PeopleFund

Consolidated Financial Report
December 31, 2022

Contents

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Independent Auditor's Report

To the Board of Directors
PeopleFund

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of PeopleFund and its subsidiaries (the "Organization"), which comprise the consolidated statement of financial position as of December 31, 2022 and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the year 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 financial position of the Organization as of December 31, 2022 and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit 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*, 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 Consolidated Financial Statements* section of our report. We are required to be independent of the Organization and to meet our ethical responsibilities in accordance with the 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 audit opinion.

Report on Prior Year Consolidated Financial Statements

The consolidated financial statements of PeopleFund and its subsidiaries as of December 31, 2021 were audited by other auditors, who expressed an unmodified opinion on those statements on April 29, 2022.

Responsibilities of Management for the Consolidated 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 consolidated 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 consolidated financial statements are issued or available to be issued.

Auditor's Responsibilities for the Audit of the Consolidated 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 25, 2023 on our consideration of PeopleFund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 PeopleFund'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 PeopleFund's internal control over financial reporting and compliance.

Plante & Moran, PLLC

April 25, 2023

Consolidated Statement of Financial Position

December 31, 2022 and 2021

	2022	2021
Assets		
Current Assets		
Cash and cash equivalents	$ 7,185,878	$ 15,860,229
Investments	4,976,887	5,628,673
Accounts receivable - Net of allowances:		
Contribution and government contracts receivables	4,047,539	1,595,360
Other accounts receivable	99,118	67,148
Total accounts receivable - Net of allowances	4,146,657	1,662,508
Loans and notes receivable - Net	10,537,716	15,698,258
Accrued interest	445,145	286,493
Prepaid expenses and other current assets	81,037	26,796
Total current assets	27,373,320	39,162,957
Restricted Cash	1,270,569	2,171,296
Property and Equipment - Net	3,336,351	2,881,731
Investments in NMTC Sub-CDEs	11,954	-
Right-of-use Operating Lease Assets	245,141	-
Loans Receivable - Long Term - Net	37,767,647	21,891,006
Other Assets	8,096	1,383
Total noncurrent assets	42,639,758	26,945,416
Total assets	**$ 70,013,078**	**$ 66,108,373**

Consolidated Statement of Financial Position (Continued)

December 31, 2022 and 2021

	2022	2021
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	$ 720,502	$ 3,202,453
Accrued liabilities and other	216,768	473,888
Current portion of notes payable	4,516,275	14,350,000
Agency funds	-	20,000
Total current liabilities	5,453,545	18,046,341
Noncurrent Notes Payable	43,604,844	27,265,502
Lease Liabilities - Operating	245,141	-
Other Noncurrent Liabilities		
Contract liabilities	-	154,000
Other noncurrent liabilities	5,905	3,305
Total liabilities	49,309,435	45,469,148
Net Assets		
Without donor restrictions	18,920,539	18,434,717
With donor restrictions	1,783,104	2,204,508
Total net assets	20,703,643	20,639,225
Total liabilities and net assets	**$ 70,013,078**	**$ 66,108,373**

Consolidated Statement of Activities and Changes in Net Assets

Year Ended December 31, 2022 and 2021

	2022			2021		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, Gains, and Other Support						
Small-business lending program	$ 3,159,960	$ -	$ 3,159,960	$ 6,030,625	$ -	$ 6,030,625
NMTC income	-	-	-	1,293,890	-	1,293,890
504 income	278,931	-	278,931	254,206	-	254,206
Investment (loss) income	(651,789)	-	(651,789)	271,367	-	271,367
Government contracts	1,580,390	-	1,580,390	1,010,672	-	1,010,672
Other operating income	264,331	-	264,331	526,057	-	526,057
Contributions	923,792	4,658,000	5,581,792	2,861,686	2,250,000	5,111,686
Affiliate income	153,462	-	153,462	-	-	-
Net assets released from restrictions	5,079,404	(5,079,404)	-	332,148	(332,148)	-
Total revenue, gains, and other support	10,788,481	(421,404)	10,367,077	12,580,651	1,917,852	14,498,503
Expenses						
Lending and business assistance	8,319,737	-	8,319,737	5,577,220	-	5,577,220
Support services:						
General and administrative	1,560,162	-	1,560,162	1,604,328	-	1,604,328
Fundraising	422,760	-	422,760	311,871	-	311,871
Total support services	1,982,922	-	1,982,922	1,916,199	-	1,916,199
Total expenses	10,302,659	-	10,302,659	7,493,419	-	7,493,419
Increase (Decrease) in Net Assets	485,822	(421,404)	64,418	5,087,232	1,917,852	7,005,084
Net Assets - Beginning of year	18,434,717	2,204,508	20,639,225	13,347,485	286,656	13,634,141
Net Assets - End of year	**$ 18,920,539**	**$ 1,783,104**	**$ 20,703,643**	**$ 18,434,717**	**$ 2,204,508**	**$ 20,639,225**

Consolidated Statement of Functional Expenses

Year Ended December 31, 2022

	Program Services	Support Services			
	Lending and Business Assistance	General and Administrative	Fundraising	Total	Total
Personnel	$ 3,925,243	$ 980,389	$ 308,940	$ 1,289,329	$ 5,214,572
Provision for loan losses	1,372,239	-	-	-	1,372,239
Interest expense	777,923	-	-	-	777,923
Closing costs	150,801	-	-	-	150,801
Office and administration	255,508	63,817	20,110	83,927	339,435
Depreciation and amortization	123,102	30,746	9,689	40,435	163,537
Marketing and outreach	-	209,058	-	209,058	209,058
Insurance	47,365	11,830	3,728	15,558	62,923
Travel	38,905	9,718	3,062	12,780	51,685
Professional services	143,648	199,924	60,000	259,924	403,572
IT expenses	155,231	38,771	12,218	50,989	206,220
Property taxes	63,697	15,909	5,013	20,922	84,619
Nonoperating grants to others	1,266,075	-	-	-	1,266,075
Total functional expenses	**$ 8,319,737**	**$ 1,560,162**	**$ 422,760**	**$ 1,982,922**	**$ 10,302,659**

Consolidated Statement of Functional Expenses

Year Ended December 31, 2021

	Program Services	Support Services			
	Lending and Business Assistance	General and Administrative	Fundraising	Total	Total
Personnel	$ 2,916,698	$ 821,320	$ 197,152	$ 1,018,472	$ 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	48,559	11,585	60,144	231,235
Depreciation and amortization	114,802	32,327	7,760	40,087	154,889
Marketing and outreach	-	179,398	3,854	183,252	183,252
Insurance	70,959	19,982	4,796	24,778	95,737
Travel	26,045	-	-	-	26,045
Professional services	199,513	429,770	68,940	498,710	698,223
Information technology	190,706	53,701	12,891	66,592	257,298
Property taxes	66,156	18,629	4,472	23,101	89,257
Grants to others	526,192	-	-	-	526,192
Other	-	642	421	1,063	1,063
Total functional expenses	**$ 5,577,220**	**$ 1,604,328**	**$ 311,871**	**$ 1,916,199**	**$ 7,493,419**

Consolidated Statement of Cash Flows

Years Ended December 31, 2022 and 2021

	2022	2021
Cash Flows from Operating Activities		
Increase in net assets	$ 64,418	$ 7,005,084
Adjustments to reconcile increase in net assets to net cash from operating activities:		
Depreciation and amortization	163,537	154,889
Provision for loan losses	1,372,239	411,842
Decline in investments	782,623	1,100,765
Changes in operating assets and liabilities that (used) provided cash:		
Accrued interest	(165,366)	129,643
Accounts receivable	(2,484,149)	(842,618)
Prepaid expenses	(54,241)	51,577
Other assets	-	22,740
Accounts payable	(2,482,018)	2,478,048
Accrued expenses	(257,051)	195,421
Agency funds	(20,000)	(775,000)
Deferred revenue	-	109,700
Other long-term liabilities	(151,400)	(7,089)
Net cash (used in) provided by operating activities	(3,231,408)	10,035,002
Cash Flows from Investing Activities		
Purchase of property and equipment	(618,157)	(28,898)
Purchases of investments	(142,791)	(4,364,856)
Proceeds from sales and maturities of investments	-	4,363,925
Net issuance and collections of loans receivable	(12,088,339)	(2,052,682)
Net cash used in investing activities	(12,849,287)	(2,082,511)
Cash Flows from Financing Activities		
Proceeds from notes payable	17,586,396	9,962,971
Repayments of notes payable	(11,080,779)	(5,503,862)
Net cash provided by financing activities	6,505,617	4,459,109
Net (Decrease) Increase in Cash	(9,575,078)	12,411,600
Cash - Beginning of year	18,031,525	5,619,925
Cash - End of year	**$ 8,456,447**	**$ 18,031,525**
Consolidated Statement of Financial Position Classification of Cash		
Cash and cash equivalents	$ 7,185,878	$ 15,860,229
Restricted cash and cash equivalents	1,270,569	2,171,296
Total cash	**$ 8,456,447**	**$ 18,031,525**
Significant Noncash Transactions - Cash paid for interest	$ 750,284	$ 699,076

See notes to consolidated financial statements.

Note 1 - Nature of Business

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 the 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 the 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 and 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 percent of the cost of the investments and are claimed over a seven-year credit allowance period.

Since 2012 and through December 31, 2022, PeopleFund had received and deployed $150 million in Qualified Equity Investments (QEIs). In 2022, PeopleFund participated as a source lender providing $1.5 million into a loan pool supporting a NMTC project in Houston, Texas. Also in 2022, PeopleFund was awarded a new $45 million allocation, to be received and fully deployed in 2023.

PeopleFund Advisors, LLC primarily serves as the administrative member of the subsidiary CDEs, each of which will provide investment capital for low-income communities or low-income persons in the target service area, as well as serving as the managing member or non-member manager of one or more investment entities.

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 is governed by 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.

Note 1 - Nature of Business (Continued)

As of December 31, 2022, the Veteran Loan Fund had raised and fully deployed its first $15 million round of financing. Loans made by the Veteran Loan Fund are included under the small business loan portfolio and the interparty transactions to and from PeopleFund and Veteran Loan Fund had been eliminated in the consolidation process.

Note 2 - Significant Accounting Policies

Basis of Presentation

The consolidated financial statements of the Organization have been prepared on the basis of generally accepted accounting principles (GAAP).

Principles of 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 material intercompany accounts and transactions have been eliminated in 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.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash Equivalents

The Organization considers all investments with an original maturity of three months or less when purchased to be cash equivalents. The total amount of bank deposits (checking and savings accounts) that was uninsured by the FDIC at year end was approximately $7,900,000.

Restricted Cash

As of December 31, 2022 and 2021, cash in the amount of $1,270,569 and $2,171,296, 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, 2022 and 2021, cash in the amount of $128,473 and $1,313,632, respectively, was included in the reserved cash financial statement line item and was pledged as collateral on notes payable.

Note 2 - Significant Accounting Policies (Continued)

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the consolidated balance sheet to the amounts reported on the consolidated statement of cash flows:

	2022	2021
Cash and cash equivalents	$ 7,185,878	$ 15,860,229
Reserved cash	1,270,569	2,171,296
Total cash, cash equivalents, and reserved cash shown in the consolidated statements of cash flows	$ 8,456,447	$ 18,031,525

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 that participate in programs for which the Organization helps administer funds. Cash is recorded on the consolidated statement of financial position; a corresponding liability for the same amount is also recorded as agency funds on the accompanying consolidated statement of financial position.

Investments

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

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 percent financial interest in each of the following entities.

PF NMTC 4	PF NMTC 8	PF NMTC 12	PF NMTC 16	PF NMTC 20
PF NMTC 5	PF NMTC 9	PF NMTC 13	PF NMTC 17	PF NMTC 21
PF NMTC 6	PF NMTC 10	PF NMTC 14	PF NMTC 18	
PF NMTC 7	PF NMTC 11	PF NMTC 15	PF NMTC 19	

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 percent to the managing member and 49.99 percent to the administrative member.

Accounts Receivable

Contribution and government contract receivable at year end consist of grants and contributions designated by donors for organization programs. Receivables are expected to be collected within one year. As of December 31, 2022 and 2021, there is no allowance for uncollectible contributions.

Note 2 - Significant Accounting Policies (Continued)

Property and Equipment

Property and equipment are recorded at cost. Both straight-line and accelerated methods are used for computing depreciation and amortization. Assets are depreciated over their estimated useful lives. Costs of maintenance and repairs are charged to expense when incurred.

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at their outstanding unpaid principal balances adjusted for charge-offs and the allowance for loan losses. Interest income is accrued on the unpaid principal balance.

The accrual of interest on loans is discontinued at the time the loan is 90 days delinquent unless the credit is well secured and in process of collection. In all cases, loans are placed on nonaccrual or charged off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not collected for loans that are placed on nonaccrual or charged off is reversed against interest income. Any interest payments received on nonaccrual loans are accounted for as a reduction to the unpaid principal balance of the nonaccrual loan for financial reporting purposes. If a loan is returned to accrual, interest payment previously applied to the loan's outstanding principal balance is accreted ratably into interest income, as an adjustment to the related loan's yield, over the remaining term of the loan.

Allowance for Loan Losses

The allowance for loan losses (the "allowance") is established as losses are estimated to have occurred through a provision for loan losses included in lending expenses. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. The allowance for loan losses is reviewed by management and by the Portfolio Quality Committee of the board of directors. As of December 31, 2022 and 2021, the allowance was deemed to be adequate to properly account for estimated losses inherent in the loan portfolio.

A loan is considered impaired when, based on current information and events, it is probable that the Organization will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Loans that are delinquent less three months are generally not considered impaired, unless the customer has claimed bankruptcy.

Note 2 - Significant Accounting Policies (Continued)

A troubled debt restructuring of a loan is undertaken to improve the likelihood that the loan will be repaid in full under the modified terms in accordance with a reasonable repayment schedule and is classified as impaired. All modified loans are evaluated to determine whether the loan should be reported as a troubled debt restructuring (TDR). A loan is a TDR when the Organization, for economic or legal reasons related to the borrower's financial difficulties, grants a concession to the borrower by modifying or renewing a loan under terms that the Organization would not otherwise consider. To make this determination, the Organization must determine whether (a) the borrower is experiencing financial difficulties and (b) the Organization granted the borrower a concession. This determination requires consideration of all of the facts and circumstances surrounding the modification. An overall general decline in the economy or some level of deterioration in a borrower's financial condition does not inherently mean the borrower is experiencing financial difficulties.

Some of the factors considered by management when determining whether a borrower is experiencing financial difficulties are: (1) is the borrower currently in default on any of its debts, (2) has the borrower declared or is the borrower in the process of declaring bankruptcy, and (3) absent the current modification, the borrower would likely default.

Classification of Net Assets

Net assets of the Organization are classified based on the presence or absence of donor-imposed restrictions.

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions or for which the donor-imposed restrictions have expired or been fulfilled. Net assets in this category may be expended for any purpose in performing the primary objectives of the Organization.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, where the donor has stipulated the funds be maintained in perpetuity.

Earnings, gains, and losses on donor-restricted net assets are classified as net assets without donor restrictions unless specifically restricted by the donor or by applicable state law.

Contributions

Unconditional promises to give cash and other assets to the Organization are reported at fair value on the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value on the date the gift becomes unconditional or is received. The gifts are reported as contributions with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or the purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statement of activities and changes in net assets as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same year in which they are received are reported as contributions with donor restrictions and released in the accompanying financial statements.

Government Contracts

Government contract revenue received for grants is considered a nonexchange transaction and is recognized as the conditions of the grants have been met. Grant funding received in advance of conditions being met is recorded as deferred revenue.

Note 2 - Significant Accounting Policies (Continued)

Revenue Recognition

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

Functional Allocation of Expenses

Costs of providing the program and support services have been reported on a functional basis in the consolidated statement of functional expenses. The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. 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. Although the methods of allocation used are considered appropriate, other methods could be used that would produce different amounts.

Leases

The Organization has operating leases for office space. The Organization recognizes expense for operating leases on a straight-line basis over the lease term.

The Organization has operating leases for office space, with a lease term of one year or less that the Organization has elected to account for as short-term leases. As these leases are short-term leases, they are not included in the right-of-use asset and lease liability. Total expense related to short-term leases was $57,059 for 2022.

The Organization has elected to use the risk-free rate as the discount rate for calculating the right-of-use asset and lease liability.

Note 2 - Significant Accounting Policies (Continued)

Income Taxes

The Organization is a not-for-profit corporation and is exempt from tax under the provisions of Internal Revenue Code Section 501(c)(3). Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Organization and recognize a tax liability if the Organization has taken an uncertain position that more likely than not would not be sustained upon examination by the IRS or other applicable taxing authorities. Management has analyzed the tax positions taken by the Organization and has concluded that, as of December 31, 2022 and 2021, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the financial statements. The Organization is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

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.

Reclassification

Certain 2021 amounts have been reclassified to conform to the 2022 presentation. The Organization originally presented $2.3 million of net assets without donor restrictions as board-designated net assets as of December 31, 2021. The board-designated category was eliminated in the current presentation.

Upcoming Accounting Pronouncement

In June 2016, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. The ASU includes increased disclosures and various changes to the accounting and measurement of financial assets. Each financial asset presented on the balance sheet would have a unique allowance for credit losses valuation account that is deducted from the amortized cost basis to present the net carrying value at the amount expected to be collected on the financial asset. The amendments in this ASU also eliminate the probable initial recognition threshold in current GAAP and, instead, reflect an entity’s current estimate of all expected credit losses using reasonable and supportable forecasts. The new credit loss guidance will be effective for the Organization's year ending December 31, 2023. Upon adoption, the ASU will be applied using a modified retrospective transition method to the beginning of the first reporting period in which the guidance is effective. The Organization is still quantifying the impact of the new standard.

Subsequent Events

The consolidated financial statements and related disclosures include evaluation of events up through and including April 25, 2023, which is the date the consolidated financial statements were available to be issued.

Note 3 - Adoption of New Accounting Pronouncement

As of January 1, 2022, the Organization adopted Financial Accounting Standards Board Accounting Standards Update No. 2016-02, *Leases*. The ASU requires lessees to recognize a right-of-use asset and related lease liability for all leases, with a limited exception for short-term leases. Leases will be classified as either finance or operating, with the classification affecting the pattern of expense recognition in the statement of operations. The Organization elected to adopt the ASU using the modified retrospective method as of January 1, 2022 and applied the following practical expedients:

- The Organization did not reassess if expired or existing contracts are or contain a lease.

Note 3 - Adoption of New Accounting Pronouncement (Continued)

- The Organization did not reassess the lease classification for expired or existing leases.
- The Organization did not reassess initial direct costs for any existing leases.
- The Organization used hindsight to determine the lease term and to assess impairment of the right-of-use assets for existing leases.

As a result of the adoption of the ASU, the Organization recorded a right-of-use asset of $231,941 and a lease liability of $231,941 as of January 1, 2022 for existing operating leases. There was no impact on net assets as a result of adopting the new ASU.

Note 4 - Fair Value Measurements

Accounting standards require certain assets and liabilities be reported at fair value in the financial statements and provide a framework for establishing that fair value. The framework for determining fair value is based on a hierarchy that prioritizes the inputs and valuation techniques used to measure fair value.

Fair values determined by Level 1 inputs use quoted prices in active markets for identical assets that the Organization has the ability to access.

Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets in active markets and other inputs, such as interest rates and yield curves, that are observable at commonly quoted intervals.

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset. These Level 3 fair value measurements are based primarily on management's own estimates using pricing models, discounted cash flow methodologies, or similar techniques taking into account the characteristics of the asset.

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Organization's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset.

	Assets Measured at Fair Value on a Recurring Basis at December 31, 2022
	Quoted Prices in Active Markets for Identical Assets (Level 1)
Assets - Investments	
Cash	$ 249,359
Mutual funds - Fixed income	2,890,383
Mutual funds - Equities	620,562
Equity securities	1,216,583
Total assets	$ 4,976,887

Note 4 - Fair Value Measurements (Continued)

		Assets Measured at Fair Value on a Recurring Basis at December 31, 2021
		Quoted Prices in Active Markets for Identical Assets (Level 1)
Assets - Investments		
Cash	$	470,915
Mutual funds - Fixed income		2,850,617
Mutual funds - Equities		1,416,463
Equity securities		890,678
Total assets	$	5,628,673

Cash presented in the tables above represents amounts awaiting investment at year end.

Note 5 - Property and Equipment

Property and equipment are summarized as follows:

	2022	2021	Depreciable Life - Years
Land	$ 379,880	$ 379,880	-
Building and improvements	3,297,033	3,297,033	7-40
Vehicles	188,521	188,521	5
Furniture and equipment	405,192	357,152	3-5
Software and other intangibles	619,736	49,618	3-5
Total cost	4,890,362	4,272,204	
Accumulated depreciation	1,554,011	1,390,473	
Net property and equipment	$ 3,336,351	$ 2,881,731	

Depreciation and amortization expense for 2022 and 2021 was $163,537 and $154,889, respectively.

Note 6 - Loans and Allowance for Loan Losses

A summary of the balances of loans follows:

	2022	2021
Small-business loans	$ 34,056,271	$ 22,986,184
SBA Community Advantage	13,185,459	13,898,837
SBA Microloans	4,466,327	3,445,280
Total loans	51,708,057	40,330,301
Less allowance for loan losses	3,402,694	2,741,037
Net loans	$ 48,305,363	$ 37,589,264

Note 6 - Loans and Allowance for Loan Losses (Continued)

	2022	2021
Current loans receivable - Net	$ 10,537,716	$ 15,698,258
Long-term loans receivable - Net	37,767,647	21,891,006
Total	$ 48,305,363	$ 37,589,264

The Organization had contractual agreements to loan $2,123,549 and $2,588,250 in funds not yet disbursed as of December 31, 2022 and 2021, respectively.

Paycheck Protection Program (PPP) Loan Program

Loans receivable include loans issued by the Organization 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, 2022 and 2021, the Organization had 18 and 387 active loans for $250,947 and $10,143,992, respectively, out of a total of approximately $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 of the remaining PPP loans (which represent 0.6 percent of originations under this program) will be fully forgiven or paid off by the borrower with any remaining balance to be paid off by the SBA guarantee.

Loan Origination/Risk Management

The Organization 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 credit extended ranged from approximately $4,000 to $2,150,000 at December 31, 2022 and from approximately $1,000 to $1,600,000 at December 31, 2021.

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. The Organization'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 creditworthy 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.

Note 6 - Loans and Allowance for Loan Losses (Continued)

The Organization's activity in the allowance for loan losses for the years ended December 31, 2022 and 2021, by loan segment, is summarized below:

	2022			
	Small-business Loans	SBA Community Advantage	SBA Microloans	Total
Beginning balance	$ 1,617,048	$ 534,770	$ 589,219	$ 2,741,037
Charge-offs	(738,366)	(753,218)	(139,596)	(1,631,180)
Recoveries	329,752	585,701	5,145	920,598
Provision	1,114,837	83,887	173,515	1,372,239
Ending balance	$ 2,323,271	$ 451,140	$ 628,283	$ 3,402,694
Loans:				
Gross financing receivables	$ 34,056,271	$ 13,185,459	$ 4,466,327	$ 51,708,057
Loan guarantees	250,947	10,444,966	-	10,695,913
Cash reserves	128,473	228,492	751,345	1,108,310

	2021			
	Small-business Loans	SBA Community Advantage	SBA Microloans	Total
Beginning balance	$ 1,670,853	$ 506,981	$ 481,791	$ 2,659,625
Charge-offs	(315,839)	(161,559)	(11,089)	(488,487)
Recoveries	-	158,057	-	158,057
Provision	262,034	31,291	118,517	411,842
Ending balance	$ 1,617,048	$ 534,770	$ 589,219	$ 2,741,037
Loans:				
Gross financing receivables	$ 22,986,184	$ 13,898,837	$ 3,445,280	$ 40,330,301
Loan guarantees	10,143,992	11,045,595	-	21,189,587
Cash reserves	1,313,632	228,263	747,313	2,289,208

Credit Quality Indicators

As part of the ongoing monitoring of the credit quality of the Organization's loan portfolio, the Organization utilizes a risk grading system to assign a risk grade to each of its loans. The Organization also evaluates the collateral value compared to the outstanding principal balance, as well as loan performance, when determining which category to place the loan:

Performing

Credits not covered by the below definition are pass credits, which are not considered to be adversely rated.

Nonperforming

Loans classified as nonperforming are delinquent more than 90 days and may be inadequately protected by the current net worth of the borrower or of the collateral pledged, if any. Loans so classified have a well-defined weakness that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Organization may sustain some loss if the deficiencies are not corrected.

Note 6 - Loans and Allowance for Loan Losses (Continued)

SBA Community Advantage (CA) loans are substantially guaranteed by the SBA. As a result, only the unguaranteed portion (15 percent for loans at $150,000 or under and 25 percent for loans over $150,000) is provided for within the allowance for loan losses. CA loans sold on the secondary market have an additional 3 percent provided for within the allowance for loan losses. The Organization is in compliance with the loan loss reserve requirements for the CA program.

The Organization's credit quality indicators, by loan segment and class, at December 31, 2022 and 2021 are summarized below:

	2022		
	Performing	Nonperforming	Ending Balance
Small-business loans	$ 33,977,966	$ 78,305	$ 34,056,271
SBA Community Advantage	12,961,514	223,945	13,185,459
SBA Microloans	4,398,593	67,734	4,466,327
Total	$ 51,338,073	$ 369,984	$ 51,708,057

	2021		
	Performing	Nonperforming	Ending Balance
Small-business loans	$ 22,704,209	$ 281,975	$ 22,986,184
SBA Community Advantage	13,450,490	448,347	13,898,837
SBA Microloans	3,410,846	34,434	3,445,280
Total	$ 39,565,545	$ 764,756	$ 40,330,301

Age Analysis of Past-due Loans

The Organization's age analysis of past-due loans at December 31, 2022 and 2021, by loan segment and class, is summarized below:

	2022							
	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans	Recorded Investment > 90 Days and Accruing	Nonaccrual Loans
Small-business loans	$ 210,327	$ 178,010	$ 78,305	$ 466,642	$ 33,589,629	$ 34,056,271	$ 78,305	$ 23,588
SBA Community Advantage	16,048	266,299	223,945	506,292	12,679,167	13,185,459	-	419,877
SBA Microloans	163,215	39,910	67,734	270,859	4,195,468	4,466,327	67,734	-
Total	$ 389,590	$ 484,219	$ 369,984	$ 1,243,793	$ 50,464,264	$ 51,708,057	$ 146,039	$ 443,465

	2021							
	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans	Recorded Investment > 90 Days and Accruing	Nonaccrual Loans
Small-business loans	$ 156,797	$ 27,630	$ 281,976	$ 466,403	$ 22,519,781	$ 22,986,184	$ 281,976	$ -
SBA Community Advantage	209,462	143,637	448,348	801,447	13,097,390	13,898,837	140,124	361,215
SBA Microloans	8,841	10,218	34,433	53,492	3,391,788	3,445,280	34,433	-
Total	$ 375,100	$ 181,485	$ 764,757	$ 1,321,342	$ 39,008,959	$ 40,330,301	$ 456,533	$ 361,215

Note 6 - Loans and Allowance for Loan Losses (Continued)

Impaired Loans

The Organization considers loans designated as troubled debt restructurings or placed on nonaccrual to be impaired. Impaired loans that demonstrate significant credit deterioration are individually evaluated to determine if a specific reserve is required based on either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent. Impaired loans totaled $924,572 and $1,286,951 at December 31, 2022 and 2021, respectively. As of December 31, 2022 and 2021, there were no loans deemed to have significant credit deterioration that required individual reserves.

Troubled Debt Restructurings

A modification of a loan constitutes a troubled debt restructuring (TDR) when a borrower is experiencing financial difficulty and the modification constitutes a concession. The Organization offers various types of concessions when modifying a loan; however, forgiveness of principal is rarely granted.

The following table presents information related to loans modified in a TDR during the years ended December 31, 2022 and 2021:

	2022			2021		
	Number of Contracts	Pre-modification Outstanding Recorded Investment	Post-modification Outstanding Recorded Investment	Number of Contracts	Pre-modification Outstanding Recorded Investment	Post-modification Outstanding Recorded Investment
Small-business loans	5	$ 90,496	$ 87,968	4	$ 72,985	$ 71,372
SBA Community Advantage	6	468,475	367,750	7	602,857	588,286
SBA Microloans	2	45,659	43,350	1	17,035	16,004
Total	13	$ 604,630	$ 499,068	12	$ 692,877	$ 675,662

Troubled Debt Restructurings that Subsequently Defaulted

The following table presents loans modified as troubled debt restructurings within the previous 12 months that became 30 days or more past due during the years ended December 31, 2022 and 2021 (amounts as of year end):

	2022		2021	
	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment
Small-business loans	4	$ 72,771	2	$ 42,414
SBA Community Advantage	3	323,145	3	320,034
Total	7	$ 395,916	5	$ 362,448

Note 7 - Long-term Debt

Long-term debt at December 31 is as follows:

	2022	2021
Notes payable to various banks, foundations, and individuals at interest rates between 0.0 percent and 3.0 percent, with various payment terms. Full principal amounts are due at maturity, and maturity dates vary through May 2030	$ 44,819,508	$ 37,686,347
Notes payable to the Small Business Administration (SBA) with individual interest rates between 0.0 percent to 0.75 percent, with varying repayment amounts, maturing at various dates through August 2028. 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	3,301,611	3,929,155
Total	48,121,119	41,615,502
Less current portion	4,516,275	14,350,000
Long-term portion	$ 43,604,844	$ 27,265,502

The balance of the above debt matures as follows:

Years Ending	Amount
2023	$ 4,516,275
2024	5,257,943
2025	5,038,888
2026	5,100,000
2027	8,909,406
Thereafter	19,298,607
Total	$ 48,121,119

Interest expense for 2022 and 2021 was $777,923 and $699,075, respectively.

Under the agreements with the bank, the Organization is subject to various financial covenants.

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

	2022	2021
Reserved cash	$ 128,473	$ 1,313,632
Loans receivable	65,133	6,450,058
Total	$ 193,606	$ 7,763,690

Note 8 - Line of Credit

PeopleFund had two open lines of credit for a cumulative $2,250,000 with two financial institutions, and those lines had no outstanding balances at year end. The lines of credit are due to expire between August 13, 2023 and December 15, 2023.

Note 9 - Net Assets

Net assets with donor restrictions as of December 31 are available for the following purposes:

	2022	2021
Veteran loan fund	$ 325,000	$ 2,081,175
BIPOC Small Business Accelerator Program	1,328,600	-
Other	129,504	123,333
Total	$ 1,783,104	$ 2,204,508

Note 10 - 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 2022 and 2021, the Organization deployed $0 and $37 million, respectively, of tax credit allocation supporting four projects throughout the state. There was no new deployment in 2022, as 100 percent of the tax allocation had already been deployed in prior years.

Note 11 - Retirement Plans

The Organization sponsors a 401(k) plan for all full-time employees who have completed at least three months of service. The Organization provides a 50 percent match on employee contributions up to 8 percent of salary. Contributions to the plan totaled $106,592 and $92,650 for the years ended December 31, 2022 and 2021, respectively.

Note 12 - Leases

The Organization is obligated under operating leases primarily for office space, expiring at various dates through 2027. The right-of-use asset and related lease liability have been calculated using discount rates ranging from 1.04 percent to 1.55 percent. The leases require the Organization to pay taxes, insurance, utilities, and maintenance costs. Total rent expense under these leases was $57,059 and $36,706 for 2022 and 2021, respectively.

The Organization has operating leases for office space with a lease term of one year or less that the Organization has elected to account for as short-term leases. As these leases are short-term leases, they are not included in the right-of-use asset and lease liability. Total expense related to short-term leases was $27,120 for 2022.

Future minimum annual commitments under these operating leases are as follows:

Years Ending December 31	Amount
2023	$ 57,522
2024	67,458
2025	61,361
2026	34,300
2027	24,500
Total	$ 245,141

Note 13 - Contingencies

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.

Note 13 - Contingencies (Continued)

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, 2022, 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 depending on the closing date of each project.

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

Note 14 - Liquidity and Availability of Resources

The Organization's financial assets available within one year of December 31, 2022 and 2021 for general expenditure are as follows:

	2022	2021
Cash and cash equivalents	$ 7,185,878	$ 15,860,229
Investments	4,976,887	5,628,673
Accrued interest	445,145	286,493
Accounts receivable	4,146,657	1,662,508
Current portion of loans receivable - Net of allowance for loan losses	10,537,716	15,698,258
Total	$ 27,292,283	$ 39,136,161

None of these 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.

The Organization has a goal to maintain financial assets, which consist of cash and short-term investments, on hand to meet 150 days of normal operating expenses, which are, on average, approximately $4,300,000 and $3,100,000 at December 31, 2022 and 2021, respectively. The Organization has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, the Organization invests cash in excess of daily requirements in various short-term investments. The Organization has set aside cash $2,300,000 for operating expenses.

The Organization also realizes there could be unanticipated liquidity needs.