Reports of Independent Auditors and Consolidated Financial Statements with Supplementary Information

PeopleFund

December 31, 2020 and 2019

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Report of Independent Auditors

Board of Directors
PeopleFund

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of PeopleFund (the Organization), which are comprised of the consolidated statement of financial position as of December 31, 2020, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated 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 audit. 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 consolidated financial statements are free of 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 auditors' 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 auditors consider 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, 2020, and the consolidated changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Prior Period Financial Statements

The consolidated financial statements of PeopleFund as of December 31, 2019, were audited by other auditors whose report dated April 29, 2020, expressed an unmodified opinion of those consolidated financial statements.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards 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 themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 23, 2021, 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 solely 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 effectiveness of the Organization's 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.

Moss Adams LLP

San Francisco, California
April 23, 2021

Consolidated Financial Statements

PeopleFund
Consolidated Statements of Financial Position
December 31, 2020 and 2019

	2020	2019
ASSETS		
Cash and cash equivalents	$ 2,802,537	$ 1,140,968
Short-term investments	6,728,507	7,615,891
Accrued interest	416,136	172,054
Accounts receivable	819,890	1,384,254
Prepaid expenses	78,373	56,018
Loans receivable, net	7,794,133	5,433,048
Total current assets	18,639,576	15,802,233
Other assets	24,123	42,007
Reserved cash	2,817,388	1,828,207
Long-term loans receivable, net	28,154,291	22,978,598
Fixed assets, net	3,007,722	3,135,701
Total assets	$ 52,643,100	$ 43,786,746
LIABILITIES		
Accounts payable	$ 724,405	$ 960,494
Accrued expenses	278,467	222,499
Agency funds	795,000	-
Notes payable	3,737,289	6,800,449
Total current liabilities	5,535,161	7,983,442
Long-term notes payable	33,419,104	24,641,739
Deferred revenue	44,300	-
Other long-term liabilities	10,394	14,131
Total liabilities	39,008,959	32,639,312
NET ASSETS		
Without donor restrictions		
Undesignated	11,547,485	9,139,368
Board designated	1,800,000	1,800,000
Total without donor restrictions	13,347,485	10,939,368
With donor restrictions	286,656	208,066
Total net assets	13,634,141	11,147,434
Total liabilities and net assets	$ 52,643,100	$ 43,786,746

See accompanying notes.

	2020		
	Without donor restrictions	With donor restrictions	Total
INCOME			
Small business lending program	$ 2,770,859	$ -	$ 2,770,859
Bad debt recovery	566,946	-	566,946
Investment income, net	620,138	-	620,138
NMTC income	1,328,860	-	1,328,860
504 income	246,119	-	246,119
Government contracts	5,542,419	-	5,542,419
Grants and contributions	3,688,317	445,000	4,133,317
Other operating income	427,284	-	427,284
Net assets released	366,410	(366,410)	-
Total income and net assets released	15,557,352	78,590	15,635,942
EXPENSES			
Lending and business assistance	12,329,909	-	12,329,909
Fundraising	164,391	-	164,391
General and administrative	654,935	-	654,935
Total expenses	13,149,235	-	13,149,235
Change in net assets	2,408,117	78,590	2,486,707
Net assets, beginning of year	10,939,368	208,066	11,147,434
Net assets, end of year	$ 13,347,485	$ 286,656	$ 13,634,141

PeopleFund
Consolidated Statement of Activities (continued)
Year Ended December 31, 2019

	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, net	865,868	-	865,868
NMTC income	909,220	-	909,220
504 income	159,892	-	159,892
Government contracts	911,108	-	911,108
Grants and contributions	824,680	613,000	1,437,680
Other operating income	113,193	-	113,193
Special events	84,138	-	84,138
Net assets released	883,647	(883,647)	-
Total income and net assets released	7,657,446	(270,647)	7,386,799
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	6,600,574	-	6,600,574
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	$ 10,939,368	$ 208,066	$ 11,147,434

	2020			
	Lending and business assistance	Fundraising	General and administrative	Total
Personnel	$ 2,641,445	$ 127,743	$ 497,905	$ 3,267,093
Provision for loan losses	2,829,975	-	-	2,829,975
Interest expense	675,347	-	-	675,347
Closing costs	173,142	-	-	173,142
Office and administrative	220,173	10,648	41,502	272,323
Depreciation and amortization	126,951	6,139	23,930	157,020
Marketing and outreach	95,201	2,846	11,093	109,140
Insurance	57,043	2,759	10,752	70,554
Travel	13,711	663	2,584	16,958
Professional services	145,462	1,988	21,469	168,919
Information technology	140,658	6,802	26,514	173,974
Property taxes	99,325	4,803	18,723	122,851
Grants to others	5,111,476	-	-	5,111,476
Other	-	-	463	463
Total expenses	$ 12,329,909	$ 164,391	$ 654,935	$ 13,149,235

	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
Special events	-	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
Grants to others	-	-	-	-
Other	-	-	2,637	2,637
Total expenses	$ 5,890,885	$ 191,361	$ 518,328	$ 6,600,574

PeopleFund
Consolidated Statements of Cash Flows
Years Ended December 31, 2020 and 2019

	2020	2019
Operating activities		
Change in net assets	$ 2,486,707	$ 786,225
Adjustments to the change in net assets		
Depreciation and amortization	157,020	154,367
Provision for loan losses	2,829,975	1,474,185
Appreciation in investments	(613,944)	(644,348)
Changes in assets and liabilities:		
Accrued interest	(244,082)	(12,450)
Accounts receivable	564,364	(960,006)
Prepaid expenses	(22,355)	62,121
Other assets	17,884	(19,520)
Accounts payable	(236,089)	(1,875,640)
Accrued expenses	55,968	38,662
Agency funds	795,000	-
Deferred revenue	44,300	-
Other long-term liabilities	(3,737)	(60,811)
Net cash flows provided by (used in) operating activities	5,831,011	(1,057,215)
Investing activities		
Purchase of investments	(3,012,902)	(13,474,227)
Sale, redemption, or maturity of investments	4,514,230	13,852,896
Fixed asset purchases	(29,041)	(57,335)
Issuance of loans receivable	(16,603,956)	(11,078,773)
Collections on loans receivable	6,237,203	6,520,390
Net cash flows used in investing activities	(8,894,466)	(4,237,049)
Financing activities		
Borrowings		
Proceeds from long-term borrowing	9,962,971	5,357,832
Repayments of long-term borrowings	(4,248,766)	(2,085,624)
Net cash flows provided by financing activities	5,714,205	3,272,208
Net change in cash flows	2,650,750	(2,022,056)
Cash, cash equivalents, reserved cash, beginning of the year	2,969,175	4,991,231
Cash, cash equivalents, reserved cash, end of the year	$ 5,619,925	$ 2,969,175
Cash paid for interest	$ 649,876	$ 600,608

See accompanying notes.

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 Community Development Entities (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.

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. PeopleFund board has designated $1,800,000 of net assets without donor restrictions as reserves for liquidity purposes as of December 31, 2020 and 2019, respectively.

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, 2020 and 2019, net assets restricted for use in specific small business lending initiatives and programs were $286,656 and $208,066, respectively.

Use of estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (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 consolidated 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.

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.

As of December 31, 2020 and 2019, cash in the amount of $2,817,388 and $1,828,207, 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 and as collateral on notes payable.

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the consolidated statements of financial position that sum to the total of the same such amounts shown in the consolidated statements of cash flows.

	December 31, 2020	December 31, 2019
Cash and cash equivalents	$ 2,802,537	$ 1,140,968
Reserved cash	2,817,388	1,828,207
Total cash, cash equivalents, and reserved cash shown in the consolidated statements of cash flows	$ 5,619,925	$ 2,969,175

Investments – Investments are stated at fair value in the consolidated statement of financial position with any change in fair value reported in the consolidated statements of activities. Stock gifts received from donors are recorded as gift income at the fair value of the stock gifts on the date of donation. Gains and losses and investment income derived from investments, net of investment expenses are accounted for as with or without donor restrictions based on restrictions, if any, in the accompanying consolidated statements of activities.

Accounts receivable – Accounts receivable are considered to be unsecured trade receivables, that are stated at unpaid balances less a reserve for doubtful accounts. The Organization provides for losses on accounts receivable using the allowance method. The allowance is based on experience, delays in payment, and other circumstances which may affect the ability of grantors to meet their obligations. It is the Organization's policy to charge off uncollectible accounts receivable against the allowance when management determines the receivable will not be collected. Accounts receivable are written off against the allowance in the year deemed uncollectible. At December 31, 2020 and 2019, no allowance for doubtful accounts was required.

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.

Troubled Debt Restructuring (TDR) – Management strives to identify borrowers in financial difficulty early and work with them to modify their loan to more affordable terms before it reaches nonaccrual status. A restructuring of a debt constitutes a TDR if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. Concessions could include a reduction in the interest rate to a rate that is below market on the loan, payment extensions, forgiveness of principal, forbearance, other actions designed to maximize collections.

TDRs are separately identified in impairment disclosures and are measured at the present value of estimated future cash flows using the loan's effective rate at inception. If a TDR is considered to be a collateral dependent loan, the loan is reported, net, at the fair value of the collateral. For TDRs that subsequently default, management determines the amount of reserve in accordance with the accounting policy for the allowance for loan losses.

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, 2020 or 2019 that would indicate an impairment of the Organization's fixed assets.

Agency funds – From time to time, the Organization will hold cash received in an agency capacity. These assets represent cash received from financial institutions, government agencies, or not for profit organizations the Organization is acting as an agent for. The cash received is for the ultimate benefit of unrelated organizations who participate in programs which the Organization helps administer funds for. Cash is recorded on the consolidated statements of financial position; a corresponding liability for the same amount is also recorded as agency funds on the accompanying consolidated statements of financial position.

Revenue recognition – The Organization records certain revenue from contracts with customers in accordance with Topic 606, *Revenue from Contracts with Customers (Topic 606)*. Under Topic 606, the Organization must identify the contract with a customer, identify the performance obligations in the contract, determine the transaction price, allocate the transaction price to the performance obligations in the contract, and recognize revenue when (or as) the Organization satisfies a performance obligation.

Certain sources of revenue are derived from unrealized and realized gain/loss, interest, and dividend earned on loans, investment securities, and other financial instruments that are not within the scope of Topic 606.

Small business lending program – Small business lending program consist primarily of interest income. Interest income on loans is recognized over the term of the loan and is calculated using the simple interest method on principal amounts outstanding.

NMTC income – NMTC Income is recognized as revenue when earned which is upon the closing of the qualified equity investment.

Contributions and grant revenue – Contributions (including any unconditional pledges) are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Donor-restricted support is reported as an increase in net assets with donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of activities as net assets without donor restrictions. Conditional grants are recognized as revenue when the services are performed and/or expenses are incurred, in accordance with FASB Accounting Standards Update (ASU) 2018-08.

Government contracts – The Organization receives contracts from government agencies for various purposes. Government contracts are considered to be a conditional contribution and the condition is met when the services are performed and/or expenses are incurred, in accordance with FASB ASU 2018-08.

Total Income for 2020 includes $5,542,419 in government contracts, out of which $4,711,476 corresponds to Grants deployed to small businesses that were negatively impacted by the economic downturn caused by COVID-19. In response to this crisis PeopleFund partnered with foundations and municipalities across Texas, providing the infrastructure to establish and manage grant funds, revolving loan funds and forgivable loan programs coupled with free Technical Assistance. These programs reached 850 small businesses that received almost $8 million in grants and thousands of hours of Technical Assistance focused on helping them establish their own disaster response plans and position their operations in the best possible way for the recovery ahead.

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.

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, 2020 and 2019, 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.

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 1 – Inputs to the valuation methodology are quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 – Inputs to the valuation methodology other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 – 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.

Reclassifications – Certain prior year amounts have been reclassified to conform with the current-year presentation. These reclassifications have no effect on net assets or change in net assets.

Recently issued pronouncements – In June 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. The standard will replace today's incurred loss model with a current expected credit loss (CECL) model. The CECL model will apply to estimated credit losses on loans receivable, held-to-maturity debt securities, unfunded loan commitments, and certain other financial assets measured at amortized cost. The CECL model is based on lifetime expected losses, rather than incurred losses, and requires the recognition of credit loss expense in the consolidated statement of activities and a related allowance for credit losses on the consolidated statement of financial position at the time of origination or purchase of a loan receivable or held-to-maturity debt security. Likewise, subsequent changes in this estimate are recorded through credit loss expense and related allowance. The CECL model requires the use of not only relevant historical experience and current conditions, but reasonable and supportable forecasts of future events and circumstances, incorporating a broad range of information in developing credit loss estimates, which could result in significant changes to both the timing and amount of credit loss expense and allowance. ASU 2016-13 is effective for nonprofit entities for fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021. Early adoption is permitted for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Entities will apply a modified retrospective approach through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective. While the Organization believes that the change from an incurred loss model to a CECL model has the potential to increase the allowance for loan losses at the adoption date, the impact of the adoption of the amendments to the Organization's consolidated financial position or consolidated statement of activities cannot be reasonably quantified at this time due to the complexity and extensive changes from these amendments. The Organization is evaluating tools to forecast future economic conditions that affect the cash flows of our loans over their lifetime.

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, 2021. 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.

NOTE 3 – LIQUIDITY

PeopleFund's financial assets available within one year of the consolidated statements of financial position date for general expenditure at December 31, are as follows:

	2020	2019
Cash and cash equivalents	$ 2,802,537	$ 1,140,968
Short-term investments	6,728,507	7,615,891
Accrued interest	416,136	172,054
Accounts receivable	819,890	1,384,254
Current portion of loans receivable, gross of allowance for loan losses	8,370,778	5,658,125
	$ 19,137,848	$ 15,971,292

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 consolidated statement of financial position 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.

Total net assets without donor restrictions as of December 31, 2020, were approximately $13.3 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 4 – RESERVED CASH AND OTHER ASSETS

As of December 31, 2020 and 2019, cash in the amount of $2,817,388 and $1,828,207, 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 and as collateral on notes payable. As of December 31, 2020 and 2019, cash in the amount of $1,842,988 and $879,505, respectively, was included in the reserved cash financial statement line item and was pledged as collateral on notes payable (see Note 10).

NOTE 5 – 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, 2020 and 2019, cash deposits in excess of FDIC insurance amounted to $4,356,614 and $2,434,591, respectively.

NOTE 6 – ACCOUNTS RECEIVABLE

Accounts receivable consists of the following at December 31, 2020 and 2019:

	2020	2019
Grants receivable	$ 191,147	$ 1,212,137
Other	628,743	172,117
	$ 819,890	$ 1,384,254

NOTE 7 – LOANS RECEIVABLE

Loans receivable consists of the following at December 31, 2020 and 2019:

	2020	2019
Small business loan fund	$ 17,416,270	$ 7,016,879
SBA Community Advantage	16,606,417	17,158,931
Nonprofit CDFI loan fund	886,370	1,000,000
Participation notes	484,313	978,317
SBA microloans	3,214,679	3,434,516
Loans receivable, gross	38,608,049	29,588,643
Allowance for loan losses	(2,659,625)	(1,176,997)
Loans receivable, net	$ 35,948,424	$ 28,411,646

Loans receivable is classified between current and long-term at December 31, 2020 and 2019, as follows:

	2020	2019
Current loans receivable, net	$ 7,794,133	$ 5,433,048
Long-term loans receivable, net	28,154,291	22,978,598
Total loans receivable, net	$ 35,948,424	$ 28,411,646

PeopleFund had contractual agreements to loan $1,003,473 and $2,404,410 in funds not yet disbursed as of December 31, 2020 and 2019, respectively.

Payment Protection Program ("PPP") Loan Program – Notes Receivable include loans issued by PeopleFund as a lender in the PPP, which opened on April 3, 2020. The organization's deliberate efforts to support the most vulnerable resulted in an average loan size of $19,387. As of December 31, 2020, PeopleFund had recorded 394 loans for $7,638,445 under this program. These loans are fully guaranteed by the Small Business Administration and subject to partial or full forgiveness depending on CARES ACT, rules and regulations

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, 2020 and 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 future losses from 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 types of loans, 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 economy, changes in interest rates, and the view of the regulatory authorities toward loan classifications.

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 years ended December 31, 2020 and 2019:

	2020			
	Small Business Loans	SBA Community Advantage	SBA Microloans	Total
Beginning balance	$ 683,765	$ 380,424	$ 112,808	$ 1,176,997
Charge-offs	(534,465)	(656,013)	(156,869)	(1,347,347)
Provisions for loan losses	1,521,553	782,570	525,852	2,829,975
Ending balance	$ 1,670,853	$ 506,981	$ 481,791	$ 2,659,625

	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	$ 683,765	$ 380,424	$ 112,808	$ 1,176,997

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. 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.

The recorded investment in financing receivables and certain credit quality indicators by type of loan as of December 31, 2020 and 2019, is as follows:

	2020				
	Small Business Loans	SBA Community Advantage	SBA Microloans	Total	%
Gross financing receivables	$ 18,786,953	$ 16,606,417	$ 3,214,679	$ 38,608,049	
Credit quality indicators					
Payment activity					
Performing	$ 18,626,440	$ 16,510,114	$ 3,205,032	$ 38,341,586	99%
Nonperforming	160,513	96,303	9,647	266,463	1%
	$ 18,786,953	$ 16,606,417	$ 3,214,679	$ 38,608,049	100%
Payment status					
Current	$ 18,516,610	$ 15,572,867	$ 3,177,260	$ 37,266,737	96%
31-60 days past due	109,830	332,858	27,772	470,460	1%
61-90 days past due	-	604,389	-	604,389	2%
91 plus days past due	160,513	96,303	9,647	266,463	1%
	$ 18,786,953	$ 16,606,417	$ 3,214,679	$ 38,608,049	100%
Components of the allowance					
Aggregated risk	$ 1,493,864	$ 128,465	$ -	$ 1,622,329	61%
Nonaggregated risk (delinquencies)	176,989	150,531	-	327,520	12%
Cash reserve	-	227,985	481,791	709,776	27%
	$ 1,670,853	$ 506,981	$ 481,791	$ 2,659,625	100%

	2019				
	Small Business Loans	SBA Community Advantage	SBA Microloans	Total	%
Gross financing receivables	$ 8,995,196	$ 17,158,931	$ 3,434,516	$ 29,588,643	
Credit quality indicators					
Payment activity					
Performing	$ 8,889,427	$ 16,902,454	$ 3,434,516	$ 29,226,397	99%
Nonperforming	105,769	256,477	-	362,246	1%
	$ 8,995,196	$ 17,158,931	$ 3,434,516	$ 29,588,643	100%
Payment status					
Current	$ 8,695,337	$ 16,440,866	$ 3,379,316	$ 28,515,519	97%
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%
	$ 8,995,196	$ 17,158,931	$ 3,434,516	$ 29,588,643	100%
Components of the allowance					
Aggregated risk	$ 294,804	$ 99,616	$ -	$ 394,420	33%
Nonaggregated risk (collateral)	170,923	-	-	170,923	15%
Nonaggregated risk (delinquencies)	218,038	73,652	-	291,690	25%
Cash reserve	-	207,156	112,808	319,964	27%
	$ 683,765	$ 380,424	$ 112,808	$ 1,176,997	100%

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, 2020 and 2019, are as follows:

	2020	2019
Current	$ 773,509	$ 1,197,926
31-60 days past due	173,674	87,276
61-90 days past due	42,729	13,314
91-120 days past due	-	-
120 plus days past due	64,683	158,164
	$ 1,054,595	$ 1,456,680

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 $484,313 and $978,317 as of December 31, 2020 and 2019, respectively.

NOTE 8 – INVESTMENTS AND FAIR VALUE MEASUREMENT

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 for identical assets
- *Mutual funds* – valued based on quoted market prices for identical assets
- *Equity securities* – valued based on quoted market prices for identical assets
- *Fixed income funds* – valued based on quoted market prices for identical assets

All investments were considered to be Level 1 investments held by PeopleFund during the years ended December 31, 2020 and 2019. 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 as reported on the consolidated statements of financial position at December 31st:

	2020	2019
Money market funds	$ 688,513	$ 177,928
Mutual funds	2,689,350	3,177,438
Equity securities	1,838,633	1,311,215
Fixed income funds	1,512,011	2,949,310
Total investments	$ 6,728,507	$ 7,615,891

NOTE 9 – FIXED ASSETS

	December 31,	
	2020	2019
Land	$ 379,880	$ 379,880
Building and improvements	3,292,874	3,285,130
Vehicles	188,337	188,337
Furniture and equipment	341,474	320,177
Software and other intangibles	40,742	40,742
	4,243,307	4,214,266
Accumulated depreciation	(1,235,585)	(1,078,565)
Total fixed assets, net	$ 3,007,722	$ 3,135,701

Depreciation for the years ended December 31, 2020 and 2019, was $157,020 and $154,367, respectively.

NOTE 10 – NOTES PAYABLE

	2020	2019
Notes payable to various banks, foundations, and individuals at interest rates between 0.0% and 3.25%, with various payment terms. Full principal amounts are due at maturity and maturity dates vary through May 2030.	$ 32,596,679	$ 27,842,771
Notes payable to the Small Business Administration (SBA) currently at 0.0% to 0.88% interest, with varying repayment amounts, maturing in May 2030. The notes are collateralized by balances held in seven reserved cash accounts, as well as an interest in notes receivable funded through the SBA Microloan program.	4,559,714	3,599,417
	$ 37,156,393	$ 31,442,188

Principal maturities of notes payable are as follows:

2021	$	3,737,289
2022		9,690,629
2023		4,010,270
2024		4,515,000
2025		4,499,447
Thereafter		10,703,758
	$	37,156,393

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

	2020		2019	
Reserved cash	$	1,842,988	$	879,505
Loans receivable		4,820,433		3,434,516
	$	6,663,421	$	4,314,021

Notes Payable include a loan under the Paycheck Protection Program offered through Bank of America under the Coronavirus Aid, Relief, and Economic Security Act (“CARES ACT”). This loan was recorded on May 1, 2020, with a balance of $530,735, maturity date of May 1, 2025 and subject to partial or full forgiveness depending on CARES ACT, rules and regulations.

The Organization is subject to certain covenants, restrictions, and reporting requirements with respect to its notes payable.

NOTE 11 – COMMITMENTS AND CONTINGENCIES

Lease commitments – The Organization leases office space to various tenants under non-cancellable commercial leases. During 2020 and 2019, rental income related under these leases totaled $66,032 and $82,684, respectively. At December 31, 2020, the minimum rentals to be received were $116,100.

The Organization also leases certain equipment and office space under various non-cancellable operating leases. At December 31, 2020, minimum lease payments under these non-cancellable operating leases are as follows:

2021	$	37,150
2022		26,412
2023		3,314
	$	66,876

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.

Grant Compliance - The Organization has received federal grants for specific purposes that are subject to review and audit by the federal government. Although such audits could result in expenditure disallowances under grant and contract terms, management believes the Organization is in substantial compliance with current laws and regulations and that any potential liability arising from compliance issues will not be material to the Organization's consolidated financial position and changes in net assets as of and for the years ended December 31, 2020 and 2019.

NOTE 12 – 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 $50,000,000 and $25,000,000 in NMTC allocation during the years ended December 31, 2020 and 2019, respectively. From origination in 2013 through December 31, 2020, PeopleFund NMTC, LLC, has received $150,000,000 of tax credit allocation.

NOTE 13 – 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% salary. Total matching contributions during the years ended December 31, 2020 and 2019, were $62,431 and $58,946, respectively.

NOTE 14 – CONCENTRATION OF CREDIT RISK

Financial instruments, which potentially subject the Organization to concentration of credit risk, consist principally of cash and cash equivalents with high credit quality financial institutions, investments, and loans receivable. These instruments are also subject to other market risk conditions such as interest rate risk, equity market risks and their implied volatilities, mortgage risks and market liquidity and funding risks.

Cash and cash equivalents on deposit with financial institutions are guaranteed by the Federal Deposit Insurance Corporation ("FDIC") up to $250,000 for all interest and non-interest bearing cash accounts at all FDIC-insured financial institutions and/or by the Securities Investor Protection Corporation ("SIPC") as of December 31, 2020 and 2019. At various times during 2020 and 2019, the Organization had cash balances in excess of the insured limits. The Organization has not experienced any losses in such accounts and believes they are not exposed to any significant credit risk to cash.

Investments are exposed to various risks, such as interest rate, market, and credit risk. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the values of investments will occur in the near term and such changes could materially affect total net assets and the amounts reported in the consolidated statements of financial position.

The World Health Organization declared the novel coronavirus a public health emergency. PeopleFund's operations are concentrated in Texas, which has restricted gatherings and implemented shelter in place restrictions. PeopleFund continues normal operations while closely monitoring employees and visitors to office locations. PeopleFund will continue to monitor the situation closely, but given the uncertainty about the situation, management can't estimate the impact to the consolidated financial statements.

NOTE 15 – SUBSEQUENT EVENTS

Subsequent events are events or transactions that occur after the consolidated statement of financial position date but before the consolidated financial statements are available to be issued. The Organization recognizes in the consolidated financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the consolidated statement of financial position, including the estimates inherent in the process of preparing the consolidated financial statements. The Organization's consolidated financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the consolidated statement of financial position but arose after the consolidated statement of financial position date and before the consolidated financial statements are available to be issued.

The Organization has evaluated subsequent events through April 23, 2021, which is the date the consolidated financial statements were available to be issued.

Supplementary Information

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

Board of Directors
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 statement of financial position as of December 31, 2020, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated April 23, 2021.

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Organization's internal control over financial reporting (internal control) as a basis for designing 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 Organization's consolidated 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 consolidated financial statements. 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 entity'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.

Moss Adams LLP

San Francisco, California
April 23, 2021

MOSSADAMS

Report of Independent Auditors on Compliance for the Major Federal Program and Report on Internal Control over Compliance Required by the Uniform Guidance

Board of Directors
PeopleFund

Report on Compliance for the Major Federal Program

We have audited PeopleFund's (the Organization) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Organization's major federal program for the year ended December 31, 2020. The Organization's major federal program is identified in 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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Organization's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about 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 major federal program. However, our audit does not provide a legal determination on the Organization's compliance.

Opinion on the Major Federal Program

In our opinion, the Organization has complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the major federal program for the year ended December 31, 2020.

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, we considered the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of 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.

Moss Adams LLP

San Francisco, California
April 23, 2021

Federal Grantor/Pass-through Grantor/Program Title	Assitance Listing Number	Agency or pass-through number	Subrecipient	Federal expenditures
U.S. Small Business Administration				
Microloan grant	59.046	9503300EZ0084	$ -	$ 352,743
Microloan grant	59.046	SBAOCAML200015-01-00	-	315,024
Prime grant	59.050	9503300EZ0167	-	63,157
Total grants			-	730,924
Microloan program	59.046	4619435004	-	88,956
Microloan program	59.046	5298545005	-	143,519
Microloan program	59.046	7510295010	-	311,518
Microloan program	59.046	9267775010	-	283,750
Microloan program	59.046	9568925000	-	846,156
Microloan program	59.046	2826207001	-	1,925,519
Microloan program	59.046	4351407007	-	1,500,000
Total microloan program			-	5,099,418
Total U.S. Small Business Administration			-	5,830,342
U.S. Department of Treasury				
Passed through City of El Paso				
COVID-19 - Coronavirus Aid Relief Fund	21.019		-	5,000,302
Total U.S. Department of the Treasury			-	5,000,302
U.S. Department of Housing and Urban Development				
CDBG - *Entitlement Grants Cluster*				
Passed through City of Austin				
CDBG Small Business Development Services - Cash Award	14.218	PA100000027	-	50,000
Total CDBG - *Entitlement Grants Cluster*			-	50,000
Total U.S. Department of Housing and Urban Development			-	50,000
Total federal expenditures			$ -	$ 10,880,644

NOTE 1 – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (Schedule) includes the federal award activity of PeopleFund under programs of the federal government for the year ended December 31, 2020. The information in this Schedule is presented in accordance with the cost principles contained in the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of PeopleFund, it is not intended to and does not present the financial position, changes in net assets, or cash flows of PeopleFund.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

Expenditures reported in the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. PeopleFund recognizes grants to the extent that eligible grant costs are incurred. PeopleFund has elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance, Section 414.

NOTE 3 – LOAN PROGRAMS ADMINISTERED BY PEOPLEFUND

Expenditures under loan programs as presented on the Schedule represent outstanding balances owed by PeopleFund to federal agencies at the beginning of the year plus any new loans awarded by a federal agency during the year if those loans had continuing compliance requirements. The balance of loans outstanding at December 31, 2020 consist of:

Assistance Listing Number	Program Name	Loans Outstanding at January 1, 2020	Loans Received During 2020	Loan Principal Repaid in 2020	Loans Outstanding at December 31, 2020
59.046	SBA Microloan Program	$ 3,599,417	$ 1,500,000	$ (539,703)	$ 4,559,714

NOTE 4 – SUBRECIPIENTS

PeopleFund did not provide federal awards to subrecipients during the year ended December 31, 2020.

NOTE 5 – LOANS RECEIVABLE OUTSTANDING

Below is a reconciliation of the loan receivable balances outstanding as of December 31, 2020.

Federal Awarding Agency and Program Title		Loan Contract Number	Assistance Listing Number	Loans Receivable as of December 31, 2019	Loans Originated	Loan Payments Received	Charge-Off's	Loans Receivable as of December 31, 2020
U.S. Small Business Administration Direct Program								
	SBA Microloan	4619435004	59.046	$ 105,209	$ 25,297	$ (74,152)	$ -	$ 56,354
	SBA Microloan	5298545005	59.046	231,110	93,474	(146,373)	-	178,211
	SBA Microloan	7510295010	59.046	215,858	145,947	(197,217)	-	164,588
	SBA Microloan	9267775010	59.046	263,007	38,065	(131,527)	-	169,545
	SBA Microloan	9568925000	59.046	707,751	226,006	(305,154)	(20,484)	608,119
	SBA Microloan	2826207001	59.046	1,911,581	269,121	(559,815)	(136,385)	1,484,502
	SBA Microloan	4351407007	59.046	-	803,976	(250,616)	-	553,360
Total U.S. Small Business Administration				3,434,516	1,601,886	(1,664,854)	(156,869)	3,214,679
Totals				$ 3,434,516	$ 1,601,886	$ (1,664,854)	$ (156,869)	$ 3,214,679

Section I – Summary of Auditor's Results

Consolidated Financial Statements

Type of report the auditor issued on whether the consolidated financial statements audited were prepared in accordance with GAAP: *Unmodified*

Internal control over financial reporting:

- Material weakness(es) identified? ☐ Yes ☒ No
- Significant deficiency(ies) identified? ☐ Yes ☒ None reported

Noncompliance material to financial statements noted? ☐ Yes ☒ No

Federal Awards

Internal control over the major federal program:

- Material weakness(es) identified? ☐ Yes ☒ No
- Significant deficiency(ies) identified? ☐ Yes ☒ None reported

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? ☐ Yes ☒ No

Identification of major federal program and type of auditor's report issued on compliance for major federal program:

Assistance Listing Number	*Name of Federal Program*	*Type of Auditor's Report Issued*
21.019	COVID-19 - Coronavirus Aid Relief Fund	*Unmodified*

Dollar threshold used to distinguish between type A and type B programs: $ 750,000

Auditee qualified as low-risk auditee? ☒ Yes ☐ No

Section II – Financial Statement Findings

None reported

Section III – Federal Award Findings and Questioned Costs

None reported

MOSSADAMS