



Montemayor Hill & Company, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

PEOPLEFUND
INDEPENDENT AUDITOR'S REPORT
AND
CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010



Montemayor Hill & Company, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
PeopleFund

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying consolidated statements of financial position of PeopleFund, as of December 31, 2011 and 2010, and the related consolidated statements of activities, and cash flows for the years then ended. These consolidated financial statements are the responsibility of management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of PeopleFund as of December 31, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated 7 June 2012 on our consideration of PeopleFund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*.

Our audit was conducted for the purpose of forming an opinion on the consolidated basic financial statements taken as a whole. The accompanying supplemental statement of activities is presented for additional analysis and is not a required part of the basic consolidated financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic consolidated financial statements taken as a whole.

7 June 2012
Austin, Texas

Montemayor Hill & Company, P.C.

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PEOPLETUND - CONSOLIDATED
STATEMENT OF FINANCIAL POSITION

	Dec 31,	
	2011	2010
ASSETS		
Cash	\$ 1,493,755	\$ 544,564
Restricted Cash	439,168	-
Short-Term Investments	2,340,928	2,512,887
Accounts Receivable:		
Accrued Income	29,901	41,462
Grants & Contributions	61,240	223,046
Other	-	1,226
Prepaid Expenses	23,918	13,528
Fixed Assets, net	3,186,846	3,272,928
Other Real Estate Owned (land)	59,150	65,000
Loans Receivable:		
Small Business Loan Fund	5,943,190	6,366,652
SBA Microloan Fund	60,431	-
Total Loans Receivable	6,003,621	6,366,652
(Allowance for Loan Losses)	(695,452)	(445,667)
Loans Receivable, net	5,308,169	5,920,985
TOTAL ASSETS	\$ 12,943,075	\$ 12,595,626
LIABILITIES		
A/P and Accrued Expenses	\$ 100,033	\$ 178,907
Short-Term Debt	50,000	50,000
Notes Payable		
Funds provided for Programs	4,860,000	4,300,000
SBA Microloan Funds	350,000	-
Non-Interest Bearing Debt	500,000	500,000
Total Notes Payable	5,710,000	4,800,000
Deferred Revenue	37,500	-
Other Long-Term Liabilities	50,634	-
Total Liabilities	5,948,167	5,028,907
NET ASSETS		
Unrestricted	6,836,873	-
Temporarily Restricted	158,035	7,566,719
Total Net Assets	6,994,908	7,566,719
TOTAL LIABILITIES & NET ASSETS	\$ 12,943,075	\$ 12,595,626

The accompanying notes are an integral part of this financial statement presentation.

**PEOPLEFUND - CONSOLIDATED
STATEMENT OF ACTIVITIES**

	2011			2010		
	Unrestricted	Temp Restricted	Total	Unrestricted	Temp Restricted	Total
INCOME						
Small Business Lending Program	\$ 872,265	\$ -	\$ 872,265	\$ 620,986	\$ -	\$ 620,986
Affordable Housing Program	193,956	-	193,956	137,919	-	137,919
Investment Income	28,041	-	28,041	68,487	-	68,487
Other Operating Income	50,198	-	50,198	3,993	-	3,993
Grants & Contracts	452,000	167,500	619,500	459,605	-	459,605
Donations	195,489	-	195,489	100,209	13,995	114,204
Special Events	51,359	-	51,359	73,176	-	73,176
Net Assets Released	9,465	(9,465)	-	13,995	(13,995)	-
Gross Income	1,852,773	158,035	2,010,808	1,478,370	-	1,478,370
EXPENSES						
Bad Debt Provision	571,373	-	571,373	885,466	-	885,466
Interest Expense	111,255	-	111,255	99,017	-	99,017
Personnel	1,018,643	-	1,018,643	963,549	-	963,549
Office & Administrative	110,133	-	110,133	70,898	-	70,898
Depreciation & Amortization	99,222	-	99,222	35,074	-	35,074
Marketing & Outreach	66,869	-	66,869	17,833	-	17,833
Property Tax	50,400	-	50,400	7,217	-	7,217
Insurance	44,499	-	44,499	16,887	-	16,887
Other	92,368	-	92,368	230,301	-	230,301
Total Operating Expenses	2,164,762	-	2,164,762	2,326,242	-	2,326,242
Operating Income, net	(311,989)	158,035	(153,954)	(847,872)	-	(847,872)
INFREQUENT ITEMS						
Capital Campaign	-	-	-	1,678,928	-	1,678,928
Disposal of PeopleTrust	(147,493)	-	(147,493)	-	-	-
Change in Accounting Policy	(270,364)	-	(270,364)	-	-	-
Total Infrequent Items	(417,857)	-	(417,857)	1,678,928	-	1,678,928
CHANGE IN NET ASSETS						
	(729,846)	158,035	(571,811)	831,056	-	831,056
Net Assets, beginning of year	7,566,719	-	7,566,719	6,735,663	-	6,735,663
Net Assets, end of year	\$ 6,836,873	\$ 158,035	\$ 6,994,908	\$ 7,566,719	\$ -	\$ 7,566,719

The accompanying notes are an integral part of this financial statement presentation.

PEOPLEFUND

STATEMENT OF CASH FLOWS

	Years Ended Dec 31,	
	2011	2010
<u>Cash Flow from Operating Activities:</u>		
Change in Net Assets	\$ (571,811)	\$ 831,056
<i>Adjustments to change in net assets:</i>		
Depreciation & Amortization	99,222	35,074
Provision for loan losses	841,637	885,466
Non-Cash Contributions	(150,000)	(150,000)
Change in Restricted Cash	(439,168)	-
Change in Current Assets	150,675	261,964
Change in Current Liabilities	(28,874)	(164,444)
Change in Deferred Revenue	37,500	-
Change in Long-Term Liabilities	50,634	-
Change in Other Assets	19,378	(12,003)
Net Cash Flow From Operations	9,193	1,687,113
<u>Cash Flow from Investing Activities:</u>		
Portfolio Activities		
Principal Issued	(2,560,747)	(2,573,499)
Principal Repaid	2,331,926	1,407,778
Net Portfolio Change	(228,821)	(1,165,721)
Investment Activity		
Purchase of Investments	(600,000)	-
Sale of Investments	800,000	495,574
(Gain)/Loss on Investments	(28,041)	4,779
Net Change in Investments	171,959	500,353
Fixed Asset Purchase	(13,140)	(2,357,395)
Net Cash Flow From Investing	(70,002)	(3,022,763)
<u>Cash Flow from Financing Activities:</u>		
Borrowings		
Proceeds from long-term borrowings	1,360,000	1,350,000
Repayments of long-term borrowings	(350,000)	-
Net Borrowings	1,010,000	1,350,000
Net Cash Flow From Financing	1,010,000	1,350,000
Net Cash Flow	949,191	14,350
<u>Change in Cash:</u>		
Cash, beginning of the year	544,564	530,214
Cash, end of the year	\$ 1,493,755	\$ 544,564

The accompanying notes are an integral part of this financial statement presentation

PEOPLEFUND

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: ORGANIZATION

PeopleFund (formerly Austin Community Development Corporation) is a 501(c)(3) a non-profit corporation whose mission is to promote economic vitality and opportunity in low-income communities by providing financial services and technical assistance that will: create jobs, provide needed goods and services, improve the physical environment, promote diversity in entrepreneurial success, and build individual and community assets. PeopleFund provides financing and comprehensive technical assistance services to businesses, community organizations and microenterprises in lower-income communities throughout Texas.

PeopleTrust is organized as a Type 1 support organization of PeopleFund with its own 501(c)(3) status. Until October 31, 2011, fifty-one percent of the PeopleTrust Board was appointed by PeopleFund. PeopleTrust's purpose is to create permanent affordable housing in Austin and allow working families an opportunity to purchase safe and affordable housing. The statements of activities of PeopleFund and PeopleTrust have been consolidated through October 31, 2011. Effective November 1, 2011, PeopleTrust changed its By-Laws such that it no longer met the consolidation criteria to be consolidated with PeopleFund. (See Note 13).

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF ACCOUNTING

PeopleFund prepares its financial statements on the accrual basis of accounting whereby revenues and expenses are recognized in the period earned or incurred.

FINANCIAL STATEMENT PRESENTATION

PeopleFund is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. In addition, PeopleFund is required to present a statement of cash flows. PeopleFund has reclassified its financial statements to present the classes of net assets required. At year-end, PeopleFund had no permanently restricted net assets.

Unrestricted Net Assets

Unrestricted net assets result from operating revenues, unrestricted contributions, unrestricted investment income, less expenses incurred in operations and for fundraising and administrative functions.

Temporarily Restricted Net Assets

Temporarily restricted net assets represent resources currently available for use, but expendable only for those operating purposes specified by the donor. At December 31, 2011 temporarily restricted net assets were restricted for use in small business lending initiatives.

PEOPLETUND

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of demand deposits and highly liquid investments with maturities of less than three months. The carrying value of cash and cash equivalents approximates fair value due to the short-term nature of those financial instruments.

INVESTMENTS

Investments are stated at fair value in the statement of financial position with any realized or unrealized gains and losses reported in the statement of activities.

FIXED ASSETS

Acquisitions of fixed assets valued at \$1,000 or more are stated at cost if purchased or fair value if donated. Depreciation is computed using the straight-line method over the estimated useful life of the asset, generally 5 to 39 years.

REVENUE

Cost-reimbursement grants and contracts are recognized as revenue as services are performed or as costs have been incurred. Contributions are recorded as support when funds are awarded.

Loan interest is accrued monthly and loan fees are recorded as earned.

Consulting fees are recognized as services are rendered.

CONTRIBUTIONS

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Temporarily restricted net assets are reclassified to unrestricted net assets upon expiration of time restriction or when purpose restrictions have been met. Unconditional promises to give are recorded when received. Unconditional promises to give due in the next year are recorded at their net realized value.

ESTIMATES

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

PEOPLEFUND

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

SUBSEQUENT EVENTS

PeopleFund has evaluated subsequent events as of June 7, 2012, the date the financial statements were available to be issued.

FEDERAL INCOME TAX

PeopleFund is a nonprofit organization exempt from Federal income taxes under IRS Code Section 501(c)(3). Therefore, no provision has been made for Federal income taxes in the accompanying consolidated financial statements.

RECLASSIFICATIONS

Certain prior year amounts have been reclassified to conform to the current year presentation.

NOTE 3: RESTRICTED CASH

Cash in the amount of \$439,168 is restricted by donors for use in specific loan funding programs.

NOTE 4: CONCENTRATIONS

PeopleFund's financial instruments exposed to concentrations of credit risk consist of investments which are held in brokerage accounts and cash deposits with financial institutions. PeopleFund has not experienced any losses due to this credit risk. As of December 31, 2011 and 2010, investments in excess of SIPC insurance amounted to \$1,840,928 and \$2,012,888, respectively, and cash deposits in excess of FDIC insurance amounted to \$75,155 and \$230,375, respectively.

During 2010, PeopleFund received 67% of its total revenue from two non-recurring government grants related to PeopleFund's capital campaign.

NOTE 5: DEFINED CONTRIBUTION PLAN

PeopleFund provides a 401(k) plan to all full time employees that have completed at least three months of service. In 2011, People Fund provided a 50% match on employee contributions up to 6% of salary. In 2010, People Fund provided a 100% match on employee contributions up to 3% of salary. Total company matching contributions during the years ended December 31, 2011 and 2010 were \$15,033 and \$16,862, respectively.

PEOPLEFUND

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6: LOANS RECEIVABLE

Loans receivable are stated at the principal amount outstanding. Interest income on loans is computed based on the outstanding loan balance and is accrued as it becomes receivable under the contractual terms of the note. Loans receivable are considered delinquent when payments are past due 30 days or more.

Allowance for loan losses is increased by provisions for loan losses charged to operating expense and reduced by loans charged off. Allowances are determined based on management's evaluation of the collateralization of loans, historical losses, current and anticipated economic conditions, and other relevant factors. The allowance for loan losses is deemed by management to be adequate to absorb future loan losses.

Loans receivable may or may not require collateral. Collateral, if applicable, generally consists of various business and/or personal assets of the borrowers.

PeopleFund had contractual agreements to loan \$309,417 and \$83,890 in funds not yet disbursed as of December 31, 2011 and 2010 respectively.

The allowance for credit losses and recorded investment in financing receivables by class as of December 31, 2011 is as follows:

	Small Business <u>Loans</u>	SBA <u>Microloans</u>	<u>Total</u>
Gross financing receivables balance	<u>\$5,943,190</u>	<u>\$60,431</u>	<u>\$6,003,621</u>

Quality Measures

Payment Activity:

Performing	\$5,422,875	\$60,431	\$5,483,306
Non-accrual	<u>520,315</u>	<u>0</u>	<u>520,315</u>
	<u>\$5,943,190</u>	<u>\$60,431</u>	<u>\$6,003,621</u>

Payment Status:

Current	\$5,319,354	\$60,431	\$5,379,785
30-59 days past due	63,040	0	63,040
60-89 days past due	45,127	0	45,127
90+ days past due	<u>515,669</u>	<u>0</u>	<u>515,669</u>
	<u>\$5,943,190</u>	<u>\$60,431</u>	<u>\$6,003,621</u>

PEOPLEFUND

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6: LOANS RECEIVABLE

	Small Business Loans	SBA Microloans	Total
<u>Allowance for Credit Losses</u>			
Balance:			
Beginning balance	\$445,667	\$0	\$445,667
Charge-offs	(574,974)	0	(574,974)
Provisions	<u>815,694</u>	<u>9,065</u>	<u>824,759</u>
	<u>\$686,387</u>	<u>\$9,065</u>	<u>\$695,452</u>
Components:			
Aggregated risk	\$297,160	\$0	\$297,160
Non-aggregated risk based on collateral	220,574	0	220,574
Non-aggregated risk based on delinquencies	168,653	0	168,653
Cash reserve	<u>0</u>	<u>9,065</u>	<u>9,065</u>
	<u>\$686,387</u>	<u>\$9,065</u>	<u>\$695,452</u>

NOTE 7: INVESTMENTS

	<u>2011</u>	<u>2010</u>
Cash and cash equivalents	\$655,116	\$394,452
U.S. Treasury notes	406,240	361,019
Federal Home loans	336,711	550,236
Corporate bonds	<u>942,861</u>	<u>1,207,180</u>
	<u>\$2,340,928</u>	<u>\$2,512,887</u>
Components of investments earnings:		
	<u>2011</u>	<u>2010</u>
Interest and dividends	\$37,305	\$68,487
Net realized and unrealized gain/(loss)	<u>(9,264)</u>	<u>(4,779)</u>
	<u>\$28,041</u>	<u>\$63,708</u>

PEOPLEFUND

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8: FIXED ASSETS

Fixed assets consist of the following:

	<u>2011</u>	<u>2010</u>
Land	\$379,879	\$379,879
Building and improvements	2,773,277	2,766,853
Furniture and equipment	70,903	70,903
Office equipment	76,541	75,433
Software and other intangibles	<u>31,421</u>	<u>25,813</u>
	3,332,021	3,318,881
Accumulated depreciation	<u>(145,175)</u>	<u>(45,953)</u>
	<u>\$3,186,846</u>	<u>\$3,272,928</u>

NOTE 9: NOTES PAYABLE

	<u>2011</u>	<u>2010</u>
Notes payable to various banks, foundations, and individuals at interest rates between 1.5% and 3.25%, with various payment terms. Full principal amounts are due at maturity and maturity dates vary through December 2019.	\$4,010,000	\$3,900,000
Note payable to the City of Austin, at 0% interest, the entire amount forgivable on July 30, 2015 if compliance with terms of the Loan Agreement are met. In the event of default, the note begins to accrue interest at a rate of 6%. The note is collateralized by the building.	500,000	500,000
Note payable to the Small Business Administration (SBA) currently at 1% interest, with varying repayment amounts, maturing in July 2021. The note is collateralized by balances held in two restricted cash accounts, as well as an interest in any notes receivable funded through the SBA Microloan program.	350,000	0
Two notes payable to the Federal Community Development Financial Institution at interest rates between 2% and 2.11%, due fully at maturity and maturity dates vary through September 2019.	<u>900,000</u>	<u>450,000</u>
	<u>\$5,760,000</u>	<u>\$4,850,000</u>

PEOPLEFUND

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9: NOTES PAYABLE

The carrying value of the assets pledged as collateral on loans are as follows:

	<u>2011</u>	<u>2010</u>
Building and improvements	\$2,684,259	\$2,749,148
Restricted cash	364,186	0
Notes receivable	<u>60,431</u>	<u>0</u>
	<u>\$3,108,876</u>	<u>\$2,749,148</u>
Maturities:		
2012	\$277,044	
2013	505,194	
2014	1,115,679	
2015	856,168	
2016	756,661	
Thereafter	<u>2,249,254</u>	
	<u>\$5,760,000</u>	

NOTE 10: FUNCTIONAL EXPENSES

The costs of providing various programs and activities have been summarized on a natural basis in the consolidated statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefitted.

	<u>2011</u>	<u>2010</u>
Program	\$1,540,707	\$1,930,460
General and administrative	361,438	161,003
Fundraising	<u>262,617</u>	<u>234,779</u>
	<u>\$2,164,762</u>	<u>\$2,326,242</u>

PEOPLEFUND

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11: FAIR VALUE DISCLOSURES

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>2011</u>			
Investments	<u>\$2,340,928</u>	<u>\$0</u>	<u>\$0</u>
<u>2010</u>			
Investments	<u>\$2,512,887</u>	<u>\$0</u>	<u>\$0</u>
Contributed goods and services	<u>\$0</u>	<u>\$93,267</u>	<u>\$0</u>

NOTE 12: LEASES

PeopleFund leases office space to various tenants under noncancellable commercial leases, for lease terms of less than four years. At December 31, 2011, the minimum rentals to be received were as follows:

2012	\$75,339
2013	77,525
2014	<u>51,397</u>
	<u>\$204,261</u>

NOTE 13: INFREQUENT ITEMS

1. PeopleFund entered into an agreement with Austin Habitat for Humanity (Habitat), effective November 1, 2011, whereby Habitat became the organization supported by PeopleTrust, and whereby PeopleFund no longer was the organization supported by PeopleTrust. As part of this agreement, PeopleTrust paid PeopleFund \$200,000 to reimburse PeopleFund for expenses paid on PeopleTrust's behalf, and for contributions provided by PeopleFund to support PeopleTrust's operations. The amount recognized represents the net assets of PeopleTrust less the \$200,000 received.

2. In 2011, based on current assessment of economic conditions and estimation of the likelihood of collection, PeopleFund revised its methodology to value uncollectible notes receivable. Accordingly, the allowance for loan losses was increased from 7% of the outstanding notes receivable balance to 12%. The effect of the change in the current year was to record an additional provision for losses of \$270,364, as reported in the consolidated Statement of Activities.

PEOPLETUND

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 13: INFREQUENT ITEMS

3. During 2010, PeopleFund received a building construction grant of \$1,678,928.

Management has reported these items as infrequent because they are types of items that are not reasonably expected to occur in the foreseeable future, taking into account the environment in which PeopleFund operates.



Montemayor Hill & Company, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
PeopleFund

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

We have audited the consolidated financial statements of PeopleFund as of and for the year ended December 31, 2011, and have issued our report thereon dated 7 June 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered PeopleFund's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of PeopleFund's internal control over financial reporting. Accordingly, we do not express an opinion of the effectiveness of PeopleFund's internal control over financial reporting.

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 misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether PeopleFund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations,

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contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the audit committee, management, Board of Directors, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Montemayor Hild & Company, P.C.

7 June 2012
Austin, Texas



Montemayor Hill & Company, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
PeopleFund

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT
COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH *OMB CIRCULAR A-133*

Compliance

We have audited the compliance of PeopleFund with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the PeopleFund's major federal programs for the year ended December 31, 2011. PeopleFund's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of PeopleFund's management. Our responsibility is to express an opinion on PeopleFund's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about PeopleFund's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on PeopleFund's compliance with those requirements.

In our opinion, PeopleFund complied, in all material respects, with the 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, 2011.

Internal Control Over Compliance

Management of PeopleFund is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs.

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In planning and performing our audit, we considered PeopleFund's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 PeopleFund'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.

Our consideration of the 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 deficiencies, significant deficiencies, or material weaknesses. We did not identify deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended for the information of the audit committee, management, Board of Directors, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Montemayor Hill & Casper, P.C.

7 June 2012
Austin, Texas

PEOPLETUND

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED DECEMBER 31, 2011

<u>Federal Grantor/ Pass-through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Agency or Pass-through Number</u>	<u>Expenditures</u>
U.S. Department of Treasury/ Community Development Financial Institutions Fund	21.020	021CD003976	\$400,000
U.S. Small Business Administration Microloan Program	59.046	4619435004	<u>350,000</u>
			<u>750,000</u>
Passed through the City of Austin:			
U.S. Department of Housing and Urban Development/ ARRA-CDBG-R loan agreement	14.253		500,000
U.S. Department of Housing and Urban Development/ CDBG Small Business Development Services	14.218	PA100000027	<u>150,000</u>
			<u>650,000</u>
			<u>\$1,400,000</u>

Note: See notes to the financial statements on pages 6-12 for the description of the basis of accounting and significant accounting policies used in preparing the above schedule.

See independent auditor's report.

PEOPLETUND

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED DECEMBER 31, 2011

A. SUMMARY OF AUDITOR'S RESULTS

FINANCIAL STATEMENTS

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
Material weakness(es) identified?	None noted
Significant deficiency(ies) identified that are not considered material weakness(es)?	None noted
Noncompliance material to financial statements noted?	None noted

FEDERAL AWARDS

Internal controls over major program compliance:	
Material weakness(es) identified?	None noted
Significant deficiency(ies) identified that are not considered material weakness(es)?	None noted
Type of auditor's report issued on compliance with major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	None noted
Major Programs: CFDA#59.046 and #14.253	
Dollar threshold used to distinguish between Type A and Type B programs:	\$300,000
Auditee qualified as a low-risk auditee?	No

B. FINANCIAL STATEMENT FINDINGS None noted

C. FEDERAL AWARD FINDING AND QUESTIONED COSTS None noted

PEOPLET FUND

SUPPLEMENTAL STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2011

	PeopleFund	PeopleTrust	Total	Eliminating Entries		Consolidated
				Debit	Credit	
REVENUE						
Portfolio income	\$872,265	\$0	\$872,265			\$872,265
Grants and contracts	489,500	130,000	619,500			619,500
Contributions	195,489	0	195,489			195,489
Affordable Housing program income	0	193,956	193,956			193,956
Special events	49,010	2,349	51,359			51,359
Investment income	28,041	0	28,041			28,041
Other	44,192	6,006	50,198			50,198
Management fee income	120,483	0	120,483	120,483		0
	<u>1,798,980</u>	<u>332,311</u>	<u>2,131,291</u>			<u>2,010,808</u>
EXPENSES						
Personnel	864,200	154,443	1,018,643			1,018,643
Bad debt provision	571,373	0	571,373			571,373
Professional services	37,134	1,164	38,298			38,298
Interest and fees	111,255	0	111,255			111,255
Property tax	50,400	0	50,400			50,400
Office and administrative	63,482	46,651	110,133			110,133
Depreciation	99,222	0	99,222			99,222
Marketing and promotion	60,234	6,635	66,869			66,869
Travel, training, and entertainment	16,262	285	16,547			16,547
Insurance	39,924	4,575	44,499			44,499
Technology	36,652	0	36,652			36,652
Other	0	871	871			871
Management fees	0	120,483	120,483	120,483		0
	<u>1,950,138</u>	<u>335,107</u>	<u>2,285,245</u>			<u>2,164,762</u>
CHANGE IN NET ASSETS, before infrequent items	(151,158)	(2,796)	(153,954)			(153,954)
DISPOSAL OF PEOPLET RUST	(147,493)	0	(147,493)			(147,493)
CHANGE IN ALLOWANCE FOR LOAN LOSS	(270,364)	0	(270,364)			(270,364)
CHANGE IN NET ASSETS, after infrequent items	<u>(569,015)</u>	<u>(2,796)</u>	<u>(571,811)</u>			<u>(571,811)</u>
BEGINNING NET ASSETS	7,416,430	150,289	7,566,719			7,566,719
ENDING NET ASSETS	<u>\$ 6,847,415</u>	<u>\$ 147,493</u>	<u>\$ 6,994,908</u>			<u>\$ 6,994,908</u>

See independent auditor's report.