Reports of Independent Auditors and
Consolidated Financial Statements with
Supplementary Information

PeopleFund

December 31, 2021 and 2020

Table of Contents

MOSSADAMS

Report of Independent Auditors

Board of Directors
PeopleFund

Report on the Audit of the Financial Statements

Opinion

We have audited the consolidated financial statements of PeopleFund (the Organization), which comprise the consolidated statements of financial position as of December 31, 2021 and 2020, 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.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of PeopleFund as of December 31, 2021 and 2020, and the change in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards (Government Auditing Standards)*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of PeopleFund and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal-control-related matters that we identified during the audit.

Supplementary Information

Our audits were 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)* is presented for purposes of additional analysis, 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 29, 2022, 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 29, 2022

Consolidated Financial Statements

PeopleFund
Consolidated Statements of Financial Position
December 31, 2021 and 2020

	2021	2020
ASSETS		
Cash and cash equivalents	$ 15,860,229	$ 2,802,537
Short-term investments	5,628,673	6,728,507
Accrued interest	286,493	416,136
Accounts receivable	67,148	628,743
Grants receivable	1,595,360	191,147
Prepaid expenses	26,796	78,373
Loans receivable, net	15,698,258	7,794,133
Total current assets	39,162,957	18,639,576
Other assets	1,383	24,123
Reserved cash	2,171,296	2,817,388
Long-term loans receivable, net	21,891,006	28,154,291
Fixed assets, net	2,881,731	3,007,722
Total assets	$ 66,108,373	$ 52,643,100
LIABILITIES		
Accounts payable	$ 3,202,453	$ 724,405
Accrued expenses	473,888	278,467
Agency funds	20,000	795,000
Notes payable	14,350,000	3,737,289
Total current liabilities	18,046,341	5,535,161
Long-term notes payable	27,265,502	33,419,104
Deferred revenue	154,000	44,300
Other long-term liabilities	3,305	10,394
Total liabilities	45,469,148	39,008,959
NET ASSETS		
Without donor restrictions		
Undesignated	16,134,717	11,547,485
Board-designated	2,300,000	1,800,000
Total without donor restrictions	18,434,717	13,347,485
With donor restrictions	2,204,508	286,656
Total net assets	20,639,225	13,634,141
Total liabilities and net assets	$ 66,108,373	$ 52,643,100

 See accompanying notes.

	2021		
	Without donor restrictions	With donor restrictions	Total
INCOME			
Small-business lending program	$ 6,030,625	$ -	$ 6,030,625
Investment income, net	271,367	-	271,367
NMTC income	1,293,890	-	1,293,890
504 income	254,206	-	254,206
Government contracts	1,010,672	-	1,010,672
Grants and contributions	2,861,686	2,250,000	5,111,686
Other operating income	526,057	-	526,057
Net assets released	332,148	(332,148)	-
Total income and net assets released	12,580,651	1,917,852	14,498,503
EXPENSES			
Lending and business assistance	5,756,618	-	5,756,618
Fundraising	311,871	-	311,871
General and administrative	1,424,930	-	1,424,930
Total expenses	7,493,419	-	7,493,419
Change in net assets	5,087,232	1,917,852	7,005,084
Net assets, beginning of year	13,347,485	286,656	13,634,141
Net assets, end of year	$ 18,434,717	$ 2,204,508	$ 20,639,225

	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

See accompanying notes.

	2021			
	Lending and business assistance	Fundraising	General and administrative	Total
Personnel	$ 2,916,698	$ 197,152	$ 821,320	$ 3,935,170
Provision for loan losses	411,842	-	-	411,842
Interest expense	699,076	-	-	699,076
Closing costs	184,140	-	-	184,140
Office and administrative	171,091	11,585	48,559	231,235
Depreciation and amortization	114,802	7,760	32,327	154,889
Marketing and outreach	179,398	3,854	-	183,252
Insurance	70,959	4,796	19,982	95,737
Travel	26,045	-	-	26,045
Professional services	199,513	68,940	429,770	698,223
Information technology	190,706	12,891	53,701	257,298
Property taxes	66,156	4,472	18,629	89,257
Grants to others	526,192	-	-	526,192
Other	-	421	642	1,063
Total expenses	$ 5,756,618	$ 311,871	$ 1,424,930	$ 7,493,419

	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

See accompanying notes.

PeopleFund
Consolidated Statements of Cash Flows
Years Ended December 31, 2021 and 2020

	2021	2020
Operating activities		
Change in net assets	$ 7,005,084	$ 2,486,707
Adjustments to the change in net assets		
Depreciation and amortization	154,889	157,020
Provision for loan losses	411,842	2,829,975
Appreciation in investments	1,100,765	(613,944)
Changes in assets and liabilities:		
Accrued interest	129,643	(244,082)
Accounts receivable	561,595	(456,626)
Grants receivable	(1,404,213)	1,020,990
Prepaid expenses	51,577	(22,355)
Other assets	22,740	17,884
Accounts payable	2,478,048	(236,089)
Accrued expenses	195,421	55,968
Agency funds	(775,000)	795,000
Deferred revenue	109,700	44,300
Other long-term liabilities	(7,089)	(3,737)
Net cash flows provided by operating activities	10,035,002	5,831,011
Investing activities		
Purchase of investments	(4,364,856)	(3,012,902)
Sale, redemption, or maturity of investments	4,363,925	4,514,230
Fixed asset purchases	(28,898)	(29,041)
Issuance of loans receivable	(37,911,101)	(16,603,956)
Collections on loans receivable	35,858,419	6,237,203
Net cash flows used in investing activities	(2,082,511)	(8,894,466)
Financing activities		
Borrowings		
Proceeds from notes payable	9,962,971	9,962,971
Repayments of notes payable	(5,503,862)	(4,248,766)
Net cash flows provided by financing activities	4,459,109	5,714,205
Net change in cash flows	12,411,600	2,650,750
Cash, cash equivalents, reserved cash, beginning of the year	5,619,925	2,969,175
Cash, cash equivalents, reserved cash, end of the year	$ 18,031,525	$ 5,619,925
Cash paid for interest	$ 699,076	$ 649,876

NOTE 1 – ORGANIZATION

PeopleFund (the Organization) is a 501(c)(3) nonprofit corporation whose mission is to create economic opportunity in low-income communities by providing financial services and technical assistance to create jobs, provide needed goods and services, improve the physical environment, promote diversity in entrepreneurial success, and build individual and community assets. PeopleFund provides financial assistance and comprehensive technical assistance services to businesses, community organizations and microenterprises in lower-income communities throughout Texas.

PeopleFund is a Community Development Financial Institution, certified by the Community Development Financial Institution Fund of the U.S. Department of Treasury. The Organization is also a Small Business Administration lender operating in the SBA Microloan program, SBA Community Advantage program and SBA 504 program. In addition, the Organization operates several financial and technical assistance programs with cities, municipalities, foundations, and community partners across Texas since 1994.

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 was formed to further PeopleFund's activities in low- and moderate-income communities. PeopleFund is the managing member of PeopleFund NMTC, LLC, which is the managing member of various affiliated entities.

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.

Since 2012 and through December 31, 2021, PeopleFund had received and deployed $150 million in Qualified Equity Investments (QEIs).

In 2021, PeopleFund established Veteran Loan Fund LLC (VLF) as part of a collaborative effort with other CDFIs across the country. The purpose of the fund is to consolidate efforts and increase support for CDFIs that provide affordable financial and technical assistance to veterans who do not have access to those resources from mainstream financial institutions. VLF was established as a wholly owned subsidiary of PeopleFund, its managing member, and counts with a board of managers that includes executives from CDFIs that are members of the fund.

Military veterans are positioned to be successful entrepreneurs thanks to their training and skills, and a significant percentage of them aspire to attain financial independence through business ownership. However, they face barriers to accessing capital and support due to frequent moves and overseas deployments. Providing veterans with affordable capital to grow their businesses supports their success in civilian life and generates ripple effects through the entire economy.

As of December 31, 2021, the Veteran Loan Fund had raised $6.5 million in investments toward its first $15 million round of financing.

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, PeopleFund Advisors, LLC, and Veteran Loan Fund 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. As of December 31, 2021 and 2020, net assets without donor restrictions designated as reserves for liquidity purposes were $2,300,000 and $1,800,000, respectively.

Net assets with donor restrictions **–** is defined as that portion of net assets that consist of a restriction on the specific use or the occurrence of a certain future event. Contributions unconditionally promised, which are scheduled to be received more than one year in the future, are recorded at fair value, classified as with donor restrictions until the funds are received, and are discounted at a rate commensurate with the risks involved. The Organization also receives grants from charitable foundations and local agencies for initiatives and special projects for which purpose restrictions apply. Such grants and contributions are recorded as with donor restrictions until the purpose restrictions are met. When the purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported as net assets released from restrictions. As of December 31, 2021 and 2020, net assets with donor restrictions were $2,204,508 and $286,656, 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, functional expense allocation, 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, 2021 and 2020, cash in the amount of $2,171,296 and $2,817,388, 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,	
	2021	2020
Cash and cash equivalents	$ 15,860,229	$ 2,802,537
Reserved cash	2,171,296	2,817,388
Total cash, cash equivalents, and reserved cash shown in the consolidated statements of cash flows	$ 18,031,525	$ 5,619,925

Investments – Investments are stated at fair value in the consolidated statements 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.

Investments in New Market Tax Credit (NMTC) entities - The following NMTC CDE entities, over which PeopleFund NMTC, LLC (PF NMTC), exercises significant influence, are included in the consolidated financial statements using the equity method of accounting. PF NMTC, LLC, has a 0.01% financial interest in each of the following entities.

PF NMTC 1 (*)	PF NMTC 9	PF NMTC 17
PF NMTC 2 (*)	PF NMTC 10	PF NMTC 18
PF NMTC 3 (*)	PF NMTC 11	PF NMTC 19
PF NMTC 4	PF NMTC 12	PF NMTC 20
PF NMTC 5	PF NMTC 13	PF NMTC 21
PF NMTC 6	PF NMTC 14	
PF NMTC 7	PF NMTC 15	
PF NMTC 8	PF NMTC 16	

(*) These entities were closed during the calendar year 2021, when the projects were unwound and reached the end of the seven-year NMTC compliance period.

The above limited liability companies were formed in the State of Delaware to qualify as CDEs under the provisions of Section 45D of the Internal Revenue Code and to make qualified Low Income Community Investments from the proceeds of Qualified Equity Investments received from the NMTC Investor 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.

Accounts receivable – Accounts receivable are considered unsecured trade receivables, and 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 collection. 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. As of December 31, 2021 and 2020, no allowance for doubtful accounts was required.

Grants receivable – Grants receivable are stated at unpaid balances. Grants receivable are expected to be collected less than a year. The Organization provides for losses on accounts receivable using the allowance method. The allowance is based on experience, delays in payment, and other circumstances 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. Grants receivable are written off against the allowance in the year deemed uncollectible. As of December 31, 2021 and 2020, 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.

The allowance for loan losses is increased by provisions for loan losses charged to expenses and reduced by loans charged off. The adequacy of the allowance and level of provisions are determined based on management's evaluation of the loan collateral, historical and projected losses, current and anticipated economic conditions, and other relevant factors. The allowance for loan losses is reviewed by management and by the Portfolio Quality Committee of the Board. As of December 31, 2021 and 2020, the allowance was deemed 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 PeopleFund's 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, and 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, 2021 or 2020, 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 that 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 programs 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.

504 income **–** 504 income includes Processing fees that are recognized when earned, which is upon approval from SBA, and upon loan closing (debenture) and Servicing fees that are recognized when earned, monthly.

Other operating income **–** Other operating income represents revenues associated with technical assistance and program management services delivered to cities and municipalities, business assistance workshops, office space rent. Other operating income is recognized as revenue when earned, which is upon the delivery of services.

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 2021 and 2020 includes $1,010,672 and $5,542,419 in government contracts, respectively. Out of the amount received in 2020, $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. In 2021, these programs benefited approximately 300 small businesses across Texas that received almost $8 million in grants and thousands of hours of free 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. In 2020, these programs reached approximately 850 small businesses that received almost $8 million in grants.

Grants to others – Grants are recorded by the Organization upon approval by management, provided the grant is not subject to conditions. Grants with payment terms in excess of one year are subject to discounting based on the Organization's internal discount rate. There were no conditional grants as of December 31, 2021 and 2020.

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, property taxes, and other expenses.

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, PeopleFund Advisors, LLC, and Veteran Loan Fund LLC, has elected to treat these entities as disregarded for tax purposes. As result, the operations and finances of these entities are treated as PeopleFund's for tax and information reporting purposes. The activities of these entities 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, 2021 and 2020, 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 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 was 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. Management is evaluating the impact that adoption will have on the consolidated financial statements.

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, were as follows:

	2021	2020
Cash and cash equivalents	$ 15,860,229	$ 2,802,537
Short-term investments	5,628,673	6,728,507
Accrued interest	286,493	416,136
Accounts receivable	67,148	628,743
Current portion of loans receivable, gross of allowance for loan losses	16,754,660	8,370,778
	$ 38,597,203	$ 18,946,701

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 at least five months of normal operating expenses, which are, on average, approximately $2.3 million. As part of its liquidity management, PeopleFund invests cash in excess of its daily requirements in various short-term investments.

Total net assets without donor restrictions as of December 31, 2021, were approximately $18.4 million, out of which $2.3 million has been set aside by the Board of Directors as a reserve for operations. As of December 31, 2020, total net assets without donor restrictions were approximately $13.3 million, out of which $1.8 million has been set aside by the Board of Directors as a reserve for operations. These designated funds are available to cover unexpected cash needs.

NOTE 4 – RESERVED CASH AND OTHER ASSETS

As of December 31, 2021 and 2020, cash in the amount of $2,171,296 and $2,817,388, 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, 2021 and 2020, cash in the amount of $1,313,632 and $1,842,988, respectively, was included in the reserved cash financial statement line item and was pledged as collateral on notes payable.

NOTE 5 – CONCENTRATIONS

PeopleFund's financial instruments exposed to concentrations of credit risk consist of investments that 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, 2021 and 2020, cash deposits in excess of FDIC insurance amounted to $16,334,098 and $4,356,614, respectively.

NOTE 6 – LOANS RECEIVABLE

Loans receivable consists of the following at December 31, 2021 and 2020:

	2021	2020
Current loans receivable, net	$ 15,698,258	$ 7,794,133
Long-term loans receivable, net	21,891,006	28,154,291
Total loans receivable, net	$ 37,589,264	$ 35,948,424

PeopleFund had contractual agreements to loan $2,588,250 and $1,003,473 in funds not yet disbursed as of December 31, 2021 and 2020, respectively.

Paycheck 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 approximately $20,000. As of December 31, 2021, PeopleFund had 387 active loans for $10,143,992 out of a total of almost $39 million deployed 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. The organization expects that most if not all the loans under this program will be fully forgiven.

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 nonperforming and potential problem loans. Diversification in the loan portfolio is a means of managing risk associated with fluctuations in economic conditions. The loan sizes ranged from roughly $1,000 to $1,600,000 at December 31, 2021 and 2020.

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 forward-looking, not only considering relevant historical experience and current conditions, but also reasonable and supportable forecasts of future events and circumstances, incorporating a broad range of information in developing credit loss estimates.

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 nonaccrual 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 chargedoff. 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 nonaccrual); 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, 2021 and 2020:

	2021			
	Small-Business Loans	SBA Community Advantage	SBA Microloans	Total
Beginning balance	$ 1,670,853	$ 506,981	$ 481,791	$ 2,659,625
Charge-offs	(315,165)	(185,949)	(23,380)	(524,494)
Provisions for loan losses	261,360	213,738	130,808	605,906
Ending balance	$ 1,617,048	$ 534,770	$ 589,219	$ 2,741,037

	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

Credit quality indicators – As part of the ongoing 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. 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.

The allowance target (as a percentage of the outstanding loan principal balance) is determined based upon historical information and management's estimation of future losses, recoveries, and management's reasonable and supportable forecasts of future events and circumstances.

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, 2021 and 2020, was as follows:

	2021				
	Small Business Loans	SBA Community Advantage	SBA Microloans	Total	%
Gross financing receivables	$ 22,986,184	$ 13,898,837	$ 3,445,280	$ 40,330,301	
Credit quality indicators					
Payment activity					
Performing	$ 22,704,209	$ 13,450,490	$ 3,410,846	$ 39,565,545	98%
Nonperforming	281,975	448,347	34,434	764,756	2%
	$ 22,986,184	$ 13,898,837	$ 3,445,280	$ 40,330,301	100%
Payment status					
Current	$ 22,519,781	$ 13,097,390	$ 3,391,788	$ 39,008,959	97%
31-60 days past due	156,797	209,462	8,841	375,100	1%
61-90 days past due	27,630	143,637	10,218	181,485	0%
91 plus days past due	281,976	448,348	34,433	764,757	2%
	$ 22,986,184	$ 13,898,837	$ 3,445,280	$ 40,330,301	100%
Allowance and Credit Enhancements					
Allowance for Loan Losses	$ 1,617,048	$ 534,770	$ 589,219	$ 2,741,037	
Loan Guarantees	10,143,992	11,045,595	-	21,189,587	
	$ 11,761,040	$ 11,580,365	$ 589,219	$ 23,930,624	
Cash Reserves	$ 1,313,632	$ 228,263	$ 747,313	$ 2,289,208	

	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 to 60 days past due	109,830	332,858	27,772	470,460	1%
61 to 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%
Allowance and credit enhancements					
Allowance for loan losses	$ 1,670,853	$ 506,981	$ 481,791	$ 2,659,625	
Loan guarantees	7,638,445	13,238,766	-	20,877,211	
	$ 9,309,298	$ 13,745,747	$ 481,791	$ 23,536,836	
Cash reserves	$ 1,434	$ 227,985	$ 746,414	$ 975,834	

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) as of December 31, 2021 and 2020, were as follows:

	2021	2020
Current	$ 924,503	$ 773,509
31 to 60 days past due	209,522	173,674
61 to 90 days past due	138,033	42,729
91 to 120 days past due	-	-
120 plus days past due	14,893	64,683
	$ 1,286,951	$ 1,054,595

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 $67,310 and $484,313 as of December 31, 2021 and 2020, respectively.

NOTE 7 – 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 held at fair value by PeopleFund during the years ended December 31, 2021 and 2020, were considered to be Level 1. 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 31:

	2021	2020
Money market funds	$ 201,593	$ 688,513
Mutual funds	2,293,376	2,689,350
Equity securities	2,383,360	1,838,633
Fixed income funds	750,344	1,512,011
Total investments	$ 5,628,673	$ 6,728,507

NOTE 8 – FIXED ASSETS

	December 31, 2021	2020
Land	$ 379,880	$ 379,880
Building and improvements	3,297,033	3,292,874
Vehicles	188,520	188,337
Furniture and equipment	357,153	341,474
Software and other intangibles	49,618	40,742
	4,272,204	4,243,307
Accumulated depreciation	(1,390,473)	(1,235,585)
Total fixed assets, net	$ 2,881,731	$ 3,007,722

Depreciation for the years ended December 31, 2021 and 2020, was $154,889 and $157,020, respectively.

NOTE 9 – NOTES PAYABLE

	2021	2020
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.	$ 37,686,347	$ 32,596,679
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 reserved cash accounts, as well as an interest in notes receivable funded through the SBA Microloan program.	3,929,155	4,559,714
	$ 41,615,502	$ 37,156,393

Principal maturities of notes payable are as follows:

2022	$	14,350,000
2023		3,315,000
2024		3,877,162
2025		3,650,432
2026		3,600,000
Thereafter		12,822,908
	$	41,615,502

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

	December 31,			
	2021		2020	
Reserved cash	$	1,313,632	$	1,842,988
Loans receivable		6,450,058		4,820,433
	$	7,763,690	$	6,663,421

As of December 31, 2020, notes payable included 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. This loan was fully forgiven in 2021, therefore it is no longer included in notes payable.

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

NOTE 10 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions at December 31, 2021 and 2020, may be expended for:

	December 31,			
	2021		2020	
Program services:				
Veteran Loan Fund	$	2,081,175	$	-
Other		123,333		286,656
	$	2,204,508	$	286,656

All net assets with donor restrictions for program services are expected to be released from restriction by December 31, 2023.

NOTE 11 – COMMITMENTS AND CONTINGENCIES

Lease commitments – The Organization leases office space to various tenants under non-cancellable commercial leases. During 2021 and 2020, rental income related under these leases totaled $82,174 and $66,032, respectively.

At December 31, 2021, the minimum rentals to be received were approximately $80,000.

The Organization also leases certain equipment and office space under various noncancellable operating leases. At December 31, 2021, minimum lease payments under these noncancellable operating leases are as follows:

Years ending:	
2022	$ 48,556
2023	41,294
2024	39,000
	$ 128,850

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 Organization's financial position, changes in net assets, 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, 2021 and 2020.

NMTC Indemnification Contingencies - PeopleFund Advisors, LLC, provides indemnifications for its various NMTC projects in the event of a tax benefit recapture. The NMTC tax benefit recapture risk is based on the initial qualified equity investment amount. The indemnification contingencies are shared equally between the members of the LLC.

Indemnification agreements only cover events that occurred during the compliance period; however they remain in full force and effect past compliance end, generally running another three to four years to cover statutory period of limitation for IRS audit. Maximum indemnity would happen only in certain events (fraud, gross negligence, willful misconduct, failure to notify, etc.). In most circumstances, the indemnification amount will be lower than maximum, due to certain caps imposed under agreement or timing of recapture event.

As of December 31, 2021, the maximum indemnity amount was $58.5 million; however, PeopleFund's share is $29.25 million and per the cap imposed under the indemnification agreements, the adjusted contingent liability is approximately $6.75 million in all but the most unlikely of events. The expiration dates of the contingencies are spread from December 2023 to December 2031, dependent on the closing date of each project.

Management believes that the likelihood of a recapture event is remote.

NOTE 12 – NMTC PROGRAM

Since 2013, the Organization has been awarded and subsequently deployed $150 million in NMTC allocation to support community development in economically distressed areas throughout Texas. In 2021 the Organization deployed $37 million of tax credit allocation supporting four projects throughout the state.

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% of salary. Total matching contributions during the years ended December 31, 2021 and 2020, were $92,650 and $62,431, 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 noninterest-bearing cash accounts at all FDIC-insured financial institutions and/or by the Securities Investor Protection Corporation (“SIPC”) as of December 31, 2021 and 2020. At various times during 2021 and 2020, 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.

On March 11 2020, the World Health Organization declared the coronavirus a global pandemic. Since then PeopleFund has maintained 100% continuity of operations, giving its staff the option to work remotely or at the office while implementing safety protocols following Center for Disease Control and Prevention (CDC) guidelines. As of the date of this report, PeopleFund estimates that the pandemic has not had, and will not have, a negative impact on its consolidated financial position or consolidated statements of activities. The Organization continues normal operations while closely monitoring the evolution of the pandemic.

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 29, 2022, which is the date the consolidated financial statements were available to be issued.

Supplementary Information

MOSSADAMS

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, 2021, 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 29, 2022.

Report on 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified a deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2021-001 that we consider to be a significant deficiency.

Report on 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*.

Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the the Organization's response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. The Organization's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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 29, 2022

MOSSADAMS

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

Board of Directors
PeopleFund

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited PeopleFund's (the Organization) compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended December 31, 2021. The Organization's major federal programs are identified in the Summary of Auditor's Results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Organization complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2021.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States *(Government Auditing Standards)*; 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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the Organization's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the Organization's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Organization's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Organization's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards,* and the Uniform Guidance, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Organization's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Organization's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 the Organization's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on 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 a 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 Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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 29, 2022

Federal Grantor/Pass-through Grantor/Program Title	Assistance Listing Number	Agency or Pass-through Number	Subrecipient	Federal Expenditures
U.S. Small Business Administration				
Microloan grant	59.046	SBAOCAML200015	$ -	$ 444,639
Microloan grant	59.046	SBAOCAML210262	-	436,736
Total Grants			-	881,375
Microloan program	59.046	5298545005	-	87,964
Microloan program	59.046	7510295010	-	256,045
Microloan program	59.046	9267775010	-	245,512
Microloan program	59.046	9568925000	-	736,800
Microloan program	59.046	2826207001	-	1,700,456
Microloan program	59.046	4351407007	-	1,500,000
Total microloan program			-	4,526,777
Total U.S. Small Business Administration			-	5,408,152
U.S. Department of Treasury, Community Development Financial Institutions Fund				
CDFI Rapid Response Program	21.024	21RRP057146	-	1,421,083
Total U.S. Department of the Treasury			-	1,421,083
U.S. Department of Commerce, Economic Development Administration				
Economic Adjustment Assistance, CARES Act RLF	11.307	08-79-05493	-	288,554
Total U.S. Department of Commerce, Economic Development Administration			-	288,554
Total federal expenditures			$ -	$ 7,117,789

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

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, 2021. 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% 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, 2021, consisted of:

Assistance Listing Number	Program Name	Loans Outstanding at January 1, 2021	Loans Received During 2021	Loan Principal Repaid in 2021	Loans Outstanding at December 31, 2021
59.046	SBA Microloan Program	$ 4,559,714	$ -	$ (630,557)	$ 3,929,157

NOTE 4 – SUBRECIPIENTS

PeopleFund did not provide federal awards to subrecipients during the year ended December 31, 2021.

NOTE 5 – LOANS RECEIVABLE OUTSTANDING

Below is a reconciliation of the loan receivable balances outstanding as of December 31, 2021.

Federal Awarding Agency and Program Title	Loan Contract Number	Assistance Listing Number	Loans Receivable as of December 31, 2020	Loans Originated	Loan Payments Received	Charge-Offs	Loan Balance Transfer	Loans Receivable as of December 31, 2021
U.S. Small Business Administration								
Direct Program								
SBA Microloan	4619435004	59.046	$ 56,354	$ -	$ (1,757)	$ (9,647)	$ (44,950)	$ -
SBA Microloan	5298545005	59.046	178,211	311	(106,384)	-	-	72,138
SBA Microloan	7510295010	59.046	164,588	3,364	(108,027)	(3,085)	-	56,840
SBA Microloan	9267775010	59.046	169,545	51,504	(95,992)	-	-	125,057
SBA Microloan	9568925000	59.046	608,119	3,984	(232,284)	(10,648)	-	369,171
SBA Microloan	2826207001	59.046	1,484,502	369,381	(445,376)	-	-	1,408,507
SBA Microloan	4351407007	59.046	553,360	1,147,670	(332,413)	-	44,950	1,413,567
Total U.S. Small Business Administration			$ 3,214,679	$ 1,576,214	$ (1,322,233)	$ (23,380)	$ -	$ 3,445,280

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 programs:	
• 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 programs and type of auditor's report issued on compliance for major federal programs:

Assistance Listing Number	*Name of Federal Program*	*Type of Auditor's Report Issued*
59.046	SBA Microloan Program	*Unmodified*
21.024	CDFI Rapid Response Program	*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

Finding 2021-001*:* Preparation and review of the Schedule of Expenditures of Federal Awards – Significant Deficiency in Internal Control over Financial Reporting

Criteria: 2 CFR 200.510 of the Uniform Guidance requires auditees to prepare a schedule of expenditures of federal awards (SEFA) that encompasses all expenditures of federal awards as defined in 2 CFR 200.502. The schedule must provide the cluster name, federal awards the organization received as a subrecipient, the total amount passed through by the organization to subrecipients for each federal program, and the correct title and assistance listing number.

Condition: Management of PeopleFund prepared a Schedule of Expenditures of Federal Awards (SEFA) as part of its financial close and reporting process; however, in reconciling the information reported back to the audited financial statements it was determined that expenditures for a certain federal program were initially omitted. Upon receipt of the final updated SEFA the additional expenditures caused another major program to be tested.

Cause: Management did not perform a completeness evaluation by reviewing expenditures of federal awards to confirm if they should be reported on the SEFA in a timely manner.

***Effect or potential effect**:* The potential effect of not reporting a complete and accurate SEFA is that awards that may be subject to audit may not be tested and reporting to awarding agencies may not be complete.

Recommendation: We recommend that management perform a monthly reconciliation of expenditures from federal award sources to ensure complete and accurate reporting.

Views of responsible officials: The auditors were working out of a working draft of the SEFA. When management provided the final draft, it included a federal program that was not included before, causing them to test another major program. Despite the delay, the auditors were able to sample and audit the program. There were no accounting errors or adjusting entries required in the organization's books.

Section III – Federal Award Findings and Questioned Costs

None reported.

CORRECTIVE ACTION PLAN

Name of Auditee: PeopleFund

Period Covered by the Audit: January 1, 2021 to December 31, 2021

Name of Audit Firm: Moss Adams LLP

Finding **2021-001*: Preparation and review of the Schedule of Expenditures of Federal Awards – Significant Deficiency in Internal Control***

Views of Responsible Officials and Corrective Action Plan:

The auditors were working out of a working draft of the SEFA. When management provided the final draft, it included a federal program that was not included before, causing them to test another major program. Despite the delay, the auditors were able to sample and audit the program. There were no accounting errors or adjusting entries required in the organization's books.

The following action was taken, documented and shared with the accounting team to correct the situation above: all documents shared with the auditors have to be approved in advance by the CFO or CEO or the person that the CFO or CEO appoint for such purpose.

In addition to that, in 2021, PeopleFund embarked in a restructure of several areas including accounting where it assembled an experienced team that includes a Program Accountant and a Sr Accountant with more than 30 years of combined experience in non-profit accounting. The Sr. Accountant has experience managing federal grants. In addition to them, the organization hired a staff accountant providing extra capacity, an interim controller and most recently a CFO who brings experience in multinational organizations with large teams and complex financial operations. PeopleFund assembled this team in anticipation of the increasing complexity of its operations that include increasing participation in Federal Programs, M&A, portfolio acquisitions and use of special purpose entities for new programs like the Veteran Loan Fund. All of this along with a new VP of Philanthropy and Investor Relations who brings experience in managing federal grants and the CEO who also brings experience in managing federal grants and as former CFO of well-established CDFIs.

Name of Responsible Party: Gustavo Lasala, CEO

Anticipated Completion Date: April 29, 2022

April 29, 2022

Moss Adams LLP
101 Second Street, 9th Floor
San Francisco, CA 94105

We are providing this letter in connection with your audit of consolidated financial statements of PeopleFund (the “Organization”), which comprise the consolidated statements of financial position, activities, functional expenses, and cash flows as of December 31, 2021 and 2020, and for the years then ended and the related notes to the financial statements for the purpose of expressing an opinion as to whether the consolidated financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States (U.S. GAAP). We have also provided you with the Schedule of Expenditures of Federal Awards (SEFA), for the purpose of expressing an opinion as to whether the supplementary information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole. Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

Except where otherwise stated below, immaterial matters less than $125,000 collectively are not considered to be exceptions that require disclosure for the purpose of the following representations. This amount is not necessarily indicative of amounts that would require adjustment to or disclosure in the financial statements.

We confirm that, to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves as the date of this letter.

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated December 2, 2021 for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP.

2. We acknowledge our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

3. We acknowledge our responsibility for the design, implementation, and maintenance of internal controls to prevent and detect fraud.

4. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

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5. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.

6. All events subsequent to the date of the financial statements and for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed.

7. The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with U.S. GAAP.

Information Provided

8. We have provided you with:

    a. Access to all information, of which we are aware that is relevant to the preparation and fair presentation of the financial statements such as records, documentation, and other matters;

    b. Minutes of the meetings of directors, and committees of directors, or summaries of actions of recent meetings for which minutes have not yet been prepared;

    c. Additional information that you have requested from us for the purpose of the audit;

    d. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

9. All transactions have been properly recorded in the accounting records and are reflected in the consolidated financial statements.

10. We have retained copies of all information we provided to you during the engagement and have been provided copies of all necessary financial and non-financial schedules, memos, data, and other information related to all services performed by you, such that in our opinion our records are complete, including our records supporting our financial statements and all related accounting policies and positions. Furthermore, you do not act as the sole host of any financial or non-financial information system for us, nor do you provide any electronic security or back-up services for our data or records.

11. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

12. We have no knowledge of any fraud or suspected fraud that affects the entity and involves—

    a. Management,

    b. Employees who have significant roles in internal control, or

    c. Others when the fraud could have a material effect on the consolidated financial statements.

13. We have no knowledge of any allegations of fraud or suspected fraud affecting the entity's financial statements communicated by employees, former employees, analysts, regulators, or others.

14. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

15. We are not aware of any pending or threatened litigation, claims, and assessments whose effects should be considered when preparing the financial statements.

16. We have disclosed to you the identity of all the entity's related parties and all the related party relationships and transactions of which we are aware.

17. There are no estimates that may be subject to a material change in the near term that have not been properly disclosed in the consolidated financial statements. We understand that near term means the period within one year of the date of the consolidated financial statements. In addition, we have no knowledge of concentrations existing at the date of the consolidated financial statements that make the Organization vulnerable to the risk of a near-term severe impact that have not been properly disclosed in the consolidated financial statements.

18. The Organization has no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.

19. The Organization is an exempt organization under Section 501(c)(3) of the Internal Revenue Code. There are no activities that would jeopardize the Organization's tax exempt status, and there are no activities subject to tax on unrelated business income or exercise or other tax. All required filings with tax authorities are up-to-date.

20. The Organization has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral except certain assets. Those pledged assets are certain cash accounts and loans receivable have been pledged as collateral for notes payable held by the Organization.

21. 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 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.

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22. Management has assessed and concluded there are no transactions, events, or trends that would consider the Organization's inability to continue as a going concern. The analysis was performed and completed as of December 31, 2021, and included a look forward period of one year after the date of the consolidated financial statements.

23. We have appropriately reconciled our books and records (e.g., general ledger accounts) underlying the consolidated financial statements to their related supporting information (e.g. sub ledger or third-party data). All related reconciling items considered to be material were identified and included on the reconciliations and were appropriately adjusted in the consolidated financial statements. There were no material unreconciled differences or material general ledger suspense account items that should have been adjusted or reclassified to another account balance. There were no material general ledger suspense account items written off to a consolidated statement of financial position account, which should have been written off to a consolidated statement of activities account and vice versa.

24. Material concentrations have been appropriately disclosed in accordance with U.S. GAAP.

25. Revenue is properly recognized and stated as of December 31, 2021 and 2020.

26. We believe that all material expenditures that have been deferred to future periods will be recoverable.

27. We are responsible for compliance with the laws and regulations, and provisions of contracts and agreements applicable to us; we have identified and disclosed to you all laws, regulations and provisions of contracts and agreements that we believe have a direct and material effect on the determination of consolidated financial statement amounts or other financial data significant to the audit objectives.

28. We have complied with all restrictions on resources (including donor restrictions) and all aspects of contractual and grant agreements that would have a material effect on the consolidated financial statements in the event of noncompliance. This includes complying with donor requirements to maintain a specific asset composition necessary to satisfy their restrictions. The consolidated financial statements appropriately reflect these considerations.

29. Consolidated financial statements and the trial balance provided to the audit team were complete and accurate for the fiscal year ended December 31, 2021 and 2020 along with the SEFA.

30. We have reviewed the classification of amounts in net assets and believe that all amounts are appropriately classified as with donor restriction or without donor restriction in the consolidated statement of financial position.

31. Accounts receivables are properly recorded when revenue is earned. Management has determined that all amounts carried as receivables are collectible and, therefore, no allowance for doubtful accounts has been established. Historically, substantially all accounts receivable has been collected as they become due.

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32. Assets to be disposed of are carried at the lower of carrying value or estimated net realizable value. No impairment losses were incurred during the year ended December 31, 2021.

33. There are no designations of net assets disclosed to you that were not properly authorized and approved, or reclassifications of net assets that have not been properly reflected in the consolidated financial statements.

34. All net assets with donor restrictions are expected to be released from restriction by December 31, 2021 and 2020.

35. As of December 31, 2021, cash in the amount of $2,171,296 was held in reserve to lend to microloan borrowers and to satisfy loan loss reserve requirement related to the microloan and community advantage programs and collateral on notes payable.

36. Fixed assets are recorded at cost when purchased or at estimated fair value at the date of receipt, if donated. The Organization capitalizes fixed assets with an original cost or estimated fair value exceeding $500. Fixed assets are depreciated by using the straight-line method over the assets' estimated useful lives. No property was donated during the year ended December 31, 2021 and 2020.

37. All lease obligations are properly accounted for and disclosed in the consolidated financial statements.

38. The Organization's financial instruments exposed to concentrations of credit risk consist primarily of cash and cash equivalents. The Organization maintains its cash in bank deposit accounts and short-term money market accounts that may exceed Federal Deposit Insurance Corporation ("FDIC") and Securities Investor Protection Corporation ("SIPC") limits. The Organization has not experienced any losses in such accounts.

39. We acknowledge our responsibility for presenting the consolidated statement of financial position and consolidated statement of activities in accordance with accounting principles generally accepted in the United States of America and we believe the consolidated statement of financial position and consolidated statement of activities, including their form and content, are fairly presented in accordance with such accounting principles. The methods of measurement and presentation of the consolidated statement of financial position and consolidated statement of activities have not changed from those used in the prior periods, and we have disclosed to you any significant assumptions or interpretations underlying the measurement and presentation of the supplementary information.

40. We have responded fully and truthfully to all inquiries made to us by you during your audit.

41. We are in compliance with all debt covenants or have received a waiver for any failed covenants.

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42. All transactions have been properly supported by third party support and have been recorded in the consolidated financial statements in the appropriate period for the years ended December 31, 2021 and 2020.

43. We have disclosed to you all of our:

    a. Nonperforming assets

    b. Intentions to foreclose or repossess property

    c. Troubled debt restructured loans

    d. Impaired loans

44. The Organization is responsible for determining and maintaining the adequacy of the allowance for credit losses, as well as estimates used to determine such amounts. Management believes the allowances are adequate to absorb currently estimated credit losses in the loan portfolio as of December 31, 2021 and 2020.

45. We maintain and follow a consistent methodology for the determination of the allowance for loan losses. We have not manipulated or changed the allowance or loan loss or related provision for loan losses to change the financial results of the organization. For the year ended December 31, 2021, the organization applied a provision of 8% of the non-guaranteed originations, calculated using projected losses based on historical info by vintage, product, projected delinquencies and other macro and micro economic information. As of December 31, 2021, the allowance for loan losses for the total portfolio was 7.30% or $2,741,037. We believe that the allowance for loan losses is adequate as of December 31, 2021.

46. We maintain and follow a consistent methodology for the determination of the allowance for loan losses. We have not manipulated or changed the allowance for loan loss reserve or related provision for loan losses to change the financial results of the Organization. For the year ended December 31, 2020, the allowance was primarily calculated using a historical loss by loan vintage review resulting in a 10% reserve being calculated at loan origination for non-guaranteed loans as well as an increase to an overall 15% reserve for non-guaranteed loans as a result of quantitative and economic factors. As of December 31, 2020, the allowance for loan losses for the total loan portfolio was 6.89% or $2,659,625. We believe the allowance for loan losses is adequate as of December 31, 2020.

47. The PQR report used to determine the historically losses associated with the loan portfolio is complete and accurate.

48. We have identified all loans that qualify as impaired loans and disclosed such loans in the financial statements.

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49. The World Health Organization declared the novel coronavirus outbreak a public health emergency. The Organization's operations are concentrated in Texas, which has restricted gatherings and implemented shelter in place restrictions. The Organization responded to the coronavirus by increasing the allowance percentage from 4% in 2019 to 6.89% in 2020. For 2021, the allowance percentage increased to 7.30%. The Organization will continue to monitor the solution closely, but given the uncertainty about the situation, management can't estimate the impact to the consolidated financial statements.

50. To date, Covid-19 has not had a significant impact on borrowers' ability to meet loan payments. We believe the allowance for loan losses as of December 31, 2021 and 2020 is adequate to cover future loan losses, and include a forward looking consideration of Covid-19 impacts.

51. We acknowledge the allowance associated with the impaired loans are not being calculated in accordance with ASC 310 however, it would not yield a material difference to the financial statements as a whole.

52. We have performed an evaluation as of December 31, 2021 and 2020, which revealed no tax positions which would have a material effect on the consolidated financial statements.

53. The Organization has appropriately recognized revenue and expense in accordance with ASU 2018-08. Conditional contribution revenue and grant expense are recognized when the condition has been met.

54. During the course of your audit, you may have accumulated records containing data which should be reflected in our books and records. All such data have been so reflected. Accordingly, copies of such records in your possession are no longer needed by us.

55. The SEFA as of December 31, 2021 and 2020, is complete and accurate.

56. With respect to each federal award programs:

    a. We are responsible for understanding and complying with, and have complied with the 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), including requirements relating to the preparation of the schedule of expenditures of federal awards.

    b. We acknowledge our responsibility for presenting the SEFA and related notes in accordance with the requirements of Uniform Guidance, and we believe the SEFA, including its form and content, is fairly presented in accordance with the Uniform Guidance. The methods of measurement and presentation of the SEFA have not changed from those used in the prior period, and we have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the SEFA.

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c. If the SEFA is not presented with the audited consolidated financial statements, we will make the audited consolidated financial statements readily available to the intended users of the SEFA no later than the date we issue the SEFA and the auditor's report thereon.

d. We have identified and disclosed to you all of our government programs and related activities subject to the Uniform Guidance compliance audit, and have identified and included in the SEFA, expenditures made during the audit period for all awards provided by federal agencies in the form of federal awards, federal cost-reimbursement contracts, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other direct assistance.

e. We are responsible for understanding and complying with, and have complied with, the requirements of federal statutes, regulations, and the terms and conditions of federal awards related to each of our federal programs and have identified and disclosed to you the requirements of federal statutes, regulations, and the terms and conditions of federal awards that are considered to have a direct and material effect on the major program.

f. We are responsible for establishing and maintaining, and have established and maintained, effective internal control over compliance for federal programs that provides reasonable assurance that we are managing our federal awards in compliance with federal statutes, regulations, and the terms and conditions of federal awards. We believe the internal control system is adequate and is functioning as intended.

g. We have made available to you all federal awards (including amendments, if any) and any other correspondence with federal agencies or pass-through entities relevant to federal programs and related activities.

h. We have received no requests from a federal agency to audit one or more specific programs as a major program.

i. There were no communications from federal awarding agencies and pass-through entities concerning possible noncompliance with the direct and material compliance requirements, including communications received from the end of the period covered by the compliance audit to the date of the auditor's report.

j. There were no findings received and related corrective actions taken for previous audits, attestation engagements, and internal or external monitoring that directly relate to the objectives of the compliance audit, including findings received and corrective actions taken from the end of the period covered by the compliance audit to the date of the auditor's report.

k. There were no interpretation of compliance requirements that may have varying interpretations.

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l. We have made available to you all documentation related to compliance with the direct and material compliance requirements, including information related to federal program financial reports and claims for advances and reimbursements.

m. There were no subsequent events that provide additional evidence about conditions that existed at the end of the reporting period affecting noncompliance during the reporting period.

n. There are no such known instances of noncompliance with direct and material compliance requirements that occurred subsequent to the period covered by the auditor's report.

o. No changes have been made in internal control over compliance or other factors that might significantly affect internal control, including any corrective action we have taken regarding significant deficiencies or material weaknesses in internal control over compliance, subsequent to the period covered by the auditor's report.

p. Federal program financial reports and claims for advances and reimbursements are supported by the books and records from which the consolidated financial statements have been prepared.

q. The copies of program financial reports provided you are true copies of the reports submitted, or electronically transmitted, to the respective federal agency or pass-through entity, as applicable.

r. We have charged costs to federal awards in accordance with applicable cost principles.

s. We are responsible for and have accurately prepared the summary schedule of prior audit findings to include all findings required to be included by the Uniform Guidance, and we have provided you with all information on the status of the follow-up on prior audit findings by federal awarding agencies and pass-through entities, including all management decisions.

t. We are responsible for and have ensured the reporting package does not contain protected personally identifiable information.

u. We are responsible for and have accurately prepared the auditee section of the Data Collection Form as required by the Uniform Guidance.

v. We are responsible for taking corrective action on each audit finding of the compliance audit and have developed a corrective action plan that meets the requirements of the Uniform Guidance.

w. We have disclosed to you all contracts or other agreements with service organizations, and we are not aware of any noncompliance at the service organizations.

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To the best of our knowledge and belief, no events have occurred subsequent to the consolidated statement of financial position date and through the date of this letter that would require adjustment to or disclosure in the aforementioned consolidated financial statements.

DocuSigned by:
Gustavo Lasala
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Gustavo Lasala, President & CEO

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