

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.

Precise.

Personal.

Proactive.

**ACCION AND
SUBSIDIARIES**

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

December 31, 2016 and 2015

atkinson

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	38-40
IDENTIFICATION OF AUDIT PRINCIPAL.....	41

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, 2016 and 2015, 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 auditor's 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, 2016 and 2015, 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.

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, 2017, 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, 2017

Accion and Subsidiaries

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

December 31,

ASSETS

	<u>2016</u>	<u>2015</u>
ASSETS		
Cash and cash equivalents	\$ 4,480,991	\$ 2,762,156
Accounts receivable		
Accrued interest on small business loans	167,275	122,099
Third-party participation on small business loans	626,417	66,917
Other	3,000	1,600
Contributions receivable, net of discounts and allowance for doubtful accounts of \$33,476 in 2016 and \$22,069 in 2015	199,479	182,899
Grants receivable	2,151,720	1,360,000
Small business loans receivable, net	33,101,214	24,388,294
Derivative instrument	229,381	219,844
Prepaid expenses	10,917	29,019
Investment securities	1,009,273	1,130,726
Property and equipment, net	2,043,035	2,354,558
Land	1,003,216	1,003,216
Property held for sale	<u>250</u>	<u>250</u>
Total assets	<u>\$ 45,026,168</u>	<u>\$ 33,621,578</u>

LIABILITIES AND NET ASSETS

	2016	2015
LIABILITIES		
Accounts payable	\$ 51,444	\$ 85,315
Accrued payroll	251,419	157,881
Other accrued liabilities	81,004	53,763
Unsecured lines-of-credit	2,600,000	-
Unsecured notes payable	14,589,113	10,586,957
Secured debt	6,943,579	5,568,062
Total liabilities	24,516,559	16,451,978
NET ASSETS		
Unrestricted		
Unrestricted	10,782,452	8,899,933
Noncontrolling interest in LLC companies	7,145,381	6,038,580
Temporarily restricted	417,105	353,416
Permanently restricted	2,164,671	1,877,671
Total net assets	20,509,609	17,169,600
Total liabilities and net assets	\$ 45,026,168	\$ 33,621,578

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,

	2016			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
REVENUE AND SUPPORT				
Loan interest and fees	\$ 4,386,621	\$ -	\$ -	\$ 4,386,621
Contributions	595,221	1,632,201	287,000	2,514,422
Federal awards	2,167,075	-	-	2,167,075
In-kind contributions	215,669	-	-	215,669
Investment income, net	19,467	-	-	19,467
Other revenue	81,049	-	-	81,049
Net realized/unrealized gains (losses) on investments	29,836	-	-	29,836
Total revenue and support	7,494,938	1,632,201	287,000	9,414,139
Net assets released from restrictions	1,568,512	(1,568,512)	-	-
Write-off of replaced software	(251,117)	-	-	(251,117)
EXPENSES				
Program services	6,245,209	-	-	6,245,209
Fundraising	469,583	-	-	469,583
Support	215,022	-	-	215,022
Total expenses	6,929,814	-	-	6,929,814
CHANGES IN NET ASSETS FROM OPERATIONS BEFORE NONCONTROLLING INTEREST IN LLC COMPANIES				
	1,882,519	63,689	287,000	2,233,208
CHANGES IN NET ASSETS FROM NONCONTROLLING INTEREST IN LLC COMPANIES				
Capital contributions	1,100,000	-	-	1,100,000
Gain on LLC activity	95,352	-	-	95,352
Distributions	(88,551)	-	-	(88,551)
Total changes in net assets from noncontrolling interest in LLC companies	1,106,801	-	-	1,106,801
CHANGES IN NET ASSETS	2,989,320	63,689	287,000	3,340,009
Net assets, beginning of year, as previously reported	14,938,513	353,416	1,877,671	17,169,600
Prior period adjustment, see Note P	-	-	-	-
Net assets, end of year	\$ 17,927,833	\$ 417,105	\$ 2,164,671	\$ 20,509,609

2015			
Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 3,432,251	\$ -	\$ -	\$ 3,432,251
378,917	1,507,531	390,000	2,276,448
1,478,928	-	-	1,478,928
195,886	-	-	195,886
15,749	-	-	15,749
72,595	-	-	72,595
(47,243)	-	-	(47,243)
5,527,083	1,507,531	390,000	7,424,614
1,386,726	(1,386,726)	-	-
-	-	-	-
5,103,936	-	-	5,103,936
286,645	-	-	286,645
243,576	-	-	243,576
5,634,157	-	-	5,634,157
1,279,652	120,805	390,000	1,790,457
1,000,000	-	-	1,000,000
88,577	-	-	88,577
(41,572)	-	-	(41,572)
1,047,005	-	-	1,047,005
2,326,657	120,805	390,000	2,837,462
12,111,856	232,611	1,987,671	14,332,138
500,000	-	(500,000)	-
<u>\$ 14,938,513</u>	<u>\$ 353,416</u>	<u>\$ 1,877,671</u>	<u>\$ 17,169,600</u>

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

Accion and Subsidiaries

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES

Years Ended December 31,

2016

	Program Services	Fundraising	Support	Total
Salaries	\$ 2,293,074	\$ 214,126	\$ 132,412	\$ 2,639,612
Loan loss provision	1,593,902	-	-	1,593,902
Interest	721,164	-	-	721,164
Professional fees	262,592	65,677	5,690	333,959
Marketing and development	174,650	115,798	-	290,448
Employee benefits	182,305	17,024	10,527	209,856
Payroll taxes	180,787	16,882	10,439	208,108
Depreciation and amortization	131,838	10,961	13,223	156,022
Loan servicing expense	132,252	-	-	132,252
Travel	125,466	5,228	-	130,694
Telephone	87,220	4,846	4,846	96,912
Temporary services	61,312	4,379	21,897	87,588
Occupancy	48,290	4,015	4,843	57,148
Conferences and meetings	56,097	-	-	56,097
Supplies	50,104	2,783	2,779	55,666
Equipment rent and maintenance	47,768	2,654	2,654	53,076
Miscellaneous expense	47,303	-	-	47,303
Insurance	17,134	-	5,712	22,846
Postage	20,004	2,223	-	22,227
Subscriptions and dues	11,947	2,987	-	14,934
	\$ 6,245,209	\$ 469,583	\$ 215,022	\$ 6,929,814

2015

Program Services	Fundraising	Support	Total
\$ 1,816,904	\$ 206,657	\$ 147,930	\$ 2,171,491
1,377,381	-	-	1,377,381
554,426	-	-	554,426
180,921	4,207	25,245	210,373
187,045	8,312	-	195,357
150,374	17,104	12,243	179,721
164,374	18,696	13,383	196,453
122,954	10,222	12,331	145,507
134,785	-	-	134,785
100,415	4,184	-	104,599
46,184	2,566	2,566	51,316
48,744	3,482	17,409	69,635
38,525	3,203	3,864	45,592
19,412	-	-	19,412
21,798	1,211	1,206	24,215
45,617	2,534	2,534	50,685
56,300	-	-	56,300
14,594	-	4,865	19,459
11,011	1,224	-	12,235
12,172	3,043	-	15,215
<u>\$ 5,103,936</u>	<u>\$ 286,645</u>	<u>\$ 243,576</u>	<u>\$ 5,634,157</u>

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

Accion and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31,

Increase (Decrease) in Cash and Cash Equivalents

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets from operations	\$ 2,233,208	\$ 1,790,457
Adjustments to reconcile changes in net assets to net cash provided by operating activities		
Net realized and unrealized (gains) losses on investments	(29,836)	47,243
Noncontrolling interest in consolidated LLC investments	95,352	88,577
Write-off of replaced software	251,117	-
Depreciation and amortization	156,022	145,507
Amortization of note payable closing fee	2,156	1,515
Loan loss provision	1,593,902	1,377,381
Present value discount and amortization on contributions receivable	(5,355)	(6,496)
Uncollectible contribution expense	22,479	1,770
Donated stock	-	(13,338)
Change in fair value of derivative instrument	(9,537)	3,337
Changes in other assets and liabilities		
Accounts receivable	(606,076)	(772)
Contributions receivable	(33,704)	54,441
Grants receivable	(791,720)	(486,926)
Prepaid expenses	18,102	(16,581)
Accounts payable	(33,871)	47,210
Accrued payroll	93,538	60,953
Other accrued liabilities	27,241	14,231
Net cash provided by operating activities	2,983,018	3,108,509
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	421,976	364,693
Purchase of investments	(442,936)	(362,836)
Change in restricted cash for long-term purposes	172,249	329,583
Purchase of property and equipment	(95,616)	(193,570)
Investment in small business loans	(21,166,702)	(18,170,317)
Repayments and recoveries of small business loans	10,859,880	9,286,856
Net cash used in investing activities	(10,251,149)	(8,745,591)

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 and Cash Equivalents

	2016	2015
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from secured debt	3,987,248	4,232,485
Repayment of secured debt	(2,611,731)	(3,484,553)
Contributions in noncontrolling interests in consolidated LLC companies	1,100,000	1,000,000
Proceeds from unsecured notes payable	4,000,000	2,000,000
Borrowings (repayments) of unsecured lines-of-credit, net	2,600,000	(1,000,000)
Distributions to noncontrolling interests in consolidated LLC companies	(88,551)	(41,572)
Net cash provided by financing activities	8,986,966	2,706,360
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,718,835	(2,930,722)
Cash and cash equivalents, beginning of year	2,762,156	5,692,878
Cash and cash equivalents, end of year	\$ 4,480,991	\$ 2,762,156

SUPPLEMENTAL DATA

In-kind revenues and expenses	\$ 215,669	\$ 195,886
Interest paid in cash	\$ 558,714	\$ 470,881

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2016 and 2015

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 of ACCION International.

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, 2016 and 2015, the unguaranteed CA loan portfolio was \$286,573 and \$5,993, respectively, and the required loan loss reserve account was \$14,239 and \$2,075, respectively.

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 activity of the LLCs are as follows:

Accion and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

December 31, 2016 and 2015

NOTE A – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

1. Organization – Continued

	<u>ACCION NM 2007A, LLC</u>	<u>ACCION NM 2011B, LLC</u>	<u>ACCION NM 2011C, LLC</u>	<u>ACCION NM 2013D, LLC</u>	<u>ACCION 2014E, LLC</u>	<u>Total</u>
Formation date	August 2007	December 2011	December 2011	August 2013	February 2014	
Dissolution date	December 2022	December 2021	December 2021	December 2026	December 2023	
Balance at December 31, 2014	\$ 1,200,000	\$ 250,001	\$ 255,000	\$ 2,025,230	\$ 1,261,344	\$ 4,991,575
Contributions	-	-	-	-	1,000,000	1,000,000
Distributions	-	-	(5,000)	(25,228)	(11,344)	(41,572)
Net income	<u>26</u>	<u>-</u>	<u>5,001</u>	<u>39,990</u>	<u>43,560</u>	<u>88,577</u>
Balance at December 31, 2015	1,200,026	250,001	255,001	2,039,992	2,293,560	6,038,580
Contributions	-	-	-	1,000,000	100,000	1,100,000
Distributions	-	-	(5,001)	(39,990)	(43,560)	(88,551)
Net income	<u>168</u>	<u>21</u>	<u>5,020</u>	<u>44,958</u>	<u>45,185</u>	<u>95,352</u>
Balance at December 31, 2016	<u>\$ 1,200,194</u>	<u>\$ 250,022</u>	<u>\$ 255,020</u>	<u>\$ 3,044,960</u>	<u>\$ 2,395,185</u>	<u>\$ 7,145,381</u>

The accompanying consolidated financial statements include the accounts of Accion and its Subsidiaries, ACCION NM 2007A, LLC, ACCION NM 2011B, LLC, ACCION NM 2011C, LLC, ACCION NM 2013D, LLC, and ACCION 2014E, LLC (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, 2016 and 2015. The 2007A LLC, 2011B LLC, 2011C LLC, 2013D LLC, and 2014E LLC, all pass-through taxable entities, had no material taxable income in 2016 or 2015.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

December 31, 2016 and 2015

NOTE A – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

2. Federal Income Taxes – Continued

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, 2016 and 2015. 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 2013.

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 and Cash Equivalents

For purposes of the accompanying consolidated statements of cash flows, Accion considers all unrestricted highly liquid instruments with original maturities of three months or less to be cash equivalents, unless restricted for long-term purposes by a donor. Cash and cash equivalents include 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 D 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

December 31, 2016 and 2015

NOTE A – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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 financial statements.

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 are charged against the allowance (charge-offs) 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 and foreclosed real estate, 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 management believes that the borrower's financial condition is such that collection of interest is doubtful. 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 a troubled debt restructuring (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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

December 31, 2016 and 2015

NOTE A – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

7. Accounts and Microenterprise and Small Business Loans Receivable – Continued

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.

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 E. 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 and Equipment

Property and equipment are stated at cost. Accion capitalizes all acquisitions greater than \$2,500 and \$1,000 for the years ended December 31, 2016 and 2015, respectively. 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, 2016 and 2015, was \$156,022 and \$145,507, 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:

Unrestricted Net Assets – 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, 2016 and 2015.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

December 31, 2016 and 2015

NOTE A – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES – CONTINUED10. Net Assets – Continued

Temporarily Restricted Net Assets – net assets that are subject to donor-imposed stipulations that may or will be met by the occurrence of a specific event or the passage of time. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying consolidated statements of activities and changes in net assets as net assets released from restrictions.

Permanently Restricted Net Assets – net assets required to be maintained in perpetuity, with only the income used for operating activities, due to donor-imposed restrictions. These donor-imposed restrictions include endowments for the loan portfolio and operations.

11. 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, 2016 and 2015, Accion received and recognized \$53,219 and \$112,341 of donated services and \$162,450 and \$83,545 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>2016</u>	<u>2015</u>
Program services	\$ 12,986	\$ 12,523
Fundraising	<u>1,443</u>	<u>1,391</u>
Total joint costs	<u>\$ 14,429</u>	<u>\$ 13,914</u>

13. Advertising Costs

Advertising costs are expensed as incurred. Advertising expenses were \$238,834 and \$162,958, of which \$0 and \$85,000 were in-kind, for the years ended December 31, 2016 and 2015, respectively, and are included in marketing and development expenses.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

December 31, 2016 and 2015

NOTE A – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

14. Reclassified Amounts

Certain 2015 amounts have been reclassified to be consistent with the presentation of 2016 amounts.

15. Subsequent Events

Subsequent events have been evaluated through April 24, 2017, 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, 2016. Management believes no material subsequent events have arisen that would require disclosure or accrual in these consolidated financial statements.

NOTE B – INVESTMENTS

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

	2016		
	Cost	Fair Value	Unrealized Gain (Loss)
Equity securities	\$ 572,832	\$ 664,296	\$ 91,464
Mutual funds	158,905	156,402	(2,503)
Government and agency securities	98,157	96,929	(1,228)
Corporate bonds	60,755	60,005	(750)
Cash and cash equivalents	31,641	31,641	-
	<u>\$ 922,290</u>	<u>\$ 1,009,273</u>	<u>\$ 86,983</u>
		2015	
	Cost	Fair Value	Unrealized Gain (Loss)
Equity securities	\$ 447,708	\$ 514,016	\$ 66,308
Mutual funds	324,576	288,499	(36,077)
Cash and cash equivalents	203,890	203,890	-
Government and agency securities	79,588	79,021	(567)
Corporate bonds	47,000	45,300	(1,700)
	<u>\$ 1,102,762</u>	<u>\$ 1,130,726</u>	<u>\$ 27,964</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

December 31, 2016 and 2015

NOTE B – INVESTMENTS – CONTINUED

Investment returns consist of the following at December 31:

	<u>2016</u>	<u>2015</u>
Interest and dividends	\$ 28,947	\$ 29,301
Investment fees	<u>(9,480)</u>	<u>(13,552)</u>
	<u>\$ 19,467</u>	<u>\$ 15,749</u>
	<u>2016</u>	<u>2015</u>
Realized (losses) gains	\$ (26,978)	\$ 4,214
Unrealized gains (losses)	<u>56,814</u>	<u>(51,457)</u>
	<u>\$ 29,836</u>	<u>\$ (47,243)</u>

NOTE C – CONTRIBUTIONS RECEIVABLE

Contributions received, including unconditional promises to give, are recognized as revenue in the period received and are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending 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, 2016 and 2015.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

December 31, 2016 and 2015

NOTE C – CONTRIBUTIONS RECEIVABLE – CONTINUED

Contributions receivable for each of the years succeeding December 31, 2016 and 2015, are expected to occur as follows:

	<u>2016</u>	<u>2015</u>
In less than one year	\$ 159,945	\$ 138,148
In one to five years	<u>73,010</u>	<u>66,820</u>
	232,955	204,968
Less: Allowance for doubtful accounts	(29,698)	(12,936)
Less: Discount to net present value	<u>(3,778)</u>	<u>(9,133)</u>
	<u>\$ 199,479</u>	<u>\$ 182,899</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 \$173,672 and \$134,308 as of December 31, 2016 and 2015, respectively, with approximately \$97,762 and \$83,267 recorded as outstanding contribution receivables as of December 31, 2016 and 2015, 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.

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 \$152,183 in 2016 and \$170,517 in 2015.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

December 31, 2016 and 2015

NOTE D – 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>2016</u>	<u>2015</u>
Balance at beginning of year	\$ 2,364,926	\$ 1,563,628
Provision charged to expense	1,593,902	1,377,381
Loans charged off	(1,025,302)	(612,537)
Recoveries	<u>63,136</u>	<u>36,454</u>
Balance at end of year	<u>\$ 2,996,662</u>	<u>\$ 2,364,926</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 \$215,300 and \$139,800 in 2016 and 2015, respectively, were covered by this agreement resulting in the lender taking losses of approximately \$161,500 and \$104,800 in 2016 and 2015, respectively. See Note E for further details about this agreement.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

December 31, 2016 and 2015

NOTE D – SMALL BUSINESS LOANS RECEIVABLE – CONTINUED

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, 2016 and 2015, were \$1,642,397 and \$1,167,702, 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 \$582,409 and \$454,053 at December 31, 2016 and 2015, respectively.

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

	<u>Small business loans receivable</u>	
	<u>2016</u>	<u>2015</u>
Current	\$ 33,916,551	\$ 24,755,699
1-30 Days	1,290,012	1,134,259
<u>Past due and non accrual:</u>		
31-60 Days	279,024	302,144
61-90 Days	208,976	208,797
91-120 Days	225,099	132,706
120-180 Days	178,214	219,615
>180 Days	-	-
Total past due and non accrual	<u>891,313</u>	<u>863,262</u>
Small business loans receivable	36,097,876	26,753,220
Less: Loan loss reserve allowance	<u>(2,996,662)</u>	<u>(2,364,926)</u>
Total small business loans receivable	<u>\$ 33,101,214</u>	<u>\$ 24,388,294</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, 2016 and 2015

NOTE E – 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. Prior to these amendments, funding was up to \$6,500,000 for 2015 in revolving funding for loans made by Accion. 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 \$229,381 and \$219,844 as of December 31, 2016 and 2015, 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 \$6,889,593 and \$5,374,672 as of December 31, 2016 and 2015, respectively. The remaining interest earned on the participation loans is retained by Accion. Interest expense on the secured debt was \$172,669 and \$153,236 for the years ended December 31, 2016 and 2015, respectively. The MOA 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 \$53,986 and \$193,390 as of December 31, 2016 and 2015.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

December 31, 2016 and 2015

NOTE F – PROPERTY AND EQUIPMENT

Property and equipment consists of the following at December 31, 2016

	<u>2016</u>	<u>2015</u>
Building	\$ 2,235,906	\$ 2,229,605
Computer equipment and software	188,704	549,450
Furniture and office equipment	<u>257,293</u>	<u>267,559</u>
	2,681,903	3,046,614
Less accumulated depreciation	<u>(638,868)</u>	<u>(692,056)</u>
Total	<u>\$ 2,043,035</u>	<u>\$ 2,354,558</u>
Land	<u>\$ 1,003,216</u>	<u>\$ 1,003,216</u>

NOTE G – UNSECURED LINES-OF-CREDIT OUTSTANDING

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

The first agreement with Bank of the West allows for draws up to \$600,000 and expires upon full payment of the outstanding balance and execution of a written termination agreement with the financial institution. The financial institution charges interest on the line-of-credit at 2%. The balance on the line-of-credit was \$600,000 and \$0 at December 31, 2016 and 2015, respectively. No restrictive covenants apply to the line-of-credit.

The second agreement with First National Bank of the Rio Grande, a division of First National Bank of Santa Fe, allows for draws up to \$1,000,000 and expires upon full payment of the outstanding balance in August 2017. The financial institution charges interest on the line-of-credit at 2%. The balance on the line-of-credit was \$1,000,000 and \$0 at December 31, 2016 and 2015, respectively. There were no restrictive covenants on the line-of-credit.

The third agreement with First National Bank of the Rio Grande, a division of First National Bank of Santa Fe, allows for draws up to \$1,000,000 and expires upon full payment of the outstanding balance in October 2020. The financial institution charges interest on the line-of-credit at 2%. The balance on the line-of-credit was \$1,000,000 and \$0 at December 31, 2016 and 2015, respectively. There are restrictive covenants on the line-of-credit. Accion was in compliance with all such restrictive covenants.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

December 31, 2016 and 2015

NOTE H – UNSECURED NOTES PAYABLE

Unsecured notes payable consist of the following at December 31:

	<u>2016</u>	<u>2015</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.	\$ 7,494,113	\$ 4,991,957
Subordinated note payable with Wells Fargo, full payment due June 2028, 2% interest per annum.	2,425,000	-
Note payable with Washington Federal, due September 2018, 2.5% interest per annum.	1,500,000	1,000,000
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
Note payable with U.S. Department of Treasury, full payment due September 2017, 1.4% interest per annum.	500,000	500,000
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 Valero Payment Services Company, an affiliate of DSRM National Bank, full payment due April 2021, 2% interest per annum.	20,000	20,000
Note payable with Wells Fargo, full payment due June 2016, 0% interest per annum.	-	1,000,000
Note payable with Wells Fargo, full payment due February 2017, 2% interest per annum.	-	425,000
	<u>\$ 14,589,113</u>	<u>\$ 10,586,957</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

December 31, 2016 and 2015

NOTE H – UNSECURED NOTES PAYABLE – CONTINUED

At December 31, 2016, future note repayments are as follows:

2017	\$	500,000
2018		1,500,000
2019		1,000,000
2020		2,000,000
2021		1,220,000
Thereafter		<u>8,369,113</u>
	\$	<u>14,589,113</u>

Accion records in-kind contributions and in-kind interest expense on zero-percent and below market rate notes in the period the interest savings benefit is realized. Accion recorded \$162,450 and \$83,545 in imputed interest, using rates of 3.50% and 3.25% during the years ended December 31, 2016 and 2015, respectively. Accion also incurred \$386,045 and \$317,645 in interest expense for these unsecured notes payable and lines-of-credit for the years ended December 31, 2016 and 2015, respectively.

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, 2016, Accion was in compliance with all such requirements. All notes payable are unsecured.

NOTE I – 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:

- 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

December 31, 2016 and 2015

NOTE I – FAIR VALUE MEASUREMENTS – CONTINUED

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 at December 31, 2016.

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 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.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

December 31, 2016 and 2015

NOTE I – FAIR VALUE MEASUREMENTS – CONTINUED

Fair values of assets measured are as follows:

Assets at Fair Value as of December 31, 2016

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Government and agency securities:				
Long-term bond	\$ 11,789	\$ 52,758	\$ -	\$ 64,547
Short-term bond	9,128	20,455	-	29,583
Intermediate-term bond	-	2,799	-	2,799
Corporate bonds:				
Long-term bond	-	21,034	-	21,034
Intermediate-term bond	-	20,283	-	20,283
Short-term bond	-	18,688	-	18,688
Equity securities:				
Information technology	160,718	-	-	160,718
Financials	90,275	-	-	90,275
Health care	87,731	-	-	87,731
Real estate	84,859	-	-	84,859
Consumer discretionary	60,076	-	-	60,076
Industrials	56,000	-	-	56,000
Consumer staples	46,445	-	-	46,445
Energy	36,669	-	-	36,669
Materials	17,812	-	-	17,812
Utilities	12,247	-	-	12,247
Telecommunication services	11,464	-	-	11,464
Mutual funds:				
Fixed income	156,402	-	-	156,402
Cash and cash equivalents	31,641	-	-	31,641
Embedded derivative instrument	-	-	229,381	229,381
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total assets at fair value	<u>\$ 873,256</u>	<u>\$ 136,017</u>	<u>\$ 229,381</u>	<u>\$ 1,238,654</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

December 31, 2016 and 2015

NOTE I – FAIR VALUE MEASUREMENTS – CONTINUED***Assets at Fair Value as of December 31, 2015***

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Government and agency securities:				
Intermediate-term bond	\$ 7,111	\$ 35,718	\$ -	\$ 42,829
Long-term bond	17,281	2,849	-	20,130
Short-term bond	-	16,062	-	16,062
Corporate bonds:				
Intermediate-term bond	-	19,315	-	19,315
Long-term bond	-	15,448	-	15,448
Short-term bond	-	10,537	-	10,537
Equity securities:				
Financials	144,219	-	-	144,219
Information technology	127,184	-	-	127,184
Health care	60,013	-	-	60,013
Consumer discretionary	62,355	-	-	62,355
Consumer staples	40,596	-	-	40,596
Industrials	32,039	-	-	32,039
Energy	15,577	-	-	15,577
Materials	17,836	-	-	17,836
Telecommunication services	9,293	-	-	9,293
Utilities	4,904	-	-	4,904
Mutual funds:				
Fixed income	168,413	-	-	168,413
Equities blend	120,086	-	-	120,086
Cash and cash equivalents	203,890	-	-	203,890
Embedded derivative instrument	-	-	219,844	219,844
	<u>\$ 1,030,797</u>	<u>\$ 99,929</u>	<u>\$ 219,844</u>	<u>\$ 1,350,570</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, 2016:

	<u>Embedded Derivative Instrument</u>
Balance, beginning of year	\$ 219,844
Change in fair value	9,537
Purchases, sales, and settlements	
Purchases	-
Sales	-
	<u> </u>
Balance, end of year	<u>\$ 229,381</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

December 31, 2016 and 2015

NOTE J – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at December 31, 2016, are available for the following:

	<u>2016</u>	<u>2015</u>
Restricted for purpose:		
Specified grant expenses	\$ 217,625	\$ 170,517
Restricted for time:		
Pledges receivable	232,956	204,968
Less: Allowance for uncollectible unconditional promises to give	(29,698)	(12,936)
Less: Discount on unconditional promises to give	<u>(3,778)</u>	<u>(9,133)</u>
	<u>\$ 417,105</u>	<u>\$ 353,416</u>

Temporarily restricted net assets released from restrictions at December 31, were comprised of the following:

	<u>2016</u>	<u>2015</u>
Restricted for time and/or purpose:		
Various grants and donations	\$ 980,867	\$ 870,743
Specified grant expenses	105,075	-
Restricted for time:		
Pledges receivable	<u>482,570</u>	<u>515,983</u>
	<u>\$ 1,568,512</u>	<u>\$ 1,386,726</u>

NOTE K – PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets may be invested in Accion's loan portfolio, cash, or investments, as designated by the donor. Permanently restricted net assets at December 31, 2016 and 2015, were restricted for the following purposes:

	<u>2016</u>	<u>2015</u>
Loan portfolio	\$ 1,458,493	\$ 1,171,493
Operations	<u>706,178</u>	<u>706,178</u>
	<u>\$ 2,164,671</u>	<u>\$ 1,877,671</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

December 31, 2016 and 2015

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 permanently restricted net assets (1) the original value of gifts donated to the permanent endowment, (2) the original value of subsequent gifts to permanent endowments, and (3) accumulations to the permanent 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.

The following table reflects permanently restricted net assets subject to UPMIFA

Endowment Net Asset Composition by Type of Fund as of December 31, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ -	\$ 2,164,671	\$ 2,164,671
Total funds	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,164,671</u>	<u>\$ 2,164,671</u>

Changes in Endowment Net Assets for the Fiscal Year Ended December 31, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ -	\$ -	\$ 1,877,671	\$ 1,877,671
Investment return:				
Investment income	228,460	-	-	228,460
Net appreciation (realized and unrealized)	29,836	-	-	29,836
	258,296	-	1,877,671	2,135,967
Contributions	-	-	287,000	287,000
Appropriation of endowment assets for expenditure	(249,012)	-	-	(249,012)
Other changes:				
Administration fees	(9,284)	-	-	(9,284)
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,164,671</u>	<u>\$ 2,164,671</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

December 31, 2016 and 2015

NOTE L – ENDOWMENT FUNDS – CONTINUED1. Interpretation of Relevant Law – Continued*Endowment Net Asset Composition by Type of Fund as of December 31, 2015*

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ -	\$ 1,877,671	\$ 1,877,671
Total funds	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,877,671</u>	<u>\$ 1,877,671</u>

Changes in Endowment Net Assets for the Fiscal Year Ended December 31, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ -	\$ -	\$ 1,487,671	\$ 1,487,671
Investment return:				
Investment income	123,291	-	-	123,291
Net depreciation (realized and unrealized)	<u>(43,584)</u>	<u>-</u>	<u>-</u>	<u>(43,584)</u>
	79,707	-	1,487,671	1,567,378
Contributions	-	-	390,000	390,000
Appropriation of endowment assets for expenditure	(70,414)	-	-	(70,414)
Other changes:				
Administration fees	<u>(9,293)</u>	<u>-</u>	<u>-</u>	<u>(9,293)</u>
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,877,671</u>	<u>\$ 1,877,671</u>

	2016	2015
Permanently 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>\$ 2,164,671</u>	<u>\$ 1,877,671</u>
Total permanently restricted net assets	<u>\$ 2,164,671</u>	<u>\$ 1,877,671</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

December 31, 2016 and 2015

NOTE L – ENDOWMENT FUNDS – CONTINUED2. 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>2016</u>	<u>2015</u>
Restricted endowment investment securities	\$ 706,178	\$ 706,178
Investments in loan portfolio	<u>1,458,493</u>	<u>1,171,493</u>
	<u>\$ 2,164,671</u>	<u>\$ 1,877,671</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, 2016 and 2015.

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, 2016 and 2015, as established by the Internal Revenue Service, were \$12,500. For the years ended December 31, 2016 and 2015, Accion's expense for the plan was \$43,524 and \$47,132, 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, 2016.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

December 31, 2016 and 2015

NOTE O – SERVICES RECEIVED FROM AN AFFILIATE

Accion is a member of the Accion, The U.S. Network (Network), a nationwide micro and small-business lending network consisting of four individually governed and managed not-for-profit Accion branded member organizations that each serve specified geographies and collectively serve thousands of clients nationwide.

Accion, The U.S Network, Inc. (AUSN) 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 AUSN. AUSN 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 AUSN 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. AUSN and each Network member organization accounts for its own costs related to these collaborative development activities.

NOTE P – PRIOR PERIOD ADJUSTMENT

During 2016, the Organization obtained additional information that resulted in a reclassification of \$500,000 of unrestricted net assets that had been previously reported as permanently restricted net assets. The correction had no effect on total net assets at December 31, 2016 or 2015, or on total change in net assets for the years then ended. However, the effect of the correction was an increase to total unrestricted net assets and a decrease to total permanently restricted net assets of \$500,000 respectively at December 31, 2014.

NOTE Q – NEW ACCOUNTING STANDARDS

1. The Financial Accounting Standards Board (FASB) has recently issued Accounting Standards Update (ASU) 2014-09, (*Topic 606*): *Revenue from Contracts with Customers* 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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

December 31, 2016 and 2015

NOTE Q – NEW ACCOUNTING STANDARDS – CONTINUED

1. 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.

2. On February 25, 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 statement of cash flows. This ASU is effective for fiscal years beginning after December 15, 2019.

3. In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities* (FASB Codification Topic 958) to improve the current net asset classification requirements and the information presented in financial statements and notes about a not-for-profit entity's liquidity, financial performance and cash flows. The main provisions of the ASU are as follows:

A. Present on the face of the statement of financial position amounts for two classes of net assets at the end of the period, rather than for the currently required three classes. That is, a not-for-profit will report amounts for *net assets with donor restrictions* and *net assets without donor restrictions*, as well as the currently required amount for total net assets.

B. Present on the face of the statement of activities the amount of the change in each of the two classes of net assets (noted in item A) rather than that of the currently required three classes. A not-for-profit would continue to report the currently required amount of the change in total net assets for the period.

C. Continue to present on the face of the statement of cash flows the net amount for operating cash flows using either the direct or indirect method of reporting, but no longer require the presentation or disclosure of the indirect method (reconciliation) if using the direct method.

D. Provide the following enhanced disclosures about:

- Amounts and purposes of governing board designations, appropriations, and similar actions that result in self-imposed limits on the use of resources without donor-imposed restrictions as of the end of the period.
- Composition of net assets with donor restrictions at the end of the period and how the restrictions affect the use of resources.
- Qualitative information that communicates how a not-for-profit manages its liquid resources available to meet cash needs for general expenditures within one year of the balance sheet date.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

December 31, 2016 and 2015

NOTE Q – NEW ACCOUNTING STANDARDS – CONTINUED

- Quantitative information, either on the face of the balance sheet or in the notes, and additional qualitative information in the notes as necessary, that communicates the availability of a not-for-profit's financial assets at the balance sheet date to meet cash needs for general expenditures within one year of the balance sheet date. Availability of a financial asset may be affected by (1) its nature, (2) external limits imposed by donors, grantors, laws, and contracts with others, and (3) internal limits imposed by governing board decisions.
- Amounts of expenses by both their natural classification and their functional classification. That analysis of expenses is to be provided in one location, which could be on the face of the statement of activities, as a separate statement, or in the notes to the financial statements.
- Method(s) used to allocate costs among program and support functions.
- Underwater endowment funds, which include required disclosures of (1) a not-for-profit's policy, and any actions taken during the period, concerning appropriation from underwater endowment funds, (2) the aggregate fair value of such funds, (3) the aggregate of the original gift amounts (or level required by donor or law) to be maintained, and (4) the aggregate amount by which funds are underwater (deficiencies), which are to be classified as part of net assets with donor restrictions.

E. Report investment return net of external and direct internal investment expenses and no longer require disclosure of those netted expenses.

F. Use, in the absence of explicit donor stipulations, the placed-in-service approach for reporting expirations of restrictions on gifts of cash or other assets to be used to acquire or construct a long-lived asset and reclassify any amounts from net assets with donor restrictions to net assets without donor restrictions for such long-lived assets that have been placed in service as of the beginning of the period of adoption (thus eliminating the current option to release the donor-imposed restriction over the estimated useful life of the acquired asset).

The amendments in this ASU are effective for annual financial statements issued for fiscal years beginning after December 15, 2017.

As of the date of these financial statements, management has not determined the impact these new ASUs will have on future reporting periods.

SUPPLEMENTARY INFORMATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended December 31, 2016

Federal Grantor - Pass-Through Grantor - Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Total Federal Expenditures
Department of Treasury			
Community Development Financial Institutions Fund Program Financial Assistance - 161FA020730	21.020		\$ 2,000,000
Total Department of Treasury			\$ 2,000,000
Department of Housing and Urban Development			
Passthrough Liffund FKA Accion Texas Border Community Capital Initiative - BC-13-TX-C-0001	14.266	BC-13-TX-C-0001	\$ 139,287
Total Department of Housing and Urban Development			\$ 139,287
Department of Commerce			
Economic Development Administration EA Assistance - Implementation of Presto Loan Program - 08-79-04982	11.307		\$ 27,788
Total Department of Commerce			\$ 27,788
Total Expenditures of Federal Awards			\$ 2,167,075

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 financial statements. Accion elected not to use the 10% de minimis indirect cost rate.

**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, 2016, 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, 2017.

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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings and questioned costs as item 2016-001.

Accion's Response to Findings

Accion's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Accion's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.


Atkinson & Co., Ltd.

Albuquerque, New Mexico
April 24, 2017

**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, 2016. 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, 2016.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as item 2016-001. Our opinion on each major federal program is not modified with respect to these matters.

Accion's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Accion's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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, 2017

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended December 31, 2016

I. Summary of Auditors' Results

A. An unmodified opinion was issued on the consolidated financial statements of Accion and Subsidiaries.

B. No instances of noncompliance with laws and regulations or the provisions of contracts and grant agreements that are material to the consolidated financial statements were disclosed during the audit.

C. Internal control over financial reporting:

- Material weaknesses identified Yes ___ No X
- Significant deficiencies identified Yes ___ None Reported X

D. The Independent Auditors' Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance expresses an unmodified opinion on all major programs.

E. Federal awards:

Internal control over major programs:

- Material weaknesses identified Yes ___ No X
- Significant deficiencies identified Yes ___ None Reported X

F. There is one audit finding that is required to be reported in accordance with 2CFR 200.516(a).

G. The program tested as a major program was: Financial Assistance – CFDA No. 21.020

H. The threshold for distinguishing Types A and B programs was \$750,000.

I. Accion and Subsidiaries was determined to be a low-risk auditee.

II. Financial Statement Audit Findings

None

III. Findings and Questioned Costs – Major Federal Award Programs

2016-001: Duplicated Matching (Other Noncompliance)

IV. Prior Year Financial Statement Audit Findings

None

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED

For the Year Ended December 31, 2016

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

None

Findings and Questioned Costs – Major Federal Award Programs

Finding 2016-001: Duplicated Matching (Other Noncompliance)

CFDA Number 21.020

Title: Financial Assistance – 161FA020730

Agency: Community Development Financial Institutions Fund (CDFI)

Year: Fiscal year ending December 31, 2016

Statement of Condition:

In March 2017, Accion became aware that three matching funds totaling \$406,393 submitted as part of a January 2017 subsequent disbursement list for its FY16 Financial Assistance (FA) award from CDFI had been used as matching funds for its FY15 FA award.

Criteria:

CDFI FA awards require at least 50% in matching funds at the time of application with 100% matching funds required after an application is approved for an award. If an award is approved, any remaining matching funds are to be completed at a later date determined by CDFI.

Cause of Condition:

During 2015 and 2016, Accion moved to a new database system for grant awards and contributions and also experienced employee turnover in the position responsible for matching funds submission. With its FY15 and FY16 FA awards, Accion's staff was also learning how to navigate a new CDFI database, AMIS, which was launched in September 2015 and was used, with ongoing updates, for the submission of matching funds. The combined effect of these changes caused the final detail of the matching funds used for the FY15 award to not be easily identified in the Organization's systems

Effect of Condition:

The FY16 Financial Assistance Award subsequent disbursement list as reported to the awarding agency in January 2017 was not properly matched 100%. The Organization did have other funds available to meet the match. Accion subsequently received notification from CDFI that those replacement matching funds have been accepted.

Recommendation:

We recommend the Organization implement policies and procedures that would provide an easily identifiable source of what monies have been used for matching requirements and what monies are still available to be used for matching requirements.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED

For the Year Ended December 31, 2016

Findings and Questioned Costs – Major Federal Award Programs – Continued

Finding 2016-001: Duplicated Matching – Continued

Views of Responsible Official and Corrective Action Plan:

Immediately upon becoming aware of the error, Accion notified CDFI, the awarding agency, and submitted replacement matching funds. CDFI subsequently confirmed that they have accepted those replacement matching funds.

Accion's new software system for contributions more readily allows for the flagging of all grants and donations submitted as matching funds. Accion will implement policies and procedures to flag all monies used as matching funds for active and future CDFI awards. Accion has also established a procedure to include an additional supervisory review of funds to be submitted. To support the additional review, lists of previously submitted matching funds have become available for viewing on the awarding agency online grant monitoring system (AMIS).

Accion and Subsidiaries

IDENTIFICATION OF AUDIT PRINCIPAL

For the Year Ended December 31, 2016

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, 2016</u>
Telephone Number:	<u>(505) 843-6492</u>
Federal Employee ID Number:	<u>85-0211867</u>

ATKINSON & CO. LTD
CERTIFIED PUBLIC ACCOUNTANTS | CONSULTANTS

6501 AMERICAS PARKWAY NE
SUITE 700
ALBUQUERQUE, NM 87110

T 505 843 6492
F 505 843 6817
ATKINSONCPA.COM

