

PeopleFund

Report of Independent Auditor and
Consolidated Financial Statements and Reports
on Federal Award Programs in Accordance with
the Uniform Guidance

December 31, 2019 and 2018



PEOPLESFUND
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December 31, 2019 and 2018

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Report of Independent Auditor

To the Board of Directors of
PeopleFund
Austin, TX

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of PeopleFund (the “Organization”), which comprise the consolidated statements of financial position as of December 31, 2019 and 2018, and the related consolidated 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 consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor’s Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of 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 consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Organization as of December 31, 2019 and 2018, and the consolidated changes in its net assets and 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 3 to the consolidated financial statements, the 2018 consolidated financial statements have been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

As discussed in Note 16 to the consolidated financial statements, PeopleFund's operations have been negatively impacted by the COVID-19 pandemic in 2020. The financial impact to the consolidated financial statements cannot be reasonably estimated at this time. Our opinion is not modified with respect to this matter.

Other Matter - Supplementary Information Required by Uniform Guidance

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

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated April 29, 2020, on our consideration of the Organization'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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

PMB HELIN DONOVAN, LLP

PMB Helin Donovan, LLP

April 29, 2020
Austin, Texas

PeopleFund
Consolidated Statements of Financial Position
December 31, 2019 and 2018

	<u>2019</u>	<u>2018*</u>
ASSETS		
Cash and cash equivalents	\$ 1,140,968	\$ 1,276,070
Short-term investments	7,615,891	7,350,212
Accrued interest	172,054	159,604
Accounts receivable	1,384,254	424,248
Prepaid expenses	56,018	118,139
Current loans receivable, net	<u>5,433,048</u>	<u>5,211,048</u>
Total current assets	15,802,233	14,539,321
Other assets	42,007	22,487
Reserved cash and other assets	1,828,207	3,715,161
Long term loans receivable, net	22,978,598	20,116,400
Fixed assets, net	<u>3,135,701</u>	<u>3,232,733</u>
Total assets	<u><u>\$ 43,786,746</u></u>	<u><u>\$ 41,626,102</u></u>
LIABILITIES		
Accounts payable	\$ 960,494	\$ 2,836,134
Accrued expenses	222,499	183,837
Current notes payable	<u>6,800,449</u>	<u>6,312,762</u>
Total current liabilities	7,983,442	9,332,733
Long term notes payable	24,641,739	21,857,218
Other long-term liabilities	<u>14,131</u>	<u>74,942</u>
Total liabilities	<u><u>32,639,312</u></u>	<u><u>31,264,893</u></u>
NET ASSETS		
Without donor restrictions:		
Undesignated	9,139,368	8,182,496
Board designated	<u>1,800,000</u>	<u>1,700,000</u>
Total without donor restrictions	10,939,368	9,882,496
With donor restrictions	<u>208,066</u>	<u>478,713</u>
Total net assets	<u><u>11,147,434</u></u>	<u><u>10,361,209</u></u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 43,786,746</u></u>	<u><u>\$ 41,626,102</u></u>

*As restated - See Note 3

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

PeopleFund
Consolidated Statements of Activities
For the Years Ended December 31, 2019 and 2018

	2019		
	Without donor restrictions	With donor restrictions	Total
INCOME			
Small business lending program	\$ 2,170,575	\$ -	\$ 2,170,575
Bad debt recovery	735,125	-	735,125
Investment income (loss), net	865,868	-	865,868
NMTC income	909,220	-	909,220
504 income	159,892	-	159,892
Government grants	911,108	-	911,108
Contributions	774,000	613,000	1,387,000
Donations	50,680	-	50,680
Other operating income	113,193	-	113,193
Special events	84,138	-	84,138
Net assets released	883,647	(883,647)	-
Total income	<u>7,657,446</u>	<u>(270,647)</u>	<u>7,386,799</u>
EXPENSES			
Lending and business assistance	5,890,885	-	5,890,885
Fundraising	191,361	-	191,361
General and administrative	518,328	-	518,328
Total expenses	<u>6,600,574</u>	<u>-</u>	<u>6,600,574</u>
Change in net assets	1,056,872	(270,647)	786,225
Net assets, beginning of year	9,882,496	478,713	10,361,209
Net assets, end of year	<u>\$ 10,939,368</u>	<u>\$ 208,066</u>	<u>\$ 11,147,434</u>

	2018*		
	Without donor restrictions	With donor restrictions	Total
INCOME			
Small business lending program	\$ 1,994,135	\$ -	\$ 1,994,135
Bad debt recovery	429,515	-	429,515
Investment income (loss), net	(158,982)	-	(158,982)
NMTC income	417,892	-	417,892
504 income	29,136	-	29,136
Government grants	629,293	-	629,293
Contributions	819,095	1,170,000	1,989,095
Donations	35,086	-	35,086
Other operating income	189,023	-	189,023
Special events	26,122	-	26,122
Gain on disposal of assets	78,345	-	78,345
Net assets released	1,196,469	(1,196,469)	-
Total income	<u>5,685,129</u>	<u>(26,469)</u>	<u>5,658,660</u>
EXPENSES			
Lending and business assistance	4,937,708	-	4,937,708
Fundraising	161,692	-	161,692
General and administrative	436,589	-	436,589
Total expenses	<u>5,535,989</u>	<u>-</u>	<u>5,535,989</u>
Change in net assets	149,140	(26,469)	122,671
Net assets, beginning of year	9,733,356	505,182	10,238,538
Net assets, end of year	<u>\$ 9,882,496</u>	<u>\$ 478,713</u>	<u>\$ 10,361,209</u>

*As restated - See Note 3

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

PeopleFund
Consolidated Statements of Functional Expenses
For the Years Ended December 31, 2019 and 2018

	2019			
	Lending and business assistance	Fundraising	General and administrative	Total
Personnel	\$ 2,608,807	\$ 122,930	\$ 378,903	\$ 3,110,640
Provision for loan losses	1,474,185	-	-	1,474,185
Interest expense	615,238	-	-	615,238
Closing costs	106,485	-	-	106,485
Office and administrative	299,203	14,099	43,454	356,756
Depreciation and amortization	129,463	6,100	18,804	154,367
Marketing and outreach	77,037	1,702	5,245	83,984
Insurance	55,719	2,626	8,092	66,437
Travel	89,686	4,226	13,028	106,940
Fundraising	-	26,706	-	26,706
Professional services	199,191	1,857	13,908	214,956
Information technology	152,665	7,194	22,173	182,032
Property taxes	83,206	3,921	12,084	99,211
Other	-	-	2,637	2,637
Total Expenses	<u>\$ 5,890,885</u>	<u>\$ 191,361</u>	<u>\$ 518,328</u>	<u>\$ 6,600,574</u>

	2018			
	Lending and business assistance	Fundraising	General and administrative	Total
Personnel	\$ 2,354,487	\$ 110,799	\$ 304,698	\$ 2,769,984
Provision for loan losses	705,718	-	-	705,718
Interest expense	582,831	-	-	582,831
Closing costs	282,281	-	-	282,281
Office and administrative	291,373	13,712	37,707	342,792
Depreciation and amortization	127,588	6,004	16,511	150,103
Marketing and outreach	44,790	1,355	3,726	49,871
Insurance	64,209	3,022	8,309	75,540
Travel	95,444	4,491	12,352	112,287
Fundraising	-	11,991	-	11,991
Professional services	216,992	2,224	6,116	225,332
Information technology	98,921	4,655	12,801	116,377
Property taxes	73,074	3,439	9,457	85,970
Other	-	-	24,912	24,912
Total Expenses	<u>\$ 4,937,708</u>	<u>\$ 161,692</u>	<u>\$ 436,589</u>	<u>\$ 5,535,989</u>

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

PeopleFund
Consolidated Statements of Cash Flows
For Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Operating Activities		
Change in net assets	\$ 786,225	\$ 122,671
Adjustments to the change in net assets:		
Depreciation and amortization	154,367	150,103
Gain on disposition of assets	-	(78,345)
Provision for loan losses	1,474,185	705,718
(Appreciation) depreciation in investments	(644,348)	339,501
Change in current assets	(910,335)	(1,101,574)
Change in non-current assets	(19,520)	2,008
Change in reserved cash and other assets	1,886,954	929,735
Change in current liabilities	(1,836,978)	22,005
Change in long-term liabilities	(60,811)	1,979
Principal issued	(12,638,594)	(11,192,648)
Principal repaid	8,080,211	6,612,215
Net cash flows used in operating activities	<u>(3,728,644)</u>	<u>(3,486,632)</u>
Investing Activities:		
Purchase of investments	(13,474,227)	(26,135,302)
Sale, redemption or maturity of investments	13,852,896	24,754,784
Fixed asset purchases	(57,335)	(69,172)
Proceeds from sale of OREO	-	345,806
Net cash flows provided by (used in) investing activities	<u>321,334</u>	<u>(1,103,884)</u>
Financing Activities:		
Borrowings		
Proceeds from long-term borrowing	7,032,456	3,747,671
Repayments of long-term borrowings	(3,760,248)	(1,689,777)
Reimbursements from reserved cash	-	(70,007)
Net cash flows provided by financing activities	<u>3,272,208</u>	<u>1,987,887</u>
Net decrease in cash flows	(135,102)	(2,602,629)
Cash and cash equivalents - beginning of year	<u>1,276,070</u>	<u>3,878,699</u>
Cash and cash equivalents - end of year	<u>\$ 1,140,968</u>	<u>\$ 1,276,070</u>
Cash paid for interest	<u>\$ 600,608</u>	<u>\$ 562,178</u>
Supplemental schedule of non-cash financing and investing		
Retirement of fixed assets	<u>\$ -</u>	<u>\$ 6,117</u>

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

PeopleFund
Notes to Consolidated Financial Statements
December 31, 2019 and 2018

NOTE 1 - ORGANIZATION

PeopleFund is a 501(c)(3) 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.

In 2012, PeopleFund NMTC, LLC was certified by the U.S. Department of Treasury – Community Development Institution Fund (CDFI Fund) as a Community Development Entity (CDE) under its New Market Tax Credit (NMTC) program.

PeopleFund NMTC, LLC is a wholly owned subsidiary of PeopleFund. PeopleFund NMTC, LLC was formed to further PeopleFund's activities in the NMTC program. PeopleFund is the managing member of PeopleFund NMTC, LLC which has been designated as the managing member of various affiliated entities. In accordance with operating agreements of these affiliates, profits, losses and cash flows are allocated 50.01% to the managing member and 49.99% to the administrative member.

The NMTC program is a federal program created by Congress in 2002 and managed by the Treasury Department's CDFI Fund. The NMTC program is designed to encourage private capital investment in low-income communities by providing tax credits to investors who make qualified equity investments as defined in Section 45D of the Internal Revenue Code in privately managed investment vehicles called CDEs. The CDEs then invest the proceeds of the qualified equity investments in low-income communities. The tax credits provided to the investors total 39% of the cost of the investments and are claimed over a seven-year credit allowance period.

The subsidiaries of PeopleFund NMTC, LLC (Sub CDEs) are certified by the U.S. Treasury's Community Development Financial Institutions Funds (CDFI) as Community Development Entities. As a CDE, the Sub CDEs' primary mission is to provide loans to qualified businesses in low-income communities of the Sub CDEs' service area.

PeopleFund Advisors, LLC was formed to function as the administrative member or administrative manager of the Sub CDEs.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

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

Consolidation

The consolidated financial statements include the accounts of PeopleFund and its subsidiaries, PeopleFund NMTC, LLC, and PeopleFund Advisors, LLC, collectively referred to as the "Organization" or "PeopleFund". All significant intercompany accounts and transactions have been eliminated in the consolidation.

PeopleFund
Notes to Consolidated Financial Statements
December 31, 2019 and 2018
(continued)

In accordance with accounting guidance from the Financial Accounting Standards Board (FASB) on Recognition of Control Partnerships and Similar Entities, the presumption is established that the managing member in a limited liability company controls the entity regardless of the extent of the managing member's ownership interest. The presumption of control may be overcome if the investor members have either (i) substantive participating rights or (ii) the substantive ability to dissolve the entity or otherwise remove the managing member without cause. The Organization determined that the presumption of control for the limited liability companies in which PeopleFund NMTC, LLC is a managing member were overcome as the investor members have substantial participating rights. Accordingly, the investments and related activities of the Sub CDEs have not been consolidated with these consolidated financial statements.

Financial Statements Presentation

PeopleFund is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and, net assets with donor restrictions as follows:

Net Assets without Donor Restrictions - Net assets that are not subject to stipulations. Net assets without donor stipulations may be used for any purpose or designated for specific purposes by action of the Board of Directors of PeopleFund.

Net Assets with Donor Restrictions - Net assets representing resources currently available for use, but expendable only for those operating purposes specified by the donor. At December 31, 2019 and 2018, net assets restricted for use in specific small business lending initiatives and programs were \$208,066 and \$478,713, respectively.

Cash and Cash Equivalents

Cash and cash equivalents consist of demand deposits and highly liquid investments with purchased 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 consolidated statement of financial position with any change in fair value reported in the consolidated statement of activities.

Fixed Assets

Acquisitions of fixed assets valued at \$500 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. The Organization reviews the carrying value of fixed assets for possible impairment whenever circumstances indicate the carrying amount of an asset may not be recoverable. An impairment loss is recognized to the extent the sum of undiscounted estimated cash flows expected from the use of the asset is less than the carrying amount. There were no events that occurred during the years ended December 31, 2019 or 2018 that would indicate an impairment of the Organization's fixed assets.

Revenue Recognition

Funding in the form of grant contracts is received from governmental and non-governmental sources. Certain contracts are classified as exchange transactions and are considered to be net assets without donor restrictions as the entity providing the grant funding receives a benefit for the service provided. Revenue under such contracts is recognized as services are rendered or the related expenses are incurred. Receipts of grant payments in advance are reported as deferred revenue.

PeopleFund
Notes to Consolidated Financial Statements
December 31, 2019 and 2018
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Other grant contracts are classified as contributions as, under such contracts, the funding source receives no direct benefit from the program services provided by the Organization. Under these contracts, revenue is recognized when the donor makes a promise to give that is, in substance, unconditional. Revenue associated with contracts that include donor conditions is recognized as the conditions are met.

Contributions

Contributions received (including any unconditional pledges) are recorded as support without restriction or support with restriction in the period received depending on the existence and/or nature of any donor restrictions. Contributions received with donor-imposed restrictions that are satisfied in the same reporting period are reported as without donor restrictions on the statement of activities. Conditional promises to give are recognized as the conditions upon which they depend are substantially met. Promises to give are recognized as revenue only if sufficient evidence exists in the form of verifiable documentation that a promise was made and received.

Loans Receivable and Allowance for Loan Losses

Loans receivable are stated at net realizable value. 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.

Allowance for loan losses is increased by provisions for loan losses charged to operating expenses and reduced by loans charged off. Allowances are determined based on management's evaluation of the loan collateral, 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 consist of various business and /or personal assets of the borrowers.

PeopleFund considers a loan impaired when based on current information or factors, it is probable that PeopleFund will not collect the principal and interest payments according to the loan agreement. Management considers many factors in determining whether a loan is impaired, such as payment history, value of collateral, and changes in the net income of the customer. Loans that are delinquent less than two months are generally not considered impaired, unless the customer has claimed bankruptcy or PeopleFund has received specific information concerning the loan impairment. PeopleFund reviews delinquent loans to determine impaired accounts. PeopleFund measures impairment on a loan-by-loan basis by either using the fair value of collateral less legal and administrative selling fees or the present value of expected cash flows. Substantially all of PeopleFund loans that are identified as impaired have been measured using the fair value of the collateral less legal and administrative selling fees.

Loans are placed on nonaccrual status when management believes, after considering economic conditions, business conditions, and collection efforts that the loans are impaired, or collection of interest is doubtful.

Interest previously accrued remains outstanding and payments received are first applied to accrued interest and then to principal.

Loans are returned to accrual status when the loan is deemed current, and the collectability of principal and interest is no longer doubtful.

PeopleFund
Notes to Consolidated Financial Statements
December 31, 2019 and 2018
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Foreclosed Assets

Assets acquired through foreclosure, including other real estate owned (“OREO”), are held for sale and are initially recorded at fair value less estimated selling costs when acquired, establishing a new cost basis. Costs after acquisition are generally expensed. Any write-downs at the date of foreclosure are charged to the allowance for loan losses. Expenses incurred to maintain these properties, unrealized losses resulting from write-downs after the date of foreclosure and realized gains and losses upon sale of the properties are included in other non-interest expense and other non-interest income, as appropriate. The valuation of foreclosed assets is subjective in nature and may be adjusted in the future because of changes in economic conditions. The remaining OREO assets were sold in 2018 for a gain on the sale of \$78,345.

Functional Allocation of Expenses

The expense information contained in the consolidated statements of activities is presented on a functional basis as (1) lending and business assistance, (2) fundraising, and (3) general and administrative. Accordingly, certain expenses are allocated between functional categories based on management’s estimates. Expenses that are specifically identifiable to a function are allocated entirely to that function. Expenses that are not specifically identifiable to a function are allocated based upon management’s estimate of time and resources devoted to the function. The significant expenses that are allocated on the basis of time and effort include personnel, office and administration, depreciation and amortization, marketing and outreach, insurance, travel, professional services, information technology, and property taxes.

Use of Estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimated. Significant estimates include the allowance for uncollectable loans reserve, provision for loan losses and impairment, the estimated useful lives of property and equipment, and the valuation of investments.

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.

PeopleFund, as the exempt owner of PeopleFund NMTC, LLC and PeopleFund Advisors, LLC, has elected to treat these entities as disregarded as such the operations and finances of these entities is treated as PeopleFund’s for tax and information reporting purposes. PeopleFund believes the activities of PeopleFund NMTC, LLC are aligned with PeopleFund’s mission, so no tax would be due on any earnings.

The Organization’s management has analyzed the tax positions taken by PeopleFund, and has concluded that as of December 31, 2019 and 2018, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the consolidated financial statements. PeopleFund is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The Organization’s management believes it is generally no longer subject to tax examinations relating to federal and state tax returns for three years after filing the returns.

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Notes to Consolidated Financial Statements
December 31, 2019 and 2018
(continued)

Fair Value of Financial Instruments

Fair value is defined as the exchange price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The framework for measuring fair value provides a fair value hierarchy which requires classification based on observable and unobservable inputs when measuring fair value. The fair value hierarchy distinguishes between assumptions based on market data (observable inputs) and an entity's own assumptions (unobservable inputs).

The hierarchy consists of three levels:

- Level one — Inputs to the valuation methodology are quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level two — Inputs to the valuation methodology other than quoted prices included in Level one that are observable for the asset or liability, either directly or indirectly; and
- Level three — Inputs to the valuation methodology that are unobservable inputs for the asset or liability.

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

Recently issued pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update (ASU) 2014-09, *Revenue Recognition* (Topic 606). This ASU provides a single, comprehensive revenue recognition model for all contracts with customers to improve comparability within industries, across industries, and across capital markets. The core principle of this ASU is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This ASU is effective for annual periods beginning after December 15, 2018. PeopleFund adopted this ASU on January 1, 2019 using the full retrospective method and the implementation of this ASU did not have a significant impact on PeopleFund's consolidated financial statements or disclosures.

In February 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842). This ASU requires a lessee to recognize on its balance sheet a right-of-use asset and a lease liability under most operating leases. For private companies, the ASU is effective for annual and interim periods beginning after December 15, 2020. Early adoption is permitted. PeopleFund is currently evaluating the effects that the adoption of ASU 2016-02 will have on its consolidated financial position, results of operations, or cash flows.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities* (Topic 958). This ASU is intended to clarify and improve the scope and the accounting guidance for contributions received and made, primarily by not-for-profit organizations. The amendments in this ASU provide a more robust framework for determining whether a transaction should be accounted for as a contribution or as an exchange transaction. ASU 2018-18 is effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. PeopleFund elected to early adopt this ASU. The adoption of this standard did not require PeopleFund to modify its presentation of the consolidated financial statements.

Other recently issued ASU's were assessed and determined to be either not applicable or are expected to have minimal impact on its consolidated financial position and results of operations.

PeopleFund
Notes to Consolidated Financial Statements
December 31, 2019 and 2018
(continued)

Management's Review

PeopleFund evaluates events that occur subsequent to the statement of financial position date of periodic reports, but before the financial statements are issued for periods ending on such dates, for possible adjustment to such financial statements or other disclosure. This evaluation generally occurs through the date at which PeopleFund's financial statements are available for issue. For the consolidated financial statements, as of and for the year ending December 31, 2019, this date was April 29, 2020.

NOTE 3 - RESTATEMENT

The consolidated financial statements for the year ended December 31, 2018 have been restated. Beginning of the year net assets have been adjusted to reflect the nature of PeopleFund's contracts with the City of Dallas. PeopleFund's contract with the City of Dallas required the return of the CDBG & SDSBLP program's undistributed cash and uncollected notes receivable upon the termination of the contracts. All program related cash and notes receivables of the discontinued program were transferred to the City of Dallas prior to December 31, 2019. The effects on the consolidated statement of financial position as of December 31, 2018 are as follows:

	As previously reported	Change	As restated
Accounts payable	\$ 408,719	\$ 2,427,415	\$ 2,836,134
Net assets without donor restrictions	\$ 12,309,911	\$ (2,427,415)	\$ 9,882,496

The effect on the consolidated statement of activities for the year ended December 31, 2018 is as follows:

	As previously reported	Change	As restated
Transfers	\$ (70,007)	\$ 70,007	\$ -

NOTE 4 - LIQUIDITY

PeopleFund's financial assets available within one year of the balance sheet date for general expenditure are as follows:

Cash and cash equivalents	\$ 1,140,968
Short term investments	7,615,891
Accrued interest	172,054
Accounts receivable	1,384,254
Current portion of loans receivable	5,658,125
	<u>\$ 15,971,292</u>

None of the above financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the balance sheet date. Receivable balances consisting of grants receivable are subject to implied time restrictions but are expected to be collected within one year. The Organization has a goal to maintain financial assets, which consist of cash and short-term investments, on hand to meet five months of normal operating expenses, which are, on average, approximately \$1.8 million. As part of its liquidity management, PeopleFund invests cash in excess of daily requirements in various short-term investments including cash and mutual funds.

PeopleFund
Notes to Consolidated Financial Statements
December 31, 2019 and 2018
(continued)

Total net assets without donor restrictions as of December 31, 2019 were approximately \$10.9 million, of which \$1.8 million has been set aside by the Board of Directors as a reserve should PeopleFund require additional cash flow. These designated funds are available should a downturn in the future or other unforeseen economic conditions impact the Organization in a negative way. This is ample capital to fund the anticipated growth of the portfolio in the preceding year as well as any unanticipated debt agreements that are not renewed.

NOTE 5 - RESERVED CASH AND OTHER ASSETS

As of December 31, 2019, and 2018, cash in the amount of \$1,828,207 and \$3,715,161, respectively, was held in reserve to lend to microloan borrowers and to satisfy loan loss reserve requirements related to the microloan and community advantage programs. As of December 31, 2019, and 2018, cash in the amount of \$879,505 and \$2,079,871, respectively, was included in the reserved cash and other assets financial statement line item and was pledged as collateral on notes payable (see NOTE 11).

NOTE 6 - 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, 2019, and 2018, cash deposits in excess of FDIC insurance amounted to \$2,434,591 and \$3,829,511, respectively.

NOTE 7 - ACCOUNTS RECEIVABLE

Accounts receivable consists of the following at December 31, 2019 and 2018:

	2019	2018
Grants receivable	\$ 1,212,137	\$ 314,120
Other	172,117	110,128
	<u>\$ 1,384,254</u>	<u>\$ 424,248</u>

NOTE 8 - LOANS RECEIVABLE

Loans receivable consists of the following at December 31, 2019 and 2018:

	2019	2018
Small Business Loan Fund	\$ 7,016,879	\$ 6,734,485
SBA Community Advantage	17,158,931	15,841,589
Non-Profit CDFI Loan Fund	1,000,000	496,839
Participation Notes	978,317	-
CDBG Loans	-	550,920
SDSBLP Loans	-	241,204
SBA Microloans	3,434,516	2,541,233
Loans receivable, gross	29,588,643	26,406,270
Allowance for loan losses	(1,176,997)	(1,078,822)
Loans receivable, net	<u>\$ 28,411,646</u>	<u>\$ 25,327,448</u>

PeopleFund
Notes to Consolidated Financial Statements
December 31, 2019 and 2018
(continued)

Loans receivable is classified between current and long-term at December 31, 2019 and 2018 as follows:

	<u>2019</u>	<u>2018</u>
Current loans receivable, net	\$ 5,433,048	\$ 5,211,048
Long term loans receivable, net	22,978,598	20,116,400
Total loans receivable, net	<u>\$ 28,411,646</u>	<u>\$ 25,327,448</u>

PeopleFund had contractual agreements to loan \$2,404,410 and \$3,124,992 in funds not yet disbursed as of December 31, 2019 and 2018, respectively.

Loan Origination/Risk Management

PeopleFund has certain lending policies and procedures in place that are designed to generate loan income within an acceptable level of risk. All loans are made to borrowers of good character and integrity. Management reviews and approves these policies and procedures on a regular basis. A reporting system supplements the review process by providing management with frequent reports related to loan production, loan quality, concentrations of credit, loan delinquencies and non-performing and potential problem loans. Diversification in the loan portfolio is a means of managing risk associated with fluctuations in economic conditions. The loan sizes range from roughly \$1,000 to \$1,000,000 at December 31, 2019.

Small business loans are underwritten after evaluating and understanding the borrower's ability to repay the loan through operating profitably and effectively growing its business. PeopleFund's management examines current and projected cash flows to determine the ability of the borrower to repay their obligations as agreed. Small business loans are primarily made based on the credit quality and cash flows of the borrower and secondarily on the underlying collateral provided by the borrower. Most small business loans are secured by the assets being financed or other business assets such as accounts receivable or inventory and may incorporate a personal guarantee to add strength to the credit and reduce the risk on a transaction to an acceptable level; however, some short-term loans may be made on an unsecured basis to credit worthy borrowers. In the case of loans secured by accounts receivable, the availability of funds for the repayment of these loans may be substantially dependent on the ability of the borrower to collect amounts due from its customers.

Allowance for Loan Losses

The allowance for loan losses is a reserve established through a provision for loan losses charged to expense, which represents management's best estimate of probable losses that have been incurred within the existing portfolio of loans. The allowance, in the judgment of management, is necessary to reserve for estimated loan losses and risks inherent in the loan portfolio. Accordingly, the methodology is based on historical loss experience by type of credit and internal risk grade, changes in the composition and volume of the portfolio, and specific loss allocations, with adjustments for current events and conditions. PeopleFund's process for determining the appropriate level of the allowance for loan losses is designed to account for credit deterioration as it occurs.

The provision for loan losses reflects management's periodic evaluation of individual loans and changes to the required allowance for specific loans, economic factors, past loan loss experience, loan quality trends, including the levels of and trends related to non-accrual loans, past due loans, potential problem loans, criticized loans and net charge-offs or recoveries, among other factors. Portions of the allowance may be allocated for specific credits; however, the entire allowance is available for any credit that, in management's judgment, should be charged-off. While management utilizes its best judgment and information available, the ultimate adequacy of the allowance is dependent upon a variety of factors beyond PeopleFund's control, including, among other things, the performance of PeopleFund's loan portfolio, the economy, changes in interest rates, and the view of the regulatory authorities toward loan classifications.

PeopleFund
Notes to Consolidated Financial Statements
December 31, 2019 and 2018
(continued)

The allowances established for probable losses on specific loans are based on a regular analysis and evaluation of problem loans. Loans are classified based on an internal credit risk grading process that evaluates, among other things: (i) current payment status (performing or non-accrual); and (ii) the underlying collateral, if any.

Specific valuation allowances are determined by analyzing the borrower's ability to repay amounts owed, collateral deficiencies, and the relative risk grade of the loan and economic conditions affecting the borrower's industry, among other things. Historical valuation allowances are calculated based on the historical loss experience of specific types of loans and the internal risk grade of such loans at the time they were charged-off. Allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other categories.

The following table details activity in the allowance for loan losses by portfolio segment for the year ended December 31, 2019 and 2018:

2019	Small Business Loans	SBA Community Advantage	SBA Microloans	Total
Beginning balance	\$ 619,145	\$ 347,511	\$ 112,166	\$ 1,078,822
Charge-offs	(252,323)	(874,568)	(249,119)	(1,376,010)
Provisions for loan losses	316,943	907,481	249,761	1,474,185
Ending balance	<u>\$ 683,765</u>	<u>\$ 380,424</u>	<u>\$ 112,808</u>	<u>\$ 1,176,997</u>

2018	Small Business Loans	SBA Community Advantage	SBA Microloans	Total
Beginning balance	\$ 606,573	\$ 334,858	\$ 57,845	\$ 999,276
Charge-offs	(92,395)	(456,264)	(77,513)	(626,172)
Provisions for loan losses	104,967	468,917	131,834	705,718
Ending balance	<u>\$ 619,145</u>	<u>\$ 347,511</u>	<u>\$ 112,166</u>	<u>\$ 1,078,822</u>

PeopleFund
Notes to Consolidated Financial Statements
December 31, 2019 and 2018
(continued)

Credit Quality Indicators

As part of the on-going monitoring of the credit quality of PeopleFund's loan portfolio, PeopleFund utilizes a risk grading system to assign a risk grade to each of its small business loans. Accurate and timely credit grading is a primary component of an effective loan review system.

On a loan-by-loan basis, each loan is assigned to one of the following categories:

Category	Allowance Target
Performing- Community Advantage	0.75%
Performing - Community Advantage >=\$150K	1.25%
Performing - CA Secondary Market < \$150K	3.75%
Performing - CA Secondary Market >= \$150K	4.25%
Performing <100% LTV and Microloans & Cap Access	0.00%
Performing >100% LTV	5.00%
Watchlist- Community Advantage	5.00%
Watchlist< 100% LTV	5.00%
Watchlist> 100% LTV	25.00%
Non-performing- Community Advantage < \$150K	15.00%
Non-performing- Community Advantage >= \$150K	25.00%
Non-performing- < 100% LTV	25.00%
Non-performing- > 100% LTV	75.00%

The allowance target (as a percentage of the outstanding loan principal balance) has been determined based upon historical information and management's estimation of amount to be collected.

PeopleFund also evaluates the collateral value compared to the outstanding principal balance as well as loan performance when determining which category to place the loan.

SBA Microloans that are performing have no allowance as a Reserved Cash account is required for each of the Microloan funds and can be drawn upon to offset any losses.

SBA Community Advantage (CA) loans are substantially guaranteed by the SBA. As a result, only the unguaranteed portion (approximately 0.75% of the outstanding principal balance) is provided for with the allowance for loan losses. CA loans sold on the secondary market have an additional 3% provided for with the allowance for loan losses. PeopleFund is in compliance with the loan loss reserve requirements for the CA Program.

PeopleFund
Notes to Consolidated Financial Statements
December 31, 2019 and 2018
(continued)

The recorded investment in financing receivables and certain credit quality indicators by type of loan as of December 31, 2019 and 2018 is as follows:

2019	SBA			Total	%
	Small Business Loans	Community Advantage	SBA Microloans		
Gross financing receivables	<u>\$ 8,995,196</u>	<u>\$ 17,158,931</u>	<u>\$ 3,434,516</u>	<u>\$ 29,588,643</u>	
Credit Quality Indicators					
Payment Activity:					
Performing	\$ 8,889,427	\$ 16,902,454	\$ 3,434,516	\$ 29,226,397	99%
Non-performing	105,769	256,477	-	362,246	1%
	<u>\$ 8,995,196</u>	<u>\$ 17,158,931</u>	<u>\$ 3,434,516</u>	<u>\$ 29,588,643</u>	<u>100%</u>
Payment Status:					
Current	\$ 8,695,337	\$ 16,440,866	\$ 3,379,316	\$ 28,515,519	96%
31-60 days past due	146,511	444,453	13,872	604,836	2%
61-90 days past due	47,579	17,135	41,328	106,042	0%
91 plus days past due	105,769	256,477	-	362,246	1%
	<u>\$ 8,995,196</u>	<u>\$ 17,158,931</u>	<u>\$ 3,434,516</u>	<u>\$ 29,588,643</u>	<u>100%</u>
Components of the allowance:					
Aggregated risk	\$ 294,804	\$ 99,616	\$ -	\$ 394,420	34%
Non-aggregated risk (collateral)	170,923	-	-	170,923	15%
Non-aggregated risk (delinquencies)	218,038	73,652	-	291,690	25%
Cash reserve	-	207,156	112,808	319,964	27%
	<u>\$ 683,765</u>	<u>\$ 380,424</u>	<u>\$ 112,808</u>	<u>\$ 1,176,997</u>	<u>100%</u>
2018	SBA			Total	%
	Small Business Loans	Community Advantage	SBA Microloans		
Gross financing receivables	<u>\$ 8,023,448</u>	<u>\$ 15,841,589</u>	<u>\$ 2,541,233</u>	<u>\$ 26,406,270</u>	
Credit Quality Indicators					
Payment Activity:					
Performing	\$ 7,932,179	\$ 15,781,589	\$ 2,477,339	\$ 26,191,107	99%
Non-performing	91,269	60,000	63,894	215,163	1%
	<u>\$ 8,023,448</u>	<u>\$ 15,841,589</u>	<u>\$ 2,541,233</u>	<u>\$ 26,406,270</u>	<u>100%</u>
Payment Status:					
Current	\$ 7,845,987	\$ 15,682,778	\$ 2,454,662	\$ 25,983,427	98%
31-60 days past due	63,165	50,664	20,065	133,894	1%
61-90 days past due	23,027	48,147	2,612	73,786	0%
91 plus days past due	91,269	60,000	63,894	215,163	1%
	<u>\$ 8,023,448</u>	<u>\$ 15,841,589</u>	<u>\$ 2,541,233</u>	<u>\$ 26,406,270</u>	<u>100%</u>
Components of the allowance:					
Aggregated risk	\$ 224,503	\$ 95,473	\$ -	\$ 319,976	30%
Non-aggregated risk (collateral)	154,741	-	-	154,741	14%
Non-aggregated risk (delinquencies)	239,901	65,701	-	305,602	28%
Cash reserve	-	186,337	112,166	298,503	28%
	<u>\$ 619,145</u>	<u>\$ 347,511</u>	<u>\$ 112,166</u>	<u>\$ 1,078,822</u>	<u>100%</u>

PeopleFund
Notes to Consolidated Financial Statements
December 31, 2019 and 2018
(continued)

Impaired Loans

Loans are considered impaired when, based on current information and events, it is probable PeopleFund will be unable to collect all amounts due in accordance with the original contractual terms of the loan agreement, including scheduled principal and interest payments. Impairment is evaluated on an individual loan basis. If a loan is impaired, a specific valuation allowance is allocated, if necessary, so that the loan is reported net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral. Interest payments on impaired loans are typically applied to principal unless collectability of the principal amount is reasonably assured, in which case interest is recognized on a cash basis. Impaired loans, or portions thereof, are charged off when deemed uncollectible.

The balance of loans that are classified as Troubled Debt Restructures (TDRs) are as of December 31, 2019 and 2018 are as follows:

	2019	2018
Current	\$ 1,197,926	\$ 1,154,405
31-60 days past due	87,276	43,580
61-90 days past due	13,314	-
91-120 days past due	-	-
120 plus days past due	158,164	60,916
	<u>\$ 1,456,680</u>	<u>\$ 1,258,901</u>

Participation in Loans

In December 2019 PeopleFund purchased a 90% participation in 27 small business loans in Texas from another CDFI. These loans had a total balance of \$978,317 as of December 31, 2019.

NOTE 9 - INVESTMENTS

	2019	2018
Money market	\$ 177,928	\$ 1,201,279
Mutual funds	3,177,438	2,141,459
Equity securities	1,311,215	723,019
Fixed income	2,949,310	3,284,455
	<u>\$ 7,615,891</u>	<u>\$ 7,350,212</u>

Components of investment earnings:

	2019	2018
Interest and dividends	\$ 221,520	\$ 180,519
Net realized and unrealized gain (loss)	644,348	(339,501)
Investment income (loss)	<u>\$ 865,868</u>	<u>\$ (158,982)</u>

PeopleFund
Notes to Consolidated Financial Statements
December 31, 2019 and 2018
(continued)

NOTE 10 - FIXED ASSETS

	<u>2019</u>	<u>2018</u>
Land	\$ 379,880	\$ 379,880
Building and improvements	3,285,130	3,257,904
Vehicles	188,337	188,337
Furniture and equipment	320,177	292,777
Software and other intangibles	40,742	36,125
	<u>4,214,266</u>	<u>4,155,023</u>
Accumulated depreciation	(1,078,565)	(922,290)
Total fixed assets, net	<u>\$ 3,135,701</u>	<u>\$ 3,232,733</u>

Depreciation for the years ended December 31, 2019 and 2018, was \$154,367 and \$150,103, respectively.

NOTE 11 - NOTES PAYABLE

	<u>2019</u>	<u>2018</u>
Notes payable to various banks, foundations, and individuals at interest rates between 0.0% and 3.75%, with various payment terms. Full principal amounts are due at maturity and maturity dates vary through March 2029.	\$ 27,842,771	\$ 24,583,098
Notes payable to the Small Business Administration (SBA) currently at 0.0% to 0.88% interest, with varying repayment amounts, maturing in August 2028. The notes are collateralized by balances held in six restricted cash accounts, as well as an interest in notes receivable funded through the SBA Microloan program.	3,599,417	2,986,882
Two notes payable to the Federal Community Development Financial Institution at interest rates between 0% and 2.00%, fully matured and paid in 2019.	-	600,000
	<u>\$ 31,442,188</u>	<u>\$ 28,169,980</u>

Maturities of notes payable are as follows:

2020	\$ 6,800,449
2021	2,445,230
2022	7,168,166
2023	2,036,027
2024	2,109,000
Thereafter	10,883,316
	<u>\$ 31,442,188</u>

PeopleFund
Notes to Consolidated Financial Statements
December 31, 2019 and 2018
(continued)

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

	<u>2019</u>	<u>2018</u>
Reserved cash	\$ 879,505	\$ 2,079,871
Loans receivable	3,434,516	2,541,233
	<u>\$ 4,314,021</u>	<u>\$ 4,621,104</u>

The Organization is subject to certain covenants, restrictions, and reporting requirements with respect to its notes payable. Management has reviewed these covenants, restrictions and reporting requirements and believes PeopleFund is in compliance as of December 31, 2019.

NOTE 12 - COMMITMENTS AND CONTINGENCIES

Lease Commitments

The Organization leases office space to various tenants under non-cancellable commercial leases. During 2019 and 2018, rental income related under these leases totaled \$82,684 and \$67,776, respectively. At December 31, 2019, the minimum rentals to be received were \$78,169.

The Organization also leases certain equipment and office space under various non-cancellable operating leases. At December 31, 2019, minimum lease payments under these non-cancellable operating leases are as follows:

<u>Year</u>	<u>Amount</u>
2020	\$ 61,469
2021	37,150
2022	27,387
2023	3,114
	<u>\$ 129,120</u>

Litigation

The Organization is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the Company's financial position, results of operation, and liquidity.

NOTE 13 - FAIR VALUE DISCLOSURES

PeopleFund's investments are carried at their fair value. The carrying amounts of PeopleFund's other financial instruments, which include cash and cash equivalents, accrued interest, accounts receivable, prepaid expenses and other assets, accounts payable and accrued liabilities, approximate their fair values due to their short maturities.

The following is a description of the valuation methodologies used for assets measured at fair value:

- *Money market funds* - valued based on quoted market prices in active markets
- *Mutual funds* - valued based on quoted market prices in active markets
- *Equity securities* - valued based on quoted market prices in active markets
- *Fixed income funds* - valued based on quoted market prices in active markets

PeopleFund
Notes to Consolidated Financial Statements
December 31, 2019 and 2018
(continued)

There were no Level 2 or 3 investments held by PeopleFund during the years ended December 31, 2019 and 2018. Because of the inherent uncertainty of these valuations, the estimated values may differ from the actual fair values that may or may not be ultimately realized.

The following table presents the assets and liabilities that are measured at fair value on a recurring basis by level within the fair value hierarchy as reported on the consolidated statements of financial position at December 31st:

		Fair Value Measurements at Reporting Date Using:		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:	Total			
Money market funds	\$ 177,928	\$ 177,928	\$ -	\$ -
Mutual funds	3,177,438	3,177,438	-	-
Equity securities	1,311,215	1,311,215	-	-
Fixed income funds	2,949,310	2,949,310	-	-
Total investments	<u>\$ 7,615,891</u>	<u>\$ 7,615,891</u>	<u>\$ -</u>	<u>\$ -</u>

		Fair Value Measurements at Reporting Date Using:		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:	Total			
Money market funds	\$ 1,201,279	\$ 1,201,279	\$ -	\$ -
Mutual funds	2,141,459	2,141,459	-	-
Equity securities	723,019	723,019	-	-
Fixed income funds	3,284,455	3,284,455	-	-
Total investments	<u>\$ 7,350,212</u>	<u>\$ 7,350,212</u>	<u>\$ -</u>	<u>\$ -</u>

NOTE 14 - NMTC PROGRAM

In 2013, the Organization was initially awarded a \$15,000,000 NMTC allocation to support community development in low income areas throughout Texas. The Organization was awarded \$25,000,000 and \$30,000,000 in NMTC allocation for the years ended December 31, 2019 and 2018, respectively. As of December 31, 2019, PeopleFund NMTC, LLC has received \$100,000,000 of tax credit allocation.

PeopleFund
Notes to Consolidated Financial Statements
December 31, 2019 and 2018
(continued)

NOTE 15 - DEFINED CONTRIBUTION PLAN

The Organization provides a 401(k) plan to all full-time employees that have completed at least three months of service. The Organization provides a 50% match on employee contributions up to 8% of salary. Total matching contributions during the years ended December 31, 2019 and 2018 were \$58,946 and \$61,297, respectively.

NOTE 16 - SUBSEQUENT EVENTS

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a pandemic, which continues to spread throughout the United States. As a result of the declared outbreak, an economic downturn has had a significant negative impact on local and global economies. While the Company expects this matter to negatively impact the fair values of debt and investment securities, the related financial impact did not affect the Organization's performance in 2019 and its impact on 2020 financial performance cannot be reasonably estimated at this time.



Report of Independent Auditor on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Directors of:
PeopleFund

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of PeopleFund (the “Organization”), which comprise the consolidated statements of financial position as of December 31, 2019 and 2018, 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, and have issued our report thereon dated April 29, 2020.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization’s consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.



Purpose of this Report

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

PMB HELIN DONOVAN, LLP

PMB Helin Donovan, LLP

April 29, 2020

Austin, Texas



Report of Independent Auditor on Compliance for Each Major Federal Program and on Internal Control over Compliance in Accordance with the *Uniform Guidance*

To the Board of Directors of:
PeopleFund

Report on Compliance for Each Major Program

We have audited the compliance of PeopleFund (the “Organization”) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on the Organization’s major federal programs for the year ended December 31, 2019. The Organization’s major federal programs are identified on the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

Management’s Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor’s Responsibility

Our responsibility is to express an opinion on compliance for the Organization’s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of *Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Award* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the major federal programs occurred. An audit includes examining, on a test basis, evidence about the Organization’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the Organization’s major federal programs. However, our audit does not provide a legal determination of the Organization’s compliance.

Opinion on Each Major Federal Program

In our opinion, the Organization has complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the major federal program for the year ended December 31, 2019.



Report on Internal Control over Compliance

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

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

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

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

PMB HELIN DONOVAN, LLP

PMB Helin Donovan, LLP

April 29, 2020
Austin, Texas

PeopleFund
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2019

<u>Federal Grantor/Pass-through Grantor/Program Title</u>	<u>CFDA #</u>	<u>Agency or Pass-through Number</u>	<u>Subrecipient</u>	<u>Federal Expenditures</u>
U.S. Small Business Administration				
Microloan Grant	59.046	8503300EZ0064	\$ -	\$ 253,348
Microloan Grant	59.046	9503300EZ0084	-	283,732
Microloan Program	59.046	4619435004	-	144,480
Microloan Program	59.046	5298545005	-	199,075
Microloan Program	59.046	7510295010	-	366,856
Microloan Program	59.046	9267775010	-	321,685
Microloan Program	59.046	9568925000	-	954,787
Microloan Program	59.046	2826207001	-	2,000,000
Total Microloan Program			-	4,523,963
Prime Grant	59.050	9503300EZ0167	-	21,843
Total U.S. Small Business Administration			-	4,545,806
U.S. Department of Treasury, Community Development Financial Institutions Fund				
CDFI Financial Assistance - Loans	21.020		-	600,000
Total U.S. Department of the Treasury, CDFI Fund			-	600,000
U.S. Department of Housing and Urban Development				
<i>CDBG - Entitlement Grants Cluster</i>				
<i>Passed through City of Austin:</i>				
CDBG Small Business Development Services - Cash Award	14.218	PA100000027	-	250,000
<i>Passed through City of Dallas:</i>				
CDBG Small Business Development Services - Cash Award	14.218	13.1289	-	40,686
Total CDBG - Entitlement Grants Cluster			-	290,686
Total U.S. Department of Housing and Urban Development			-	290,686
Total Federal Expenditures			\$ -	\$ 5,436,492

See accompanying notes to the schedule of expenditures of federal awards.

PEOPLESFUND

Notes to Schedule of Expenditures of Federal Awards For the Year Ended December 31, 2019

(1) Summary of Significant Accounting Policies

(a) *Reporting Entity*

The Schedule of Expenditures of Federal Awards (the “Schedule”) includes the activity of all federal loan programs administered by PeopleFund. The Organization is defined in Note 1 of PeopleFund’s consolidated financial statements.

(b) *Basis of Presentation*

The Schedule presents total federal awards expended for each individual program in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Award* (Uniform Guidance). Federal award program titles are presented as entitled in the Catalog of Federal Domestic Assistance (CFDA).

(c) *Basis of Accounting*

The expenditures for each of the federal financial assistance programs are presented on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Award* (Uniform Guidance), wherein certain types of expenditures are not allowable or are limited as to reimbursement.

(2) Relationship to Federal Financial Reports

The amounts reported in the financial reports agree with the amounts reported in the accompanying Schedule which is prepared on the basis explained in Note 2 of the Organization’s consolidated financial statements.

As of December 31, 2019, the Organization has \$3,599,418 and \$0 in loans outstanding under the SBA Microloan and U.S. Department of Treasury CDFI Financial Assistance loan programs, respectively.

(3) Indirect cost rates

The Organization is using the 10% de minimus indirect cost rate as allowable under the Uniform Guidance, Section 414.

(4) Subsequent Events

The Organization’s management has evaluated subsequent events through April 29, 2020, the date the report was available to be issued.

PeopleFund
Schedule of Findings and Questioned Costs
December 31, 2019

Section I - Summary of Auditor's Results

A. Consolidated Financial Statements

Type of auditor's report issued:	Unmodified
Internal control over financial reporting: Material weakness(es) identified?	No
Significant deficiency(ies) identified that are not considered material weakness(es)?	None reported
Noncompliance material to consolidated financial statements noted?	None

B. Federal Awards

Internal controls over major programs: Material weakness(es) identified?	No
Significant deficiency(ies) identified that are not considered material weakness(es)?	None reported
Type of auditors' report issued on compliance with major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	No
Identification of major programs:	U.S. Small Business Administration Microloan Program (CFDA 59.046)
Dollar threshold used to distinguish between Type A and Type B programs	\$750,000
Auditee qualified as a low-risk auditee?	Yes

Section II - Financial Statement Findings

N/A

Section III - Federal Award Findings and Questioned Costs

N/A

Section IV- Summary Schedule of Prior Audit Findings

N/A