
ACCION

ACCION East, Inc.

Consolidated Financial Statements
(Together with Independent Auditors' Report)

Years Ended December 31, 2012 and 2011

ACCION East, Inc.
CONSOLIDATED FINANCIAL STATEMENTS
(Together with Independent Auditors' Report)
YEARS ENDED DECEMBER 31, 2012 AND 2011

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
ACCION East, Inc.

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of ACCION East, Inc. ("ACCION"), which comprise the consolidated statements of financial position as of December 31, 2012 and 2011, and the related consolidated statements of activities, 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 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 audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of ACCION East, Inc. as of December 31, 2012 and 2011, 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.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating supplemental information on pages 15-20 is presented for the purpose of additional analysis of the consolidated financial statements rather than to present the consolidated financial position and changes in net assets, and net asset class, of the individual companies and is not a required part of the consolidated financial statements.

The supplementary information has been subjected to auditing procedures applied in the audits 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 supplementary information is fairly stated in all material respects when considered in relation to the consolidated financial statements taken as a whole.

Marks Paneth & Straub LLP

New York, NY
May 14, 2013

ACCION East, Inc.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2012 AND 2011

ASSETS	<u>2012</u>	<u>2011</u>
Cash and cash equivalents (Note 2C)	\$ 3,352,928	\$ 5,137,534
Cash restricted for loan funds (Note 2D)	977,038	1,557,229
Contributions and grants receivable, net (Notes 2F and 6)	2,437,031	3,322,827
Interest on loans receivable (Note 2G)	36,584	33,503
Microenterprise loans receivable, net (Notes 2G and 3)	6,468,141	5,629,370
Investments (Notes 2E and 4)	931,756	931,145
Other assets	486,393	390,343
Property and equipment, net (Notes 2H and 5)	<u>334,761</u>	<u>315,306</u>
TOTAL ASSETS	<u>\$ 15,024,632</u>	<u>\$ 17,317,257</u>
LIABILITIES		
Accounts payable and accrued expenses	\$ 354,710	\$ 293,272
Other liabilities	194,913	420,966
Notes and recoverable grants payable (Note 7)	9,857,568	9,609,843
Subordinated debt (Note 7)	<u>1,100,000</u>	<u>3,050,000</u>
TOTAL LIABILITIES	<u>11,507,191</u>	<u>13,374,081</u>
COMMITMENTS AND CONTINGENCIES (Note 8)		
NET ASSETS (Notes 2B and 13)		
Unrestricted	143,177	(1,424,742)
Temporarily restricted (Note 9)	<u>3,374,264</u>	<u>5,367,918</u>
TOTAL NET ASSETS	<u>3,517,441</u>	<u>3,943,176</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 15,024,632</u>	 <u>\$ 17,317,257</u>

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

ACCION East, Inc.
CONSOLIDATED STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	Unrestricted	Temporarily Restricted	2012 Total	Unrestricted	Temporarily Restricted	2011 Total
SUPPORT AND REVENUE:						
Contributions and grants (Notes 2F and 2I)	\$ 2,038,044	\$ 2,783,909	\$ 4,821,953	\$ 1,353,325	\$ 3,814,990	\$ 5,168,315
Revenue:						
Interest on loans (Notes 2G and 3)	754,140	-	754,140	717,121	-	717,121
Program fees	320,119	-	320,119	264,637	-	264,637
Investment income (Note 4)	15,321	-	15,321	40,224	-	40,224
Other revenue (Note 2G)	31,488	-	31,488	3,742	-	3,742
Total Revenue	1,121,068	-	1,121,068	1,025,724	-	1,025,724
Net assets released from restrictions	4,777,563	(4,777,563)	-	4,155,951	(4,155,951)	-
TOTAL SUPPORT AND REVENUE	7,936,675	(1,993,654)	5,943,021	6,535,000	(340,961)	6,194,039
EXPENSES:						
Program services:						
Lending/development services	4,285,112	-	4,285,112	4,667,802	-	4,667,802
Network	888,530	-	888,530	662,560	-	662,560
Total program services	5,173,642	-	5,173,642	5,330,362	-	5,330,362
Supporting services:						
Management and general	719,950	-	719,950	783,891	-	783,891
Fundraising	475,164	-	475,164	446,997	-	446,997
Total supporting services	1,195,114	-	1,195,114	1,230,888	-	1,230,888
TOTAL EXPENSES	6,368,756	-	6,368,756	6,561,250	-	6,561,250
CHANGE IN NET ASSETS	1,567,919	(1,993,654)	(425,735)	(26,250)	(340,961)	(367,211)
Net assets - beginning of year	(1,424,742)	5,367,918	3,943,176	(1,398,492)	5,708,879	4,310,387
NET ASSETS - END OF YEAR	\$ 143,177	\$ 3,374,264	\$ 3,517,441	\$ (1,424,742)	\$ 5,367,918	\$ 3,943,176

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

ACCION East, Inc.
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2012

	Program Services			Supporting Services			2012 Total
	Lending/ Development Services	Network	Total Program Services	Management and General	Fundraising	Total Supporting Services	
Personnel costs	\$ 2,271,656	\$ 466,857	\$ 2,738,513	\$ 454,664	\$ 303,770	\$ 758,434	\$ 3,496,947
Professional fees and marketing (Note 21)	454,386	76,213	530,599	49,723	33,200	82,923	613,522
Office and occupancy (Note 8)	466,559	74,596	541,155	88,287	55,548	143,835	684,990
Travel and conferences	61,860	61,905	123,765	15,382	9,832	25,214	148,979
Interest and fees (Note 7)	324,866	-	324,866	6,443	4,299	10,742	335,608
Depreciation and amortization (Note 5)	95,408	-	95,408	19,101	12,757	31,858	127,266
Loan loss provision (Note 3)	311,471	-	311,471	-	-	-	311,471
Other expenses	298,906	208,959	507,865	86,350	55,758	142,108	649,973
TOTAL EXPENSES	\$ 4,285,112	\$ 888,530	\$ 5,173,642	\$ 719,950	\$ 475,164	\$ 1,195,114	\$ 6,368,756

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

ACCION East, Inc.
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2011

	Program Services			Supporting Services			2011 Total
	Lending/ Development Services	Network	Total Program Services	Management and General	Fundraising	Total Supporting Services	
Personnel costs	\$ 2,384,100	\$ 409,885	\$ 2,793,985	\$ 476,812	\$ 319,055	\$ 795,867	\$ 3,589,852
Professional fees and marketing (Note 21)	517,220	166,932	684,152	130,332	31,676	162,008	846,160
Office and occupancy (Note 8)	477,203	50,380	527,583	88,877	57,472	146,349	673,932
Travel and conferences	64,850	33,821	98,671	18,044	6,264	24,308	122,979
Interest and fees (Note 7)	359,593	-	359,593	21,469	-	21,469	381,062
Depreciation and amortization (Note 5)	146,941	1,212	148,153	29,387	19,630	49,017	197,170
Loan loss provision (Note 3)	702,265	-	702,265	-	-	-	702,265
Other expenses	15,630	330	15,960	18,970	12,900	31,870	47,830
TOTAL EXPENSES	\$ 4,667,802	\$ 662,560	\$ 5,330,362	\$ 783,891	\$ 446,997	\$ 1,230,888	\$ 6,561,250

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

ACCION East, Inc.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

CASH FLOWS FROM OPERATING ACTIVITIES:	2012	2011
Change in net assets	\$ (425,735)	\$ (367,211)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Provision for loan losses	311,471	702,265
Depreciation and amortization	127,266	197,170
Net realized gain on investments	(920)	(338)
Unrealized loss (gain) on investments	13,391	(16,393)
Changes in assets and liabilities:		
Decrease (increase) in assets:		
Contributions and grants receivable	885,796	825,213
Loan interest receivable	(3,081)	15,007
Other assets	(96,050)	7,804
(Decrease) increase in liabilities:		
Accounts payable and accrued expenses	61,438	(123,916)
Other liabilities	(226,053)	(22,084)
Net Cash Provided by Operating Activities	647,523	1,217,517
CASH FLOWS FROM INVESTING ACTIVITIES:		
Disbursements under loan programs	(5,883,771)	(4,677,860)
Collections under loan programs	4,733,528	4,541,011
Purchase of investments	(22,665)	(159,507)
Proceeds from sale of investments	9,584	153,047
Change in cash restricted for loan fund	580,191	(152,564)
Purchases of property and equipment	(146,721)	(35,449)
Net Cash Used in Investing Activities	(729,854)	(331,322)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from notes payable	1,926,727	638,333
Repayments of notes payable	(3,629,002)	(1,618,479)
Net Cash Used in Financing Activities	(1,702,275)	(980,146)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,784,606)	(93,951)
Cash and cash equivalents - beginning of year	5,137,534	5,231,485
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 3,352,928	\$ 5,137,534
Supplementary Disclosure of Cash Flow Information:		
Cash paid during the year for interest	\$ 244,656	\$ 297,443

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

ACCION East, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

NOTE 1 – ORGANIZATION AND NATURE OF ACTIVITIES

The mission of ACCION East, Inc. (“ACCION”) is to stimulate the economic development of disadvantaged areas throughout the United States by providing credit and other support services to entrepreneurs that do not have access to commercial business credit. Through its loans and services, ACCION helps micro-entrepreneurs strengthen their businesses, stabilize and increase their incomes, create additional employment and contribute to the economic revitalization of their communities.

In January 2012, ACCION USA, Inc. changed its name to ACCION East, Inc. and is the sole member of ACCION-MA (“ACCION-MA”). ACCION and ACCION-MA are nonprofit charitable and civic organizations exempt from income tax under Section 501(c)(3) of the Internal Revenue Code. The consolidated financial statements reflect the consolidated results of both entities. All intercompany transactions have been eliminated.

ACCION is a member of ACCION, The U.S. Network (the “Network”), which manages the ‘ACCION’ brand and its promotion within the United States (on behalf of ACCION International) and licenses the ‘ACCION’ brand to the other members, including ACCION Chicago, ACCION New Mexico-Arizona-Colorado, ACCION San Diego and ACCION Texas. The licensing agreement allows each member to utilize the ‘ACCION’ brand within specific geographic areas of the United States and provides information sharing and minimum performance standards among the members of the Network. In addition, the Network assists its members through fundraising opportunities with partners that seek nation-wide programs.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- A. ACCION's financial statements have been prepared on the accrual basis of accounting using accounting principles generally accepted in the United States of America (hereafter “GAAP”).
- B. ACCION reports grants, gifts of cash and other assets as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities as net assets released from restrictions. However, if a restriction is fulfilled in the same time period in which the contribution is received, ACCION reports the support as unrestricted. Unrestricted net assets represent net assets not subject to donor-imposed restrictions.
- C. Cash and cash equivalents consist of all highly liquid debt instruments purchased with original maturities of three months or less except for those amounts held for long-term investment purposes, which are included in investments.
- D. Restricted cash consists of amounts for which the use has been restricted by lenders for specific loan programs.
- E. Investments are stated at their fair values. Realized and unrealized gains and losses are recognized as changes in net assets in the period in which they occur, and investment income is recognized as revenue in the period earned.
- F. Contributions receivable are recorded as revenue when the pledge is made and is considered implicitly time restricted. Management evaluates the need for an allowance for doubtful accounts applicable to its contributions and grants receivable based on various factors, including an assessment of the credit worthiness of its donors, aging of the amount due and historical experience. As of December 31, 2012 and 2011, management determined that an allowance for doubtful accounts was not necessary for contributions and grants receivable. Contributions receivable due in more than one year are recorded at the present value of their estimated future cash flows, determined using risk-adjusted interest rates applicable to the years in which the promises are made. The discount rates used as of December 31, 2012 and 2011 ranged from 0.61% to 1.52% for both years, and represented maturities ranging from 2 to 3 years. Amortization of the discount is reflected as contribution revenue in the accompanying consolidated financial statements. Restricted pledges are reported as additions to the appropriate restricted net asset account.

ACCION East, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- G. Management considers a loan to be impaired when it is probable that ACCION will be unable to collect all amounts due according to the contractual terms of the loan agreement. Management evaluates loans for impairment based on delinquency information, and an assessment of the borrower's financial condition. Impaired loans are written off when payments are past due 180 days or in some cases earlier.

The allowance for loan losses reflects loan impairment and is calculated using impairment rates approved by the Board of Directors and is calculated based on the aging of impaired loans and historical write-off trends.

Interest income on loans is recognized based on the principal amount outstanding and the related rate of interest. The accrual of interest on loans is discontinued when, contractually, a loan becomes 90 days past due. When a loan is placed on nonaccrual status (i.e., after 90 days of delinquency), all interest previously accrued but not collected is reversed against current period interest income. When the loan is taken off nonaccrual status or when the loan becomes current, the accrual of interest income is resumed.

ACCION collected previously written off loan receivables of approximately \$113,000 and \$147,000 during 2012 and 2011, respectively. Additionally, ACCION received forgiveness of debts effectively releasing them from repayment obligations to debtors in the amount of approximately \$503,000 and \$57,000 during 2012 and 2011, respectively. These amounts were recorded as contributions in the consolidated statements of activities.

- H. Property and equipment is stated at cost less accumulated depreciation. These amounts do not purport to represent replacement or realizable values. ACCION capitalizes all property and equipment having a useful life of greater than one year and a cost of \$500 or more. Expenses for maintenance and repairs are charged to operations as incurred. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation is removed from the accounts, with any net gain or loss reflected in the statement of activities for the period. Leasehold improvements are amortized over the lesser of their estimated useful lives or the term of the lease. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. In addition to tangible assets, ACCION also capitalizes the internal and external costs incurred to develop internal-use computer software during the application development stage. This includes the cost to develop or obtain software that allows for access or conversion of old data by new systems. Capitalized software is amortized over its estimated useful life.
- I. 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. ACCION received contributed legal and video services that are valued at the standard market rates that would have been incurred by ACCION to obtain such services. Contributed services are reported as revenue and expense in the accompanying consolidated statements of activities, because they meet the criteria for recognition. ACCION received contributed services of \$204,493 and \$362,898 during 2012 and 2011, respectively. During 2012, ACCION also received donated goods of \$6,695, which are measured at fair value at the date of donation.
- J. ACCION has no uncertain tax positions as of December 31, 2012 and 2011 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. ACCION is no longer subject to federal or state and local income tax examinations by tax authorities for years ended before December 31, 2009.
- K. 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.

ACCION East, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

NOTE 3 – MICROENTERPRISE LOANS RECEIVABLE

Microenterprise loans receivable as of December 31, 2012 and 2011, include the following:

	<u>2012</u>	<u>2011</u>
Gross microenterprise loans receivable	\$ 7,335,407	\$ 6,629,370
Allowance for loan losses	<u>(867,266)</u>	<u>(1,000,000)</u>
	<u>\$ 6,468,141</u>	<u>\$ 5,629,370</u>

Below is the loan loss allowance activity for the years ended December 31, 2012 and 2011, respectively:

	<u>2012</u>	<u>2011</u>
Balance beginning of year	\$ 1,000,000	\$ 1,247,011
Provision for loan losses	311,471	702,265
Loans written-off	<u>(444,205)</u>	<u>(949,276)</u>
	<u>\$ 867,266</u>	<u>\$ 1,000,000</u>

As of December 31, 2012 and 2011, loans on nonaccrual status amounted to \$131,384 and \$175,540, respectively. The portion of the allowance for loan losses related to nonaccrual status loans was \$100,067 and \$133,690 as of December 31, 2012 and 2011, respectively.

NOTE 4 – INVESTMENTS

Investments consist of the following as of December 31, 2012 and 2011 respectively:

	<u>2012</u>	<u>2011</u>
Cash and money market funds	\$ 79,263	\$ 91,312
U.S. Treasury notes	<u>852,493</u>	<u>839,833</u>
	<u>\$ 931,756</u>	<u>\$ 931,145</u>

Investments are subject to market volatility that could substantially change their carrying value in the near term.

Investment income consists of the following for the years ended December 31, 2012 and 2011, respectively:

	<u>2012</u>	<u>2011</u>
Interest and dividends	\$ 27,792	\$ 23,493
Net realized gain on investments	920	338
Net unrealized (loss)/gain on investments	<u>(13,391)</u>	<u>16,393</u>
	<u>\$ 15,321</u>	<u>\$ 40,224</u>

For the years ended December 31, 2012 and 2011, investment fees of \$9,584 and \$9,449, respectively, have been recorded as an expense in the accompanying consolidated financial statements.

In determining fair value, ACCION utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs, to the extent possible in its assessment of fair value. The fair value hierarchy defines three levels as follows:

Level 1: Valuations based on quoted prices unadjusted in an active market that are accessible at the measurement date for identical assets or liabilities.

ACCION East, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

NOTE 4 – INVESTMENTS (Continued)

Level 2: Valuations based on observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in inactive markets; or model-derived valuations in which all significant inputs are observable or can be derived principally from or corroborated with observable market data.

Level 3: Valuations based on unobservable inputs are used when little or no market data is available.

Fair value measurements are based on 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. In order to increase consistency and comparability in fair value measurements, a fair value hierarchy prioritizes observable and unobservable inputs used to measure fair value into three levels.

ACCION's financial assets carried at fair value at December 31, 2012 and 2011, are classified as Level 1.

NOTE 5 – PROPERTY AND EQUIPMENT

Property and equipment consist of the following as of December 31, 2012 and 2011, respectively:

	<u>2012</u>	<u>2011</u>	<u>Estimated Useful Lives</u>
Leasehold improvements	\$ 246,339	\$ 246,339	5 - 10 years
Capitalized software	924,685	912,578	3 - 5 years
Furniture, fixtures and equipment	115,955	105,962	3 - 5 years
Construction in progress	<u>125,460</u>	<u>-</u>	10 - 15 years
Total cost	1,412,439	1,265,719	
Less: accumulated depreciation and amortization	<u>(1,077,678)</u>	<u>(950,413)</u>	
Net book value	<u>\$ 334,761</u>	<u>\$ 315,306</u>	

Depreciation and amortization expense amounted to \$127,266 and \$197,170 for the years ended December 31, 2012 and 2011, respectively.

NOTE 6 – CONTRIBUTIONS AND GRANTS RECEIVABLE

Contributions and grants receivable consist of the following as of December 31, 2012 and 2011, respectively:

	<u>2012</u>	<u>2011</u>
Amounts due:		
Within one year	\$ 2,066,897	\$ 3,035,197
Within one to five years	<u>371,523</u>	<u>300,000</u>
Gross contributions and grants receivable	2,438,420	3,335,197
Discount for net present value	<u>(1,389)</u>	<u>(12,370)</u>
Net contributions and grants receivable	<u>\$ 2,437,031</u>	<u>\$ 3,322,827</u>

ACCION East, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

NOTE 7 – NOTES PAYABLE AND SUBORDINATED DEBT

The following is a summary of ACCION's credit agreements with various banks and other lenders to fund its operating and microlending activities at December 31, 2012 and 2011, respectively:

	<u>2012</u>	<u>2011</u>
<u>Recoverable grants – unsecured</u>		
Evergreen arrangements with no definitive maturity date. These recoverable grants are non-interest-bearing.	\$ 640,304	\$ 481,376
<u>Notes payable – unsecured</u>		
Maturity terms range from 1 to 10 years, fixed interest rates ranging from 0% to 4% and floating interest rates ranging from the Federal Funds Rate to LIBOR plus 1% per annum (0.85% at December 31, 2012 and 1.45% at December 31, 2011).	<u>9,217,264</u>	<u>9,128,467</u>
Total notes and recoverable grants payable	<u>\$ 9,857,568</u>	<u>\$ 9,069,843</u>
 <u>Subordinated debt – EQ2 Loans – unsecured</u>		
The equity equivalent investment, commonly referred to in the community development financing industry as an “EQ2 Loan”, is a capital product designed by lenders to increase available funding and investments to economically disadvantaged communities. EQ2 loans are subordinated to ACCION's other loan agreements.		
Maturity terms range from 2 to 4 years with fixed interest rates ranging from 1.827% to 2% of the five (5)-year U.S. Treasury rate adjusted quarterly (not to exceed 4.5%). No principal payments are required until maturity.	<u>\$ 1,100,000</u>	<u>\$ 3,050,000</u>
Total	<u>\$ 10,957,568</u>	<u>\$ 12,659,843</u>

Future annual principal payments due are as follows for the years ending after December 31, 2012:

<u>Years ending on December 31:</u>	<u>Amount</u>
2013	\$ 3,361,865
2014	2,515,284
2015	1,854,427
2016	99,427
2017	169,427
Thereafter	<u>2,957,138</u>
Total	<u>\$ 10,957,568</u>

Interest expense was \$246,103 and \$295,831 for the years ended December 31, 2012 and 2011, respectively.

ACCION East, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

NOTE 8 – COMMITMENTS AND CONTINGENCIES

ACCION leased space in New York, Boston, Atlanta and Miami during the year ended December 31, 2012. The leases range in maturity from month-to-month to year 2020 and include rent increases, which are amortized on a straight-line basis. Deferred rent of \$3,423 and \$17,113 is included in other liabilities in the accompanying consolidated financial statements as of December 31, 2012 and 2011, respectively. The estimated annual amortization of deferred rent for the year following December 31, 2012 is \$3,423.

In January 2013, ACCION leased office space in New York, New York that will serve as the new corporate office. The lease is set to expire in 2023 and includes options to rent additional space if available. In addition to the base rent for the premises, ACCION is required to pay real estate taxes and certain operating costs.

Future minimum lease payments are due as follows for the years ending after December 31, 2012:

2013	\$ 277,473
2014	250,705
2015	257,219
2016	264,062
2017	271,093
Thereafter	<u>1,512,358</u>
	<u>\$ 2,832,910</u>

Rent expense of \$330,915 and \$317,624 was included in office and occupancy expenses in the accompanying consolidated statement of functional expenses for the years ended December 31, 2012 and 2011, respectively.

NOTE 9 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets were available as of December 31, 2012 and 2011 for the following purposes and restrictions:

<u>Government Grants:</u>	<u>2012</u>	<u>2011</u>
Pollution emission-reduction program for New York/New Jersey ports	\$ 1,052,335	\$ 1,446,394
Microlending in Florida, Georgia, Massachusetts and New York	-	156,204
<u>Private Grants:</u>		
ACCION, The U.S. Network.	-	887,440
Partial payment guarantee on note due 2014	375,000	375,000
Financial literacy program	60,000	150,000
Lending to women	25,401	110,000
Florida-related lending program	10,000	25,500
Microlending to New York City cart vendors	-	5,761
Microlending in New York Tri-State area	88,000	436,300
Microlending – Sandy recovery program	58,545	-
Technology support	-	10,000
US veterans program	50,000	-
Other microlending support with certain geographic restrictions	19,850	47,850
<u>Loan Fund Grants:</u>		
Non-geographic women lending	556,703	338,000
Geographic specific women lending (Florida, Georgia and New York)	51,449	166,930
Upper Manhattan microloan capital (New York)	486,237	486,237
Lower Manhattan microloan capital (New York)	19,888	26,327
Food industry-specific microloan capital (Massachusetts)	314,852	441,771
New York State microloan capital	27,898	180,000
Florida State microloan capital	<u>78,205</u>	<u>78,204</u>
	<u>\$ 3,374,264</u>	<u>\$ 5,367,918</u>

ACCION East, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

NOTE 10 – CONCENTRATIONS

Cash and cash equivalents that potentially subject the Agency to a concentration of credit risk include cash accounts with banks that exceed the Federal Deposit Insurance Corporation (“FDIC”) insurance limits. Interest bearing accounts are insured up to \$250,000 per depositor. Through December 31, 2012, non interest bearing accounts are fully insured. Beginning in 2013, noninterest bearing accounts are insured the same as interest bearing accounts. As of December 31, 2012 and 2011, there were approximately \$1,700,000 and 3,308,000, respectively, of cash and cash equivalents held by banks that exceeded FDIC limits. Such excess includes outstanding checks.

NOTE 11 – RELATED-PARTY TRANSACTIONS

Effective December 31, 2008, ACCION entered into a shared services agreement with ACCION International for the use of shared office space and equipment, administrative support and information technology support. The agreement does not have a maturity date but can be terminated by either party in writing with ninety (90) days advance notice. In each of the years ended December 31, 2012 and 2011, amounts paid to ACCION International were \$150,000.

The Network was incorporated on December 7, 2011. ACCION entered into a trademark sublicense agreement with the Network that was effective December 31, 2011 and has an initial three-year term. The agreement provides for the legal use of the ‘ACCION’ brand by ACCION. In addition, ACCION entered into a membership dues agreement with the Network that sets forth the membership fee owed to the Network and the minimum performance standards required for membership. Membership dues paid for the year ended December 31, 2012 were \$18,000.

On January 1, 2012, ACCION and the Network entered into an agreement for ACCION to provide management and other administrative services to the Network. The agreement does not have a maturity date but can be terminated by either party in writing with ninety (90) days advance notice. During the year ended December 31, 2012, The Network paid \$18,000 for services to ACCION.

NOTE 12 – RETIREMENT PLAN

ACCION participates in a retirement savings plan covering all employees who meet the minimum service requirements. ACCION has the option to match its employees’ contributions up to 5% of employee salaries. ACCION made no matching contributions for the years that ended December 31, 2012 and 2011, respectively.

NOTE 13 – DEFICIT IN UNRESTRICTED NET ASSETS

During the year ending December 31, 2012, ACCION activities resulted in an unrestricted surplus of \$1,567,919, which created an overall surplus in unrestricted net assets of \$143,177 as of December 31, 2012. As of December 31, 2012, ACCION’s total net assets is \$3,517,441 because of \$3,374,264 in temporarily restricted net assets that support ACCION’s core lending activity, most of which are expected to be released to unrestricted net assets within a year (see Note 9).

The surplus in unrestricted net assets reflects a number of steps ACCION took, including: a workforce reduction to lower the cost structure, engaging fundraising consultants to augment new support revenue sources, selecting new leadership for resource development, budgeting future fundraising revenue in line with achieved levels, continued improvement in loan portfolio quality and increasing the income generated from our loan portfolio.

NOTE 14 – SUBSEQUENT EVENTS

Management has evaluated, for potential recognition and disclosure, events subsequent to the date of the statement of financial position through May 14, 2013 the date the consolidated financial statements were available to be issued. No events have occurred subsequent to the consolidated statement of financial position date through May 14, 2013 that would require adjustment or disclosure in the consolidated financial statements.

ACCION East, Inc.
CONSOLIDATING SCHEDULE OF FINANCIAL POSITION
AS OF DECEMBER 31, 2012

	<u>ACCION</u>	<u>ACCION-MA</u>	<u>Total</u>	<u>Consolidating Eliminations</u>	<u>Consolidated Total</u>
ASSETS					
Cash and cash equivalents	\$ 2,880,074	\$ 472,854	\$ 3,352,928	\$ -	\$ 3,352,928
Cash restricted for loan funds	971,200	5,838	977,038	-	977,038
Contributions and grants receivable, net	1,915,357	521,674	2,437,031	-	2,437,031
Loan interest receivable	36,584	-	36,584	-	36,584
Microenterprise loans receivable, net	5,767,687	700,454	6,468,141	-	6,468,141
Investments	-	931,756	931,756	-	931,756
Other assets	756,453	1,545,471	2,301,924	(1,815,531)	486,393
Property and equipment, net	305,166	29,595	334,761	-	334,761
TOTAL ASSETS	<u>\$ 12,632,521</u>	<u>\$ 4,207,642</u>	<u>\$ 16,840,163</u>	<u>\$ (1,815,531)</u>	<u>\$ 15,024,632</u>
LIABILITIES					
Accounts payable and accrued expenses	299,414	\$ 55,296	\$ 354,710	\$ -	\$ 354,710
Due to related parties	1,510,947	304,584	1,815,531	(1,815,531)	-
Other liabilities	169,125	25,788	194,913	-	194,913
Notes payable	4,439,243	5,418,325	9,857,568	-	9,857,568
Subordinated debt	600,000	500,000	1,100,000	-	1,100,000
TOTAL LIABILITIES	<u>7,018,729</u>	<u>6,303,993</u>	<u>13,322,722</u>	<u>(1,815,531)</u>	<u>11,507,191</u>
COMMITMENTS AND CONTINGENCIES					
NET ASSETS					
Unrestricted	3,092,434	(2,949,260)	143,174		143,174
Temporarily restricted	2,521,358	852,909	3,374,267	-	3,374,267
TOTAL NET ASSETS	<u>5,613,792</u>	<u>(2,096,351)</u>	<u>3,517,441</u>	<u>-</u>	<u>3,517,441</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 12,632,521</u>	<u>\$ 4,207,642</u>	<u>\$ 16,840,163</u>	<u>\$ (1,815,531)</u>	<u>\$ 15,024,632</u>

See Independent Auditors' Report.

ACCION East, Inc.
CONSOLIDATING SCHEDULE OF FINANCIAL POSITION
AS OF DECEMBER 31, 2011

	<u>ACCION</u>	<u>ACCION-MA</u>	<u>Total</u>	<u>Consolidating Eliminations</u>	<u>Consolidated Total</u>
ASSETS					
Cash and cash equivalents	\$ 2,992,230	\$ 2,145,304	\$ 5,137,534	\$ -	\$ 5,137,534
Cash restricted for loan funds	1,208,223	349,006	1,557,229	-	1,557,229
Contributions and grants receivable, net	2,699,634	623,193	3,322,827	-	3,322,827
Loan interest receivable	19,548	13,955	33,503	-	33,503
Microenterprise loans receivable, net	3,466,790	2,162,580	5,629,370	-	5,629,370
Investments	-	931,145	931,145	-	931,145
Other assets	2,247,180	1,005,733	3,252,913	(2,862,570)	390,343
Property and equipment, net	<u>266,642</u>	<u>48,664</u>	<u>315,306</u>	<u>-</u>	<u>315,306</u>
TOTAL ASSETS	<u>\$ 12,900,247</u>	<u>\$ 7,279,580</u>	<u>\$ 20,179,827</u>	<u>\$ (2,862,570)</u>	<u>\$ 17,317,257</u>
LIABILITIES					
Accounts payable and accrued expenses	\$ 180,241	\$ 113,031	\$ 293,272	\$ -	\$ 293,272
Due to related parties	879,000	1,983,570	2,862,570	(2,862,570)	-
Other liabilities	38,158	382,808	420,966	-	420,966
Notes payable	3,548,008	6,061,835	9,609,843	-	9,609,843
Subordinated debt	<u>2,550,000</u>	<u>500,000</u>	<u>3,050,000</u>	<u>-</u>	<u>3,050,000</u>
TOTAL LIABILITIES	<u>7,195,407</u>	<u>9,041,244</u>	<u>16,236,651</u>	<u>(2,862,570)</u>	<u>13,374,081</u>
COMMITMENTS AND CONTINGENCIES					
NET ASSETS					
Unrestricted	1,525,462	(2,900,204)	(1,374,742)	-	(1,374,742)
Temporarily restricted	<u>4,179,378</u>	<u>1,138,540</u>	<u>5,317,918</u>	<u>-</u>	<u>5,317,918</u>
TOTAL NET ASSETS	<u>5,704,840</u>	<u>(1,761,664)</u>	<u>3,943,176</u>	<u>-</u>	<u>3,943,176</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 12,900,247</u>	<u>\$ 7,279,580</u>	<u>\$ 20,179,827</u>	<u>\$ (2,862,570)</u>	<u>\$ 17,317,257</u>

See Independent Auditors' Report.

ACCION East, Inc.
CONSOLIDATING SCHEDULE OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2012

	<u>ACCION</u>	<u>ACCION-MA</u>	<u>Total</u>	<u>Consolidating Eliminations</u>	<u>Consolidated Totals</u>
SUPPORT AND REVENUE:					
Contributions and grants	\$ 4,695,084	\$ 126,869	\$ 4,821,953	\$ -	\$ 4,821,953
Revenue:					
Interest on loans	588,625	165,515	754,140	-	754,140
Program fees	303,985	16,134	320,119	-	320,119
Investment income	5,127	10,194	15,321	-	15,321
Other revenue	26,188	5,300	31,488	-	31,488
Total Revenue	<u>923,925</u>	<u>197,143</u>	<u>1,121,068</u>	<u>-</u>	<u>1,121,068</u>
TOTAL SUPPORT AND REVENUE	<u>5,619,009</u>	<u>324,012</u>	<u>5,943,021</u>	<u>-</u>	<u>5,943,021</u>
EXPENSES:					
Program services:					
Lending/Development Services	3,745,814	539,298	4,285,112	-	4,285,112
Network	888,530	-	888,530	-	888,530
Total program services	<u>4,634,344</u>	<u>539,298</u>	<u>5,173,642</u>	<u>-</u>	<u>5,173,642</u>
Supporting services:					
Management and general	645,383	74,567	719,950	-	719,950
Fundraising	430,330	44,834	475,164	-	475,164
Total supporting services	<u>1,075,713</u>	<u>119,401</u>	<u>1,195,114</u>	<u>-</u>	<u>1,195,114</u>
TOTAL EXPENSES	<u>5,710,057</u>	<u>658,699</u>	<u>6,368,756</u>	<u>-</u>	<u>6,368,756</u>
CHANGE IN NET ASSETS	(91,048)	(334,687)	(425,735)	-	(425,735)
Net assets - beginning of year	<u>5,704,840</u>	<u>(1,761,664)</u>	<u>3,943,176</u>	<u>-</u>	<u>3,943,176</u>
NET ASSETS - END OF YEAR	<u>\$ 5,613,792</u>	<u>\$ (2,096,351)</u>	<u>\$ 3,517,441</u>	<u>\$ -</u>	<u>\$ 3,517,441</u>

See Independent Auditors' Report.

ACCION East, Inc.
CONSOLIDATING SCHEDULE OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2011

	<u>ACCION</u>	<u>ACCION-MA</u>	<u>Total</u>	<u>Consolidating Eliminations</u>	<u>Consolidated Totals</u>
SUPPORT AND REVENUE:					
Contributions and grants	\$ 4,848,467	\$ 319,848	\$ 5,168,315	\$ -	\$ 5,168,315
Revenue:					
Interest on loans	386,217	330,904	717,121	-	717,121
Program fees	157,938	106,699	264,637	-	264,637
Investment income	4,310	35,914	40,224	-	40,224
Other revenue	604	3,138	3,742	-	3,742
Total Revenue	<u>549,069</u>	<u>476,655</u>	<u>1,025,724</u>	<u>-</u>	<u>1,025,724</u>
TOTAL SUPPORT AND REVENUE	<u>5,397,536</u>	<u>796,503</u>	<u>6,194,039</u>	<u>-</u>	<u>6,194,039</u>
EXPENSES:					
Program services:					
Lending/Development Services	2,828,275	1,839,527	4,667,802	-	4,667,802
Network	662,560	-	662,560	-	662,560
Total program services	<u>3,490,835</u>	<u>1,839,527</u>	<u>5,330,362</u>	<u>-</u>	<u>5,330,362</u>
Supporting services:					
Management and general	463,596	320,295	783,891	-	783,891
Fundraising	242,408	204,589	446,997	-	446,997
Total supporting services	<u>706,004</u>	<u>524,884</u>	<u>1,230,888</u>	<u>-</u>	<u>1,230,888</u>
TOTAL EXPENSES	<u>4,196,839</u>	<u>2,364,411</u>	<u>6,561,250</u>	<u>-</u>	<u>6,561,250</u>
CHANGE IN NET ASSETS	1,200,697	(1,567,908)	(367,211)	-	(367,211)
Net assets - beginning of year	<u>4,504,143</u>	<u>(193,756)</u>	<u>4,310,387</u>	<u>-</u>	<u>4,310,387</u>
NET ASSETS - END OF YEAR	<u>\$ 5,704,840</u>	<u>\$ (1,761,664)</u>	<u>\$ 3,943,176</u>	<u>\$ -</u>	<u>\$ 3,943,176</u>

See Independent Auditors' Report.

ACCION East, Inc.
CONSOLIDATING SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2012

	ACCION - NY							ACCION-MA					ACCION East, Inc.						
	Program Services			Supporting Services				Program Services		Supporting Services			Program Services			Supporting Services			Consolidated Total
	Lending/ Development Services	Network	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total	Lending/ Development Services	Management and General	Fundraising	Total Supporting Services	Total	Program Services Lending and Education	Program Services - Network	Total Program Services	Management and General	Fundraising	Total Supporting Services	
Personnel costs	\$ 2,271,165	\$ 466,857	\$ 2,738,022	\$ 453,358	\$ 303,770	\$ 757,128	\$ 3,495,150	\$ 491	\$ 1,306	\$ -	\$ 1,306	\$ 1,797	\$ 2,271,656	\$ 466,857	\$ 2,738,513	\$ 454,664	\$ 303,770	\$ 758,434	\$ 3,496,947
Professional fees and marketing	384,481	76,213	460,694	35,849	23,951	59,800	520,494	69,905	13,874	9,249	23,123	93,028	454,386	76,213	530,599	49,723	33,200	82,923	613,522
Office and occupancy	270,779	74,596	345,375	51,599	32,893	84,492	429,867	195,780	36,688	22,655	59,343	255,123	466,559	74,596	541,155	88,287	55,548	143,835	684,990
Travel and conferences	32,847	61,905	94,752	12,799	7,930	20,729	115,481	29,013	2,583	1,902	4,485	33,498	61,860	61,905	123,765	15,382	9,832	25,214	148,979
Interest and fees	129,151	-	129,151	2,988	1,996	4,984	134,135	195,715	3,455	2,303	5,758	201,473	324,866	-	324,866	6,443	4,299	10,742	335,608
Depreciation and amortization	81,115	-	81,115	16,235	10,847	27,082	108,197	14,293	2,866	1,910	4,776	19,069	95,408	-	95,408	19,101	12,757	31,858	127,266
Loan loss provision	311,471	-	311,471	-	-	-	311,471	-	-	-	-	-	311,471	-	311,471	-	-	-	311,471
Other expenses	264,805	208,959	473,764	72,555	48,943	121,498	595,262	34,101	13,795	6,815	20,610	54,711	298,906	208,959	507,865	86,350	55,758	142,108	649,973
TOTAL EXPENSES	\$ 3,745,814	\$ 888,530	\$ 4,634,344	\$ 645,383	\$ 430,330	\$ 1,075,713	\$ 5,710,057	\$ 539,298	\$ 74,567	\$ 44,834	\$ 119,401	\$ 658,699	\$ 4,285,112	\$ 888,530	\$ 5,173,642	\$ 719,950	\$ 475,164	\$ 1,195,114	\$ 6,368,756

ACCION East, Inc.
CONSOLIDATING SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2011

	ACCION							ACCION-MA					ACCION East, Inc.						
	Program Services			Supporting Services				Program Services		Supporting Services			Program Services			Supporting Services			Consolidated Total
	Lending/Development Services	Network	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total	Lending/Development Services	Management and General	Fundraising	Total Supporting Services	Total	Program Services Lending and Education	Program Services - Network	Total Program Services	Management and General	Fundraising	Total Supporting Services	
Personnel costs	\$ 1,189,983	\$ 409,885	\$ 1,599,868	\$ 237,997	\$ 159,844	\$ 397,841	\$ 1,997,709	\$ 1,194,117	\$ 238,815	\$ 159,211	\$ 398,026	\$ 1,592,143	\$ 2,384,100	\$ 409,885	\$ 2,793,985	\$ 476,812	\$ 319,055	\$ 795,867	\$ 3,589,852
Professional fees and marketing	428,473	166,932	595,405	112,583	19,843	132,426	727,831	88,747	17,749	11,833	29,582	118,329	517,220	166,932	684,152	130,332	31,676	162,008	846,160
Office and occupancy	288,828	50,380	339,208	54,591	35,002	89,593	428,801	188,375	34,286	22,470	56,756	245,131	477,203	50,380	527,583	88,877	57,472	146,349	673,932
Travel and conferences	27,727	33,821	61,548	15,615	1,697	17,312	78,860	37,123	2,429	4,567	6,996	44,119	64,850	33,821	98,671	18,044	6,264	24,308	122,979
Interest and fees	178,695	-	178,695	5,117	-	5,117	183,812	180,898	16,352	-	16,352	197,250	359,593	-	359,593	21,469	-	21,469	381,062
Depreciation and amortization	105,296	1,212	106,508	21,059	14,077	35,136	141,644	41,645	8,328	5,553	13,881	55,526	146,941	1,212	148,153	29,387	19,630	49,017	197,170
Loan loss provision	597,288	-	597,288	-	-	-	597,288	104,977	-	-	-	104,977	702,265	-	702,265	-	-	-	702,265
Other expenses	11,985	330	12,315	16,634	11,945	28,579	40,894	3,645	2,336	955	3,291	6,936	15,630	330	15,960	18,970	12,900	31,870	47,830
TOTAL EXPENSES	\$ 2,828,275	\$ 662,560	\$ 3,490,835	\$ 463,596	\$ 242,408	\$ 706,004	\$ 4,196,839	\$ 1,839,527	\$ 320,295	\$ 204,589	\$ 524,884	\$ 2,364,411	\$ 4,667,802	\$ 662,560	\$ 5,330,362	\$ 783,891	\$ 446,997	\$ 1,230,888	\$ 6,561,250