

ACCION

ACCION, THE U.S. NETWORK, INC.

**Financial Statements
(Together with Independent Auditors' Report)**

Years Ended December 31, 2018 and 2017

M A R K S P A N E T H

ACCOUNTANTS & ADVISORS

ACCION, THE U.S. NETWORK, INC.
FINANCIAL STATEMENTS
(Together with Independent Auditors' Report)
YEARS ENDED DECEMBER 31, 2018 AND 2017

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Accion, The U.S. Network, Inc.

We have audited the accompanying financial statements of Accion, The U.S. Network, Inc. (the "Network"), which comprise the statements of financial position as of December 31, 2018 and 2017, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 financial statements based on our audits. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 the entity'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 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 financial statements referred to above present fairly, in all material respects, the financial position of Accion, The U.S. Network, Inc. as of December 31, 2018 and 2017, and the changes in its net assets and its 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 2 to the financial statements, during the year ended December 31, 2018, the Network adopted Accounting Standards Update 2016-14, "Not-for-Profit Entities." Our opinion is not modified with respect to this matter.

Marks Paneth LLP

New York, NY
June 17, 2019

ACCION, THE U.S. NETWORK, INC.
STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2018 AND 2017

	2018	2017
ASSETS		
Cash and cash equivalents (Notes 2B and 6)	\$ 4,387,746	\$ 2,943,696
Grants and pledges receivable (Notes 2D and 2G)	291,688	315,598
Other receivables (Note 2G)	100,415	104,324
Prepaid expenses and other assets (Note 4)	229,883	381,333
Security deposits	12,750	12,750
TOTAL ASSETS	\$ 5,022,482	\$ 3,757,701
LIABILITIES		
Accounts payable and accrued expenses	\$ 849,069	\$ 316,612
TOTAL LIABILITIES	849,069	316,612
COMMITMENTS AND CONTINGENCIES (Note 8)		
NET ASSETS (Note 2C)		
Without donor restrictions		
Available for operations	1,055,418	759,796
Board designated	100,000	100,000
Total without donor restrictions	1,155,418	859,796
With donor restrictions (Note 5)	3,017,995	2,581,293
TOTAL NET ASSETS	4,173,413	3,441,089
TOTAL LIABILITIES AND NET ASSETS	\$ 5,022,482	\$ 3,757,701

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

ACCION, THE U.S. NETWORK, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	Year Ended December 31, 2018			Year Ended December 31, 2017		
	Without Donor Restrictions	With Donor Restrictions	Total	Total	Without Donor Restrictions	With Donor Restrictions
SUPPORT AND REVENUE:						
Contributions and grants (Note 2D)	\$ 133,648	\$ 4,741,500	\$ 4,875,148	\$ 4,254,701	\$ 350,603	\$ 3,904,098
Donated services (Note 2E)	1,852,431	-	1,852,431	166,418	166,418	-
Membership dues (Note 2F)	80,000	-	80,000	70,000	70,000	-
AMP fee income	402,088	-	402,088	76,075	76,075	-
Interest	44,222	-	44,222	14,767	14,767	-
Net assets released from restrictions (Note 5)	4,304,798	(4,304,798)	-	-	5,463,648	(5,463,648)
TOTAL SUPPORT AND REVENUE	<u>6,817,187</u>	<u>436,702</u>	<u>7,253,889</u>	<u>4,581,961</u>	<u>6,141,511</u>	<u>(1,559,550)</u>
EXPENSES:						
Program services	5,803,062	-	5,803,062	5,123,157	5,123,157	-
Supporting services:						
Management and general	535,326	-	535,326	579,303	579,303	-
Fundraising	183,177	-	183,177	268,127	268,127	-
Total Supporting Services	718,503	-	718,503	847,430	847,430	-
TOTAL EXPENSES	<u>6,521,565</u>	<u>-</u>	<u>6,521,565</u>	<u>5,970,587</u>	<u>5,970,587</u>	<u>-</u>
CHANGE IN NET ASSETS	295,622	436,702	732,324	(1,388,626)	170,924	(1,559,550)
Net assets - beginning of year	<u>859,796</u>	<u>2,581,293</u>	<u>3,441,089</u>	<u>4,829,715</u>	<u>688,872</u>	<u>4,140,843</u>
NET ASSETS - END OF YEAR	<u>\$ 1,155,418</u>	<u>\$ 3,017,995</u>	<u>\$ 4,173,413</u>	<u>\$ 3,441,089</u>	<u>\$ 859,796</u>	<u>\$ 2,581,293</u>

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

ACCION, THE U.S. NETWORK, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	Year Ended December 31, 2018				Year Ended December 31, 2017			
	Supporting Services			2018 Total	Supporting Services			2017 Total
Program Services	Management and General	Fundraising	Program Services		Management and General	Fundraising		
Salaries and fringe benefits	\$ 1,437,143	\$ 298,072	\$ 160,119	\$ 1,895,334	\$ 1,900,058	\$ 1,462,370	\$ 306,680	\$ 131,008
Grant expense	1,371,080	-	1,000	1,372,080	1,254,914	-	-	-
Professional fees	403,395	121,376	12,845	537,616	1,784,807	1,460,993	200,694	123,120
Donated services (Note 2E)	1,780,224	72,207	-	1,852,431	-	-	-	-
Subscription dues and fees	9,498	906	329	10,733	15,287	10,759	3,538	990
Insurance	6,262	810	295	7,367	9,051	6,456	1,975	620
Occupancy	77,092	9,977	3,628	90,697	100,460	74,024	19,596	6,840
Office supplies	1,935	159	58	2,152	4,512	3,228	954	330
Technology and systems (Note 2J)	638,282	-	-	638,282	711,455	711,455	-	-
Travel and conferences	54,293	23,307	3,205	80,805	163,245	125,737	33,856	3,652
Postage and shipping	1,132	47	17	1,196	1,025	753	202	70
Printing and publications	225	29	11	265	293	215	58	20
Telephone	8,619	1,115	406	10,140	9,377	6,886	1,851	640
Repairs and maintenance	13,882	1,797	653	16,332	7,179	5,272	1,417	490
Miscellaneous expenses	-	5,524	611	6,135	8,924	95	8,482	347
TOTAL EXPENSES	\$ 5,803,062	\$ 535,326	\$ 183,177	\$ 6,521,565	\$ 5,970,587	\$ 5,123,157	\$ 579,303	\$ 268,127

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

ACCION, THE U.S. NETWORK, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 732,324	\$ (1,388,626)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Changes in assets and liabilities:		
(Increase) decrease in assets:		
Grants and pledges receivable	23,910	1,826,387
Other receivables	3,909	(63,655)
Security deposits	-	3,000
Prepaid expenses and other assets	151,450	-
(Decrease) increase in liabilities:		
Accounts payable and accrued expenses	532,457	(111,051)
Net Cash Provided by Operating Activities	1,444,050	266,055
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,444,050	266,055
Cash and cash equivalents - beginning of year	2,943,696	2,677,641
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 4,387,746	\$ 2,943,696

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

ACCION, THE U.S. NETWORK, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 1 – ORGANIZATION AND NATURE OF ACTIVITIES

Accion, The U.S. Network, Inc. (the “Network”) was incorporated on December 7, 2011. Accion envisions a world in which all hard working entrepreneurs have the financial access and tools they need to improve their lives and enhance the well-being of their families, communities and local economies for years to come.

The mission of the Network is to assist in building world-class microfinance institutions in the United States to enhance economic development through increasing access to credit and otherwise promoting financial inclusion and health for members of low-to-moderate income communities.

The Network works with its four member organizations as well as other leading micro lenders on a national scale to propel the flow of resources, support, tools and information through fundraising, training and education, media, partnerships and programmatic opportunities to encourage development, sustainability and growth of the micro lending institutions.

The Network is a nonprofit charitable organization exempt from income tax under Section 501(c)(3) of the Internal Revenue Code.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- A. ***Basis of Accounting*** – The Network’s financial statements have been prepared on the accrual basis of accounting. The Network adheres to accounting principles generally accepted in the United States of America (“U.S. GAAP”).
- B. ***Cash and Cash Equivalents*** – Cash and cash equivalents consist of all highly liquid debt instruments purchased with maturities of three months or less.
- C. ***Basis of Presentation*** – the Network maintains its net assets under the following two classes:
- Without donor restrictions – includes the net assets that are not restricted by donor-imposed stipulations. As of December 31, 2018 and 2017, board designated funds amounted to \$100,000 to establish a Capacity Building Fund.
 - With donor restrictions – resources received with donor stipulations that limit the use of the donated assets or place time restrictions on the resources. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, restricted net assets are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.
- D. ***Grants and Pledges Receivable*** – Contributions and grants, including unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are not recognized until they become unconditional, that is, at the time when the conditions on which they depend on are substantially met. Contributions of assets other than cash are reported at their estimated fair value.

Unconditional promises to give that are expected to be collected within one year are recorded as pledges receivable at net realizable value. Unconditional promises to give that are expected to be collected in future years are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Discount amortized is included in contribution revenue. All grants and pledges receivable as of December 31, 2018 and 2017 are due within one year.

- E. ***Donated Services*** – Donated services are recognized in the financial statements if the services enhance or create nonfinancial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased, if not provided by donation. The Network received donated legal and consulting services that are valued at the standard market rates that would have been incurred by the Network to obtain such services. Donated services are reported as revenue and expense in the accompanying statements of activities, since they meet the criteria for recognition under U.S. GAAP. The Network received donated services of \$1,852,431 and \$166,418 during 2018 and 2017, respectively. In 2018 approximately \$172,000 related to donated legal services and approximately \$1,678,000 related to consulting services. The consulting services supported an intensive and comprehensive strategic planning process which continues in 2019.

ACCION, THE U.S. NETWORK, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Based on this in-depth research and analytical work, including a national market study of underserved small business entrepreneurs, the Network has adopted a vision and five-year strategy and roadmap to reach significant scale of mission and operations in the US. In 2017, the donated services represent legal services.

- F. **Membership Dues** – Membership dues are recognized as revenues in the period due and are recorded as increases in net assets without donor restrictions.
- G. **Allowance For Doubtful Accounts** – As of December 31, 2018 and 2017, the Network determined that no allowance was necessary relative to its pledges, contract, and other receivables. Such estimates are based on management’s assessment of the creditworthiness of donors, review of individual accounts outstanding, as well as current economic conditions and historical information.
- H. **Use of Estimates** – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.
- I. **Functional Allocation of Expenses** – The costs of providing the various programs and supporting services have been summarized on a functional basis in the accompanying statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The expenses that are allocated include salaries, payroll taxes and employee benefits, which are allocated on the basis of estimates of time and effort. Other allocated expenses include rent, office supplies, insurance, and telecommunications which are allocated across programs and supporting services in proportion to direct costs.
- J. **Technology Expenses** – The Network leads the Accion Modernization Project (“AMP”), a collaborative effort to standardize and streamline lending processes and systems across the Network. The AMP software resides in the cloud where certain Network members access it on a fee for services basis. Such arrangements are referred to as hosting arrangements. Under U.S. GAAP, hosting arrangements that meet certain criteria are treated as service contracts and not capitalized. Accordingly, the Network has expensed the costs associated with building the AMP lending platform.
- K. **New Accounting Pronouncement** – Financial Accounting Standards Board (“FASB”) Accounting Standards Update (“ASU”) 2016-14, “Not-for-Profit Entities” was adopted for the year ended December 31, 2018. ASU 2016-14 provides for a number of changes, including the presentation of two classes of net assets and enhanced disclosure on liquid resources and expense allocation. These changes had no impact on the change in net assets for the year ended December 31, 2018. Net assets as of December 31, 2017 were renamed to conform to the new presentation.

NOTE 3 – LIQUIDITY AND AVAILABILITY OF RESOURCES FOR GENERAL EXPENDITURES

The Network regularly monitors liquidity required to meet its operating needs, while also striving to maximize the investment of its available funds. The Network has liquidity at its disposal, the majority of which is cash and cash equivalents. For the purposes of analyzing resources available to meet general expenditures over a twelve-month period, the Network considers all expenditures related to its ongoing program activities as well as service undertaken to support those activities to be general expenditures.

As of December 31, 2018, financial assets available to meet general expenditures over the next year were as follows:

Cash and cash equivalents	\$ 4,387,746
Grants and pledges receivable	291,688
Other receivable	<u>100,415</u>
	<u>\$ 4,779,849</u>

ACCION, THE U.S. NETWORK, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 4 – PREPAID EXPENSES AND OTHER ASSETS

The Network purchased Cloud Lending licenses and support services for use by members over a twelve-month period beginning December 1, 2018 and 2017 for a total cost of \$242,600 and \$416,000, respectively. Eleven months of this cost totaling \$222,383 and \$381,333 was considered a prepaid expense and other asset as of December 31, 2018 and 2017, respectively.

NOTE 5 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions as of December 31, 2018 and 2017 are to support program activities. During the years ended December 31, 2018 and 2017, the Network released net assets with donor restrictions by satisfying purpose restrictions.

NOTE 6 – CONCENTRATION

Cash and cash equivalents that potentially subject the Network to a concentration of credit risk include cash accounts with banks that exceed the Federal Deposit Insurance Corporation (“FDIC”) insurance limits. Cash accounts are insured up to \$250,000 per depositor. As of December 31, 2018 and 2017, there was approximately \$85,000 and \$775,000, respectively, of cash and cash equivalents held by banks that exceeded FDIC limits. The Network reviews the concentration of credit risk with the Board of Directors on an ongoing basis. In addition, as of December 31, 2018 and 2017, approximately \$4,300,000 and \$1,900,000 of funds were invested in low risk vehicles such as U.S treasuries and U.S government agencies. While not covered by FDIC, the underlying securities in the account are protected by the Securities Investor Protection Corporation (“SIPC”) up to \$500,000. As of December 31, 2018 and 2017, funds that exceeded SIPC limits amounted to approximately \$3,800,000 and \$1,419,000, respectively.

NOTE 7 – TRADE MARK AGREEMENT AND OTHER

The Network entered into a trademark sublicense agreement with Accion International, Inc. (“Accion”) effective December 31, 2011, with an initial three-year term. The agreement provides for the legal use of the ‘Accion’ brand name by the Network. The sublicense agreement was automatically renewed for additional three years effective December 31, 2014 and again for an additional three years effective December 31, 2017.

The Network also has a Shared Services Agreement with Accion. As of December 31, 2018 and 2017, the Network has a balance due to Accion of approximately \$0 and \$1,000, respectively.

NOTE 8 – COMMITMENTS AND CONTINGENCIES

- A. The Network has a month to month lease for its office space. Rent expense for the years ended December 31, 2018 and 2017 amounted to approximately \$90,697 and 100,460, respectively.
- B. The Network believes it has no uncertain tax positions as of December 31, 2018 and 2017 in accordance with Accounting Standards Codification (“ASC”) Topic 740, “Income Taxes”, which provides standards for establishing and classifying any tax provisions for uncertain tax positions.

NOTE 9 – SUBSEQUENT EVENTS

Management has evaluated, for potential recognition and disclosure, events subsequent to the date of the statement of financial position through June 17, 2019, the date the financial statements were available to be issued.