous calendar year. Accion will match up to 3% of an employee’s annual compensation, and these contributions are 100% vested. Employee contribution limits for the years ended December 31, 2018 and 2017, as established by the Internal Revenue Service, were \$12,500. For the years ended December 31, 2018 and 2017, Accion’s expense for the plan was \$46,227 and \$45,569, respectively.

NOTE N – CONTINGENCIES

Expenditures under grant programs may be subject to program or compliance audits by the grantor which may result in disallowed program expenditures. There are no such audits in progress at December 31, 2018.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

December 31, 2018 and 2017

NOTE O – SERVICES RECEIVED FROM AN AFFILIATE

Accion is a member of the Accion, U.S Network (The Network), a nationwide micro and small-business lending network consisting of four individually governed and managed nonprofit Accion branded member organizations that each serve specified geographies and collectively serve thousands of clients nationwide.

The Network licenses the Accion brand from Accion International and sublicenses the brand to the four Network member organizations for an annual fee. All of the Network member organizations are represented in the governance of The Network. The Network raises funds that enable it to a) provide financial support and services to the member organizations b) fund the out-of-pocket costs of building technology and infrastructure to serve the operating processes of its members, and c) provide information sharing and establish and monitor required minimum member operating standards. Accion works collaboratively with The Network and the other Network member organizations to develop and improve the efficiency and effectiveness of key processes, together with supporting technology designed to benefit all Network members. During December 2016, Accion also entered into a service and support consulting agreement for the cloud-based loan application and workflow platform developed by The Network and used by Accion. The Network and each Network member organization accounts for its own costs related to these collaborative development activities. The Network charged Accion license and consulting fees totaling \$246,341 and \$90,150 in 2018 and 2017, respectively.

NOTE P – NEW ACCOUNTING STANDARDS

1. The Financial Accounting Standards Board (FASB) has issued Accounting Standards Update (ASU) 2014-09, (Topic 606): *Revenue from Contracts with Customers*, along with several subsequent amendments to the ASU that was designed to develop a common revenue standard for U.S. GAAP and international standards. The core principle of this ASU is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Steps to apply the core principle are as follows:

1. Identify the contract(s) with the customer
2. Identify the separate performance obligations
3. Determine the transaction price
4. Allocate the transaction price
5. Recognize revenue when a performance obligation is satisfied

Several new disclosures will also be required to include sufficient information to enable users of the financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. This ASU will be effective for annual periods beginning after December 15, 2018.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

December 31, 2018 and 2017

NOTE P – NEW ACCOUNTING STANDARDS – CONTINUED

2. In February 2016, the Financial Accounting Standards Board issued ASU 2016-02 *Leases* (FASB Codification Topic 842) which significantly changes the accounting for leases in the financial statements of lessees and supersedes FASB Codification Topic 840. With this update, GAAP now will require lessees under operating leases to recognize a liability in the statement of financial position (balance sheet) and an asset representing its right to use the underlying asset for the lease term. For leases with a term of 12 months or less, a lessee is permitted to make an accounting election not to recognize lease assets and lease liabilities. If a lessee makes this election, it should recognize lease expense for such leases generally on a straight-line basis over the lease term. Cash flows related to operating leases will continue to be reported within operating activities on the statements of cash flows. This ASU is effective for fiscal years beginning after December 15, 2019.

3. In June 2016, the FASB issued ASU 2016-13 *Financial Instruments – Credit Losses* which requires a financial asset or group of financial assets measured at amortized cost to be presented at the net amount expected to be collected. Using judgement in determining relevant information and estimation methods, the measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability for the reported amount. In November 2018, the FASB issued ASU 2018-19 *Codification Improvements to Topic 326, Financial Instruments – Credit Losses* which provides transition guidance and operating lease guidance. This ASU is effective for fiscal years beginning after December 15, 2021 for not-for-profit entities, but early adoption is permitted.

4. In November 2016, the FASB issued ASU 2016-18 *Restricted Cash* which requires that the statements of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Under this standard, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statements of cash flows. This ASU is effective for fiscal years beginning after December 15, 2018, but early adoption is permitted.

5. In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities* (FASB Codification Topic 958) to clarify and improve the scope and the accounting guidance for contributions received and contributions made. The amendments in this update clarify the criteria for evaluating whether transactions should be accounted for as contributions or as exchange transactions and determining whether a contribution is conditional.

The amendments in this ASU are effective for annual financial statements issued for fiscal years beginning after December 15, 2018, with respect to contributions received and fiscal years beginning after December 15, 2019, with respect to contributions made. Early adoption is permitted.

As of the date of these financial statements, management has evaluated these new ASUs and is working to implement the applicable guidance and requirements in the period the ASUs become effective.

SUPPLEMENTARY INFORMATION

Accion and Subsidiaries

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended December 31, 2018

Federal Grantor - Pass-Through Grantor - Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Total Federal Expenditures
Department of Treasury			
CDFI Cluster			
Community Development Financial Institutions Fund Program Financial Assistance - 181FA023153	21.020		\$ 850,000
Total Department of Treasury			850,000
Department of Commerce			
Economic Development Cluster			
Economic Development Administration EA Assistance - Implementation of Presto Loan Program - 08-79-04982	11.307		\$ 77,957
Total Department of Commerce			77,957
Department of Agriculture			
Rural Business Development Grant Program - 36-001-850417347	10.351		\$ 2,377
Total Department of Agriculture			2,377
Total Expenditures of Federal Awards			\$ 930,334

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE A – SIGNIFICANT ACCOUNTING POLICY

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Accion and Subsidiaries and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in, the preparation of the basic consolidated financial statements. Accion elected not to use the 10% de minimis indirect cost rate.

NOTE B – FEDERAL AWARD EXPENDITURES

The accompanying schedule of expenditures of federal awards includes \$850,000 that was expended in the form of issuing small business loans receivable which are included in the small business loans receivable balance.

INDEPENDENT AUDITORS' 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 and Subsidiaries

We have audited, in accordance with the 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, the consolidated financial statements of Accion and Subsidiaries (Accion), which comprise the consolidated statement of financial position as of December 31, 2018, and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows, and the related notes to the financial statements, and have issued our report thereon dated April 24, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered Accion's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of Accion's internal control. Accordingly, we do not express an opinion on the effectiveness of Accion's internal control.

A *deficiency in internal control* 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

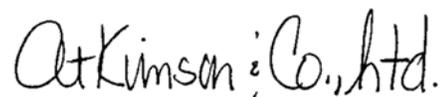
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Accion's consolidated 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Accion's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Accion's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Atkinson & Co., Ltd." in a cursive, slightly slanted script.

Atkinson & Co., Ltd.

Albuquerque, New Mexico
April 24, 2019

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE**

Board of Directors
Accion and Subsidiaries

Report on Compliance for Each Major Federal Program

We have audited Accion and Subsidiaries' (Accion) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Accion's major federal programs for the year ended December 31, 2018. Accion's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Accion's major federal programs based on our audit of the types of compliance requirements referred to above. 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; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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'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 on compliance for each major federal program. However, our audit does not provide a legal determination of Accion's compliance.

Opinion on Each Major Federal Program

In our opinion, Accion complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2018.

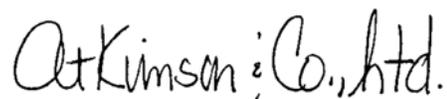
Report on Internal Control Over Compliance

Management of Accion is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Accion's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Atkinson & Co., Ltd.

Albuquerque, New Mexico
April 24, 2019

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended December 31, 2018

I. Summary of Auditors' Results

Financial statements

- A. Type of report the auditor issued on whether the consolidated financial statements were prepared in accordance with GAAP: Unmodified
- B. Internal control over financial reporting:
- Material weaknesses identified Yes___ No X
 - Significant deficiencies identified Yes___ None Reported X
- C. Noncompliance material to the consolidated financial statements noted? Yes___ No X

Federal awards:

- A. Type of auditors' report issued on compliance for major federal programs: Unmodified
- B. Internal control over major programs:
- Material weaknesses identified Yes___ No X
 - Significant deficiencies identified Yes___ None Reported X
- C. Any audit findings disclosed that are required to be reported in accordance with 2CFR 200.516(a)? Yes___ No X

D. Identification of major federal award programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
21.020	Financial Assistance

E. Dollar threshold used to distinguish type A and type B programs: \$750,000

F. Accion and Subsidiaries qualified as a low-risk auditee? Yes X No___

II. Financial Statement Audit Findings

None

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED

For the Year Ended December 31, 2018

III. Findings and Questioned Costs – Major Federal Award Programs

None

IV. Prior Year Financial Statement Audit Findings

None

V. Prior Year Findings and Questioned Costs – Major Federal Award Programs

None

Accion and Subsidiaries

IDENTIFICATION OF AUDIT PRINCIPAL

For the Year Ended December 31, 2018

Audit Principal:	<u>Barbara Lewis, CPA</u>
Name and address of independent accounting firm:	<u>Atkinson & Co., Ltd.</u> <u>6501 Americas Parkway NE</u> <u>Suite 700</u> <u>Albuquerque, New Mexico 87110</u>
Audit period:	<u>Year Ended December 31, 2018</u>
Telephone Number:	<u>(505) 843-6492</u>
Federal Employee ID Number:	<u>85-0211867</u>

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