LIFTFUND, INC.
AND AFFILIATE

Consolidated Financial Statements
Independent Auditor's Reports
Single Audit Reports
Other Information

December 31, 2016

WEST, DAVIS & COMPANY, LLP
Certified Public Accountants
Austin, Texas

LIFTFUND, INC. AND AFFILIATE
TABLE OF CONTENTS

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
LiftFund, Inc.
San Antonio, Texas

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of LiftFund, Inc. (a nonprofit organization), which comprise the consolidated statement of financial position as of December 31, 2016, and the related consolidated statements of activities, cash flows, and functional expenses for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of LiftFund, Inc. and subsidiaries as of December 31, 2016, and the changes in their net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited LiftFund, Inc.'s 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 27, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The accompanying schedule of expenditures of federal awards, as required by *Title 2 U.S. Code of Federal Regulations (CFR) Part 200,* Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, and the consolidating statement of financial position and consolidating statement of activities are presented for purposes of additional analysis, and are not a required part of the basic 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 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 May 19, 2017, on our consideration of LiftFund, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering LiftFund, Inc.'s internal control over financial reporting and compliance.

West, Davis & Company, LLP
Certified Public Accountants
Austin, Texas
May 19, 2017

LIFTFUND, INC. AND AFFILIATE
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2016
(WITH COMPARATIVE TOTALS FOR 2015)

Assets

	2016	2015
Cash and cash equivalents	$ 8,150,761	$ 7,120,068
Cash, restricted	4,524,043	2,922,219
Investments	1,003,284	-
Receivables:		
Loans receivable, net of allowance for loan losses of $3,001,078 in 2016 and $3,047,169 in 2015	37,033,687	35,236,901
Grants and contributions receivable, net of allowance for cost refunds of $51,993 in 2016 and 2015	2,892,158	4,553,748
New Market Tax Credit loan receivable	4,454,220	4,454,220
Accrued interest receivable	337,567	274,948
Accrued late and NSF fees	46,942	40,332
Other	318,723	278,230
Prepaid expenses and other assets	509,005	443,693
Recovered asset inventory	11,500	66,514
Property and equipment, net of accumulated depreciation of $3,127,396 in 2016 and $2,520,489 in 2015	10,030,928	9,751,158
Total assets	$ 69,312,818	$ 65,142,031

Liabilities and Net Assets

	2016	2015
Liabilities:		
Accounts payable	$ 418,841	$ 486,381
Accrued liabilities	917,664	535,462
Deferred revenue	146,382	35,609
Notes payable	40,871,514	40,266,353
Equity equivalents	11,532,500	10,002,500
Total liabilities	53,886,901	51,326,305
Commitments and contingencies		
Net assets:		
Unrestricted	11,589,348	9,127,269
Temporarily restricted	3,259,406	4,111,294
Permanently restricted	577,163	577,163
Total net assets	15,425,917	13,815,726
Total liabilities and net assets	$ 69,312,818	$ 65,142,031

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

LIFTFUND, INC. AND AFFILIATE
CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2016
(WITH COMPARATIVE TOTALS FOR 2015)

	2016				
	Unrestricted	Temporarily restricted	Permanently restricted	Total	2015
Revenue and support:					
Public support:					
Contributions	$ 4,365,087	1,405,132	-	$ 5,770,219	$ 4,444,041
Governmental grants	2,366,949	-	-	2,366,949	3,561,856
Revenue:					
Interest	2,362	-	-	2,362	766
Loan interest and fees	7,456,621	-	-	7,456,621	5,661,067
Portfolio management services	320,581	-	-	320,581	352,833
SBA 504 income	1,199,949	-	-	1,199,949	1,407,366
Gain on sale of loans	696,136	-	-	696,136	121,781
Office space rental income	89,924	-	-	89,924	37,835
In-kind contributions	534,342	-	-	534,342	250,685
Miscellaneous revenue	12,671	-	-	12,671	22,761
Total public support and revenue	17,044,622	1,405,132	-	18,449,754	15,860,991
Net assets released from restrictions	2,257,020	(2,257,020)	-	-	-
Total revenue and support	19,301,642	(851,888)	-	18,449,754	15,860,991
Expenses:					
Program services - lending	15,036,321	-	-	15,036,321	14,169,052
Management and general	1,081,411	-	-	1,081,411	963,389
Fundraising	721,831	-	-	721,831	707,291
Total expenses	16,839,563	-	-	16,839,563	15,839,732
Change in net assets	2,462,079	(851,888)	-	1,610,191	21,259
Net assets at beginning of year	9,127,269	4,111,294	577,163	13,815,726	13,794,467
Net assets at end of year	$ 11,589,348	3,259,406	577,163	$ 15,425,917	$ 13,815,726

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

LIFTFUND, INC. AND AFFILIATE

CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2016

(WITH COMPARATIVE TOTALS FOR 2015)

	2016	2015
Cash flows from operating activities:		
Change in net assets	$ 1,610,191	$ 21,259
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Gain on sale of loans	(696,136)	(121,781)
Net gain on investments	(3,284)	-
Provision for loan losses	1,877,138	2,067,480
Depreciation	606,908	394,240
(Increase) decrease in operating assets		
Grants receivable	1,661,590	(1,408,131)
Accrued interest receivable	(62,619)	(48,996)
Accrued late and NSF fees	(6,610)	(9,156)
Other receivables	(40,493)	(117,430)
Prepaid expenses and other assets	(65,312)	63,940
Recovered asset inventory	55,014	14,170
Increase (decrease) in operating liabilities		
Accounts payable	(67,540)	(134,790)
Accrued liabilities	382,202	(500,314)
Deferred revenue	110,773	(2,783)
Net cash provided (used) by operating activities	5,361,822	217,708
Cash flows from investing activities:		
Disbursements under loan programs	(30,327,883)	(24,891,382)
Collections under loan programs	18,583,923	15,716,560
Proceeds from sale of loans	8,766,172	2,497,366
Purchases of investments	(1,000,000)	-
Purchases of property and equipment	(886,678)	(2,280,664)
Net cash provided by investing activities	(4,864,466)	(8,958,120)
Cash flows from financing activities:		
Change in restricted cash	(1,601,824)	1,717,204
Proceeds from notes payable and equity equivalents	9,518,427	14,730,176
Repayments of notes payable and equity equivalents	(7,383,266)	(5,588,092)
Net cash provided by financing activities	533,337	10,859,288
Net increase (decrease) in cash	1,030,693	2,118,876
Cash at beginning of year	7,120,068	5,001,192
Cash at end of year	$ 8,150,761	$ 7,120,068
Supplementary Disclosure of Cash Flow Information:		
Cash paid during the year for interest	$ 1,201,374	$ 877,396
In-kind donations of occupancy, services, equipment, and interest	$ 534,342	$ 250,685

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

LIFTFUND, INC. AND AFFILIATE
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2016
(WITH COMPARATIVE TOTALS FOR 2015)

	Program Services	Supporting Services: Management and General	Supporting Services: Fundraising	2016 Total	2015
Personnel costs:					
Salaries and wages	$ 5,638,537	496,420	467,013	$ 6,601,970	$ 6,423,057
Payroll taxes	455,914	20,083	39,530	515,527	537,346
Employee benefits	710,936	21,221	43,700	775,857	792,293
Total personnel costs	6,805,387	537,724	550,243	7,893,354	7,752,696
Advertising	253,269	2,997	3,940	260,206	363,310
Conferences and meetings	95,196	17,859	10,599	123,654	289,426
Consultants	529,350	69,915	44,452	643,717	648,003
In-kind consultants	8,000	-	-	8,000	-
Dues and subscriptions	329,075	72,183	19,394	420,652	349,443
Equipment rental and maintenance	185,901	40,656	-	226,557	193,731
In-kind equipment	176,198	-	-	176,198	-
Insurance	133,559	7,420	7,420	148,399	180,922
Interest	1,232,073	-	-	1,232,073	944,006
In-kind interest	346,342	-	-	346,342	246,883
Mileage and parking	38,744	295	2,331	41,370	50,707
Occupancy	307,342	17,075	17,075	341,492	386,702
In-kind occupancy	3,802	-	-	3,802	3,802
Office supplies	35,311	5,427	680	41,418	54,234
Portfolio expenses	628,745	-	-	628,745	402,733
Postage	20,575	28,114	1,960	50,649	52,446
Printing	36,797	2,044	2,044	40,885	45,741
Professional fees	557,803	112,977	1,325	672,105	536,710
Loan loss provision	1,877,138	-	-	1,877,138	2,067,480
Service charges and fees	123,458	-	-	123,458	115,485
Taxes	137,066	7,615	7,615	152,296	55,178
Telecommunications	305,149	81,815	-	386,964	400,931
Travel	138,304	38,638	18,860	195,802	238,402
Special programs	185,519	8,312	3,548	197,379	66,521
Total expenses before depreciation	14,490,103	1,051,066	691,486	16,232,655	15,445,492
Depreciation	546,218	30,345	30,345	606,908	394,240
Total expenses	$ 15,036,321	1,081,411	721,831	$ 16,839,563	$ 15,839,732
Percent of total expenses	89.3%	6.4%	4.3%	100%	

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

Note 1 – The Organization and Summary of Significant Accounting Policies

Organization and Background

LiftFund, Inc. (LiftFund)'s mission is to stimulate local economic growth and facilitate local efforts to combat poverty through providing credit and other support services to small enterprises that generally do not have access to commercial business credit. Through its loans and services, LiftFund, Inc., formerly known as ACCION Texas, Inc., helps micro entrepreneurs strengthen their businesses, stabilize and increase their incomes, create additional employment and contribute to the economic revitalization of their communities. LiftFund conducts special outreach efforts to reach disenfranchised, low income, and minority entrepreneurs and is an intermediary lender between commercial banks and micro-entrepreneurs.

LiftFund is funded primarily by governmental grants, contributions from banks and foundations, and corporate and individual contributions. Representatives of these banks and other organizations often serve as members of the board of directors. LiftFund is a Texas non-profit corporation organized March 1994.

The significant accounting policies followed by LiftFund are described below to enhance the usefulness of the financial statements to the reader.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles and the principles of fund accounting. Fund accounting is the procedure by which resources for various purposes are classified for accounting purposes in accordance with activities and objectives specified by donors.

Basis of Consolidation

In 2013, LiftFund formed a wholly owned subsidiary named ACCION Martin Holdings, Inc., a Texas corporation. The financial statements of LiftFund and its wholly owned subsidiary, ACCION Martin Holdings, Inc., are presented in the financial statements on a consolidated basis as both have common board members and management. Inter-organization transactions and balances have been eliminated for financial statement purposes.

Basis of Presentation

The accompanying financial statements have been prepared in conformity with the disclosure and display requirements of the Financial Accounting Standards Board (FASB) as set forth in its Auditing Standards Codification (ASC) 958, *Presentation of Financial Statements of Not-for-Profit Organizations.* Under these provisions, net assets and all balances and transactions are presented based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the organization and changes therein are classified and reported as follows:

Unrestricted net assets – Net assets not subject to donor-imposed stipulations

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that will be met either by actions of the organization and/or the passage of time. These balances represent the unexpended portion of externally restricted contributions and investment return to be used for specific programs or activities.

Permanently restricted net assets – Net assets subject to donor-imposed stipulations that they be maintained permanently by the organization.

Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions.

Contributions, which include unconditional promises to give, are recognized as revenues in the period LiftFund is notified of the commitment. Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. All other support that is restricted by the donor is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires that management make estimates and assumptions that affect the reported amounts and disclosures. Actual results could differ from those estimates.

Fair Value Measurements

Investments are shown at their estimated fair value in accordance with FASB ASC 820, “Fair Value Measurements and Disclosures”. Certain items are carried at cost on the balance sheet, which approximates fair value due to their short-term, highly liquid nature. These items include cash and cash equivalents, interest and fees receivable, prepaid expenses, accounts payable, accrued expenses, and deferred revenue.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the organization believes its valuation methods are appropriate and consistent with other organizations, the use of different methodologies or assumptions to determine fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Revenue Recognition

LiftFund recognizes loan interest revenue over the term of the loan. Loan fees are earned when the loan transaction is finalized. Grants from governmental agencies which are conditional on the performance of specified program services or activities are recorded as revenue when the related expenses stipulated by the grants are incurred.

Cash and Cash Equivalents

For purposes of the financial statements, the organization considers all liquid investments having initial maturities of three months or less to be cash equivalents.

Investments

Investments are carried at their market value and holding gains and losses are reflected in the statements of activities. Market values are determined by the most recently traded prices of securities at the statements of financial position date. Net realized gains or losses are determined on the specific identification cost method.

Restricted Cash

Restricted cash consists of cash accounts that are required to be maintained for a specific purpose or required by the grantor. Cash accounts restricted are the Individual Development Account Program account, the Goldman Sachs loan loss reserve account, the Small Business Administration Microloan Reserve accounts, the ACCION Martin Holdings, Inc. construction and expense reserve accounts, and other miscellaneous minor accounts.

Grants and Contributions Receivable

Grants receivable are stated at the amount management expects to collect from balances outstanding at year-end. Management evaluates the need for an allowance for doubtful accounts applicable to its grants receivable based on various factors, including an assessment of the credit worthiness of its donors, aging of the amount due and historical experience. Based on management's assessment of the credit history with clients having outstanding balances and current relationships with them, it has concluded that realization losses on grants receivable balances outstanding at year-end have been adequately provided for.

Allowance for Loan Losses

The adequacy of the allowance for loan losses is evaluated monthly by management and quarterly by the Board. Following current policy, the allowance reached 7.5% of the outstanding portfolio as of December 31, 2016.

The allowance for loan losses is based on management’s estimates of the creditworthiness of its borrowers, current economic conditions, and historical information. Ultimate losses, however, may vary materially from current estimates at December 31, 2016.

Property and Equipment

Property and equipment is valued at cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their estimated fair market value on the date donated. Expenses for repairs that materially extend the useful life of an asset are capitalized at cost. Depreciation is recorded using the straight-line method over the estimated useful lives of the assets, which range from 3 to 30 years. LiftFund capitalizes all purchases of property and equipment exceeding $500.

In-Kind Contributions

Donated facilities, equipment, and services are reflected in the accompanying financial statements at fair market value at the time of receipt. Donated facilities, which include office space at various locations where LiftFund operates, and interest on below-market interest rate notes payable, are recorded as an expense. Donated services are recognized if the services received create or enhance non-financial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Other volunteer services that do not meet these criteria are not recognized in the financial statements.

Income Taxes

LiftFund is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. In addition, LiftFund qualifies for the charitable contribution deduction under IRC Section 170(b)(1)(A) and has been classified as an organization that is not a private foundation under IRC Section 509(a)(2). No provision for income taxes has been made in the accompanying financial statements, as there are no activities subject to unrelated business income tax.

On January 1, 2009, LiftFund adopted the provisions of Interpretation ("FIN") No. 48, "Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement No. 109" (ASC 740). ASC 740 prescribes a new threshold for determining when an income tax benefit can be recognized, which is a higher threshold than the one imposed for claiming deductions on income tax returns. The adoption of ASC 740 did not have any impact on LiftFund's financial statements.

LiftFund's tax returns are subject to possible examination by the taxing authorities until the expiration of the related statutes of limitations on those tax returns. In general, the returns have three year statute of limitations.

Expenses

The costs of providing various programs and other activities of the organization have been summarized on a functional basis by the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Costs by their natural classification are presented in the statement of functional expenses.

Reclassifications

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements.

Summarized Financial Information for 2015

The financial information as of December 31, 2015 and for the year then ended is presented for comparative purposes and is not intended to be a complete financial statement presentation.

Note 2 – Loans Receivable

LiftFund offers loans to qualifying businesses. These loans are offered to startup or established businesses. Loans range from $500 to $500,000 with loan terms of 5 to 120 months. Borrowers must have sufficient collateral to cover loan amount. Individual and group loans carry a 5.5% to 18% annual interest rate, calculated on the declining balance of the loan. During 2016, LiftFund disbursed $30,327,883 in new loans.

2,702 loans receivable were outstanding as of December 31, 2016 for a total balance receivable of $40,034,765, less an allowance for loan losses of $3,001,078.

The loan delinquency status at December 31, 2016 was as follows:

Current	$ 38,021,305	95.0%
Past Due		
31-60 days	822,923	2.0%
61-90 days	225,884	0.6%
91-120 days	401,993	1.0%
Over 120 days	562,660	1.4%
Subtotal	2,013,460	5.0%
Total LiftFund portfolio	$ 40,034,765	100%

Loans are considered delinquent if past due over 31 days and delinquent loans over 180 days are charged off.

Changes in loans receivable during 2016 were as follows:

Balance, December 31, 2015	$ 38,284,070
New Loans	30,327,883
Principal collected on loans	(18,277,410)
Sale of Loans	(8,070,036)
Loans written off	(2,229,742)
Balance, December 31, 2016	$ 40,034,765

Changes in the allowance for loan losses during 2016 were as follows:

Balance, December 31, 2015	$	3,047,169
Loans written off		(2,229,742)
Loan loss accruals		1,877,138
Recoveries		306,513
Balance, December 31, 2016	$	3,001,078

Non-performing loans fall into one of the following categories: (1) loans in Chapter 7 bankruptcy that are expecting a reaffirmation agreement, and (2) loans in the process of real estate foreclosure. There were no non-performing loans at December 31, 2016.

LiftFund assesses and monitors the credit quality of its loans receivable on an ongoing basis. The Organization uses several internal credit quality indicators, depending on the type of loan receivable and availability of reliable information for that asset type. All loans receivable are considered part of LiftFund's business loan portfolio; the Organization does not further disaggregate loans by segment or class.

The allowance for possible loan losses is established through a provision for possible loan losses charged to current operations. Management reviews LiftFund's three year loan receivable performance history at least quarterly. The provision for possible loan losses is determined based on evaluations of collectability and prior loss experience. The evaluations take into consideration such factors as changes in the nature and volume of the portfolio, overall portfolio quality, specific problem loans and current and anticipated economic conditions that may affect the borrowers' ability to pay. The allowance for loan losses is set based on the greater of the amount determined from the three year loan receivable performance history or the amount required to be recognized under LiftFund's loan and grant agreement covenants.

Loans are charged against the allowance for possible loan losses when management believes that the collectability of the principal is unlikely. Recoveries of loans previously charged off are credited to the allowance for possible loan losses.

As a matter of practice, on a continuing basis, the company assesses its loans receivable portfolio, using its internal credit quality indicators. All loans receivable have been assessed and monitored through December 31, 2016.

LiftFund is exposed to several risk factors related to its loans receivable:

- Interest rate risk associated with a large portion of commercial loans with fixed interest rates.

- Risk of a deteriorating economic climate and its impact on the Organization's collection of loans.

- Economic, industry, and geographic risks associated with secured loans to small businesses primarily in Texas.

During 2016, LiftFund participated in the Community Advantage Pilot Program Loan Guaranty Agreement (SBA CA) with the SBA. Under the terms of the SBA CA program, the SBA provides a guaranty under its 7(a) loan program covering risk of loss against approved loans meeting the program requirements. The Guaranty covers 85% of loans less than $150,000 and 75% of the loan amount between $150,000 and $250,000. All loans must be approved by the SBA for both credit and eligibility to mitigate the risk of loss. The maximum interest rate allowable under these loans is prime plus 6%. The SBA allows the sale of the guaranteed portion of the loan on the secondary market.

During 2016, LiftFund originated 52 SBA CA loans totaling $7,422,400 with an SBA guaranteed portion of $5,893,740. Among other compliance requirements, the SBA CA program requires the establishment of loan reserves equal to at least 5% and 3%, respectively, of the unguaranteed and guaranteed portion of the SBA CA portfolio. At December 31, 2016, LiftFund was in compliance with the loan loss reserve requirements.

Note 3 - Investments

LiftFund's investments are accounted for at fair value with unrealized gains and losses reported in the Statement of Activities. FASB ASC 820, *Fair Value Measurements and Disclosures*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as of a given measurement date, and establishes a framework for measuring fair value. This standard also establishes a three-level hierarchy for such measurements based on the reliability of observable and unobservable inputs as follows:

> Level 1 - Valuations are based on quoted prices in active markets for identical assets or liabilities that the Corporation has the ability to access at the measurement date.
>
> Level 2 - Valuations are based on quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; and model-derived valuations whose significant inputs are observable.
>
> Level 3 - Valuations are based on unobservable inputs for the asset or liability that reflect the reporting entity's own data and assumptions that market participants would use in pricing the asset or liability.

The Corporation's investments, which consist of mortgage backed securities totaling $1,003,284 at December 31, 2016, are all considered by management to be Level 2 investments.

Note 4 – Property and Equipment

Property and equipment consists of the following at December 31:

	2016	2015
Land	$ 1,243,418	$ 1,243,418
Buildings	8,997,374	8,602,412
Equipment	908,010	856,125
Software	1,847,131	1,407,300
Vehicles	162,392	162,392
Total Cost	13,158,325	12,271,647
Less accumulated depreciation	(3,127,397)	(2,520,489)
Net property and equipment	$ 10,030,928	$ 9,751,158

Depreciation expense was $606,908 for the year ended December 31, 2016.

Note 5 – Notes Payable

Notes payable consist of the following:

Lender	Interest Rate	Maturity Date	Balance 12/31/2016		Collateral
Adorers of The Blood of Christ	2.00%	10/8/19	50,000		-
Adrian Dominican Sisters	3.00%	8/15/21	100,000		-
Aissatou Sidime-Blanton	2.00%	6/15/17	4,040		-
Allegiance Bank	4.50%	8/2/19	500,000		-
Amegy Bank	3.25%	7/6/18	398,444		-
Anna Brooke Gutzler	2.00%	1/10/17	4,859		-
Anne P Messbarger Eguia	1.00%	11/6/18	6,000		-
Annie E. Casey Foundation	3.00%	6/30/19	1,000,000		-
Bank of America	3.00%	8/3/23	2,000,000		-
Bank of America	2.90%	5/24/18	615,100	****	615,100
Benjamin Coerver	2.00%	4/26/18	8,000		-
Bradley Lehman	1.00%	1/1/18	2,000		-
Broadway Bank	4.00%	10/1/17	625,000		-
Broadway Bank	3.75%	10/1/17	74,750		-
Cadence Bank	3.00%	6/30/17	361,583		-
Calvert Foundation	4.50%	12/31/17	1,200,000	*	1,200,000
Capital One	3.50%	12/18/18	3,052,778	***	-
Capital One	1.00%	5/31/17	500,000		-
Carla Marshall & L. Doxsey	2.00%	11/8/17	113,720		-

Note 5 – Notes Payable (Continued)

Lender	Interest Rate	Maturity Date	Balance 12/31/2016	Collateral
Carla Marshall & L. Doxsey	2.00%	3/4/17	26,530	-
Carla Marshall & L. Doxsey	2.00%	4/16/17	15,918	-
Carmen R. Barraza Casas	2.00%	3/23/20	50,000	-
Central Bank	3.50%	4/19/18	70,632	-
Charles A. Gonzalez	0.00%	1/28/17	1,000	-
Church of The Blessed Sacrament	2.00%	2/28/17	100,000	-
Church of The Blessed Sacrament	3.00%	2/28/18	100,000	-
Comerica Bank	3.25%	2/1/19	25,131	-
Crockett National Bank	0.00%	12/13/17	50,000	-
Cynthia Merla Spielman	2.00%	5/16/17	1,000	-
Dallas Women’s Foundation	2.50%	2/13/18	75,000	-
Daniel Lopez and Gina Amatangelo	0.00%	12/28/19	6,000	-
David Blair	2.00%	7/1/17	25,000	-
David Blair	2.00%	1/5/17	25,000	-
David Blair	2.00%	2/4/17	25,000	-
Debra Salge	2.00%	2/22/17	1,020	-
Dr. Charles Conlon	2.00%	1/1/18	25,000	-
Dr. Harry Shafer	2.00%	1/1/18	2,000	-
Dr. William Elizondo	2.00%	10/10/17	1,000	-
East West Bank	3.00%	8/1/17	250,000	-
Edward and Luz Elena Day	2.00%	10/1/17	3,060	-
Edward and Luz Elena Day	2.00%	11/1/17	10,200	-
Eliot M. Lee	2.00%	1/1/18	1,000	-
Ellen Riojas Clark	2.00%	3/2/17	5,000	-
Embrey Family Foundation	2.00%	1/13/18	50,000	-
Farm Bureau Bank	3.25%	6/30/17	50,000	-
Farm Bureau Bank	3.50%	12/31/19	150,000	-
Father Blanco Memorial Fund	2.00%	6/24/17	10,200	-
First Citizens Bank	4.50%	2/1/17	25,000	-
First Citizens Bank	4.50%	2/1/17	25,000	-
First Citizens Bank	4.50%	7/6/17	50,000	-
Framboyant Learning Center	2.00%	5/14/19	50,000	-
Frost Bank	3.50%	12/14/17	1,000,000	-
George H & Elizabeth Godwin	1.00%	11/4/17	10,100	-
George Hernandez Jr.	2.00%	11/3/18	10,200	-
Gloria P. Arrechi	2.00%	2/3/17	15,000	-

Note 5 – Notes Payable (Continued)

Lender	Interest Rate	Maturity Date	Balance 12/31/2016		Collateral
Goldman Sach's	3.75%	12/31/20	4,961,042	*	4,961,042
Green Bank	4.00%	5/27/17	42,230		-
Harvey Hill	2.00%	2/5/17	10,000		-
Harvey Hill	2.00%	6/15/17	10,000		-
Heartspring Methodist Foundation	2.00%	6/1/18	500,000		-
Iberia Bank	4.25%	6/23/18	1,448,448	*	1,448,448
Iberia Bank	3.75%	6/23/18	936,151	*	936,151
Iberia Bank	3.75%	6/23/18	290,449	*	290,449
Iberia Bank	3.75%	6/23/18	72,384	*	72,384
Immaculate Heart of Mary Church	2.00%	6/24/17	51,000		-
Jose M.R. and Eloise V. Avila	2.00%	5/12/17	10,000		-
JP Morgan Chase	4.00%	12/31/17	211,190		-
JP Morgan Chase	4.00%	12/31/17	52,799		-
KIVA	0.00%	12/31/20	114,927		-
Laura and Sam Dawson	0.00%	4/6/18	250,000		-
Laura Parker	2.00%	10/16/17	50,000		-
Linda Foster	3.00%	12/3/17	10,300		-
Lucas Coerver	2.00%	4/26/18	8,000		-
Lucia Coerver	2.00%	4/26/19	5,000		-
M. Kathryn Martin	2.00%	10/13/18	1,000		-
Margaret G. Mireles	2.00%	2/6/17	43,356		-
Maria A. and Manuel P. Berriozabal	2.00%	3/30/17	52,892		-
Marissa Hidalgo	2.00%	5/18/18	5,000		-
Martha Pattillo Siv	2.00%	5/23/17	1,000		-
Mary Elizabeth Blissman	2.00%	3/30/17	10,000		-
Mary Esther Escobedo	2.00%	4/11/17	5,000		-
Mary T. Green	2.00%	1/4/18	1,000		-
Mercantil Commercebank	5.50%	7/9/17	244,179	*	-
Midsouth Bank	2.00%	11/9/19	423,300		-
Nazareth Literary & Benevolent Inst.	0.50%	5/18/18	150,000		-
Norma Gonzalez	2.00%	10/28/18	1,020		-
Oblate International Pastoral	4.00%	10/15/20	815,373		-
Opportunity Finance Network	3.00%	1/31/18	2,500,000	*	2,500,000
People Fund	1.02%	12/1/43	1,523,780	**	-
People Fund	1.02%	12/1/43	4,454,220	**	-
Pete and Andrea Sitterle	2.00%	12/18/18	25,500		-

Note 5 – Notes Payable (Continued)

Lender	Interest Rate	Maturity Date	Balance 12/31/2016		Collateral
Philip Eash Gates	3.00%	10/1/19	30,918		-
Pioneer Bank	2.75%	10/1/19	500,000		-
Reap Green Enterprise	3.00%	5/31/17	450,000		-
Reap Green Enterprise	3.00%	5/31/17	100,000		-
Reap Green Enterprise	3.00%	5/31/17	250,000		-
Reap Green Enterprise	3.00%	5/31/17	200,000		-
Redman Foundation	2.00%	11/18/19	10,000		-
Regions Bank	3.00%	9/22/20	191,024		-
Rhonda Wiley-Jones	2.00%	5/12/17	3,000		-
Rick Schimpff	1.00%	4/21/17	5,000		-
Robert Boehlert	2.00%	8/28/17	104,387		-
Rose Mary Fry	2.00%	8/1/17	1,000		-
Shari K. Gore	0.00%	12/19/17	5,000		-
Sisters of Saint Dominic	2.00%	11/11/19	50,000		-
Sisters of The Incarnate Word	3.00%	2/24/17	300,000		-
Small Business Administration	0.00%	12/12/21	416,667	*	416,667
Small Business Administration	0.00%	12/12/21	416,667	*	416,667
Small Business Administration	0.00%	11/15/26	1,500,000	*	1,500,000
Small Business Administration	3.38%	7/31/17	53,951	*	53,951
Small Business Administration	2.13%	5/23/18	150,595	*	150,595
Society of the Divine Word	2.00%	2/26/17	50,000		-
Suistainable Communities Fund	3.00%	7/31/19	200,000		-
Sylvia and Arthur C. Reyna Jr.	2.00%	10/28/17	1,020		-
Terri and Roger Virost	1.00%	6/30/17	10,000		-
Texas Department of Agriculture	1.00%	8/31/19	800,000	*	800,000
The Bank of San Antonio	2.00%	12/31/19	500,000		-
The Basilian Fathers of Toronto	3.00%	4/1/21	200,000		-
The Congregation of The Sisters of Charity	2.00%	11/22/19	200,000		-
Tides Foundation	0.00%	4/3/18	100,000		-
Tolleson Private Bank	3.00%	5/27/17	50,000		-
U.S. Department of Agriculture	1.00%	4/7/34	260,738	*	260,738
U.S. Treasury CDFI Fund	0.00%	6/30/19	200,000		-
Valerie L Wenger	2.00%	5/31/17	10,000		-
Valley Economic Development Ctr	3.00%	8/25/20	500,000		-
Whitney Bank	3.00%	9/9/17	99,742		-

Note 5 – Notes Payable (Continued)

Lender	Interest Rate	Maturity Date	Balance 12/31/2016	Collateral
William G. Moll	2.00%	5/20/18	5,000	-
Woodforest Bank	3.50%	3/15/18	700,000	-
			$ 40,871,514	

* Collateralized by loans receivable, and bank accounts if SBA

** Collateralized by Martin Street property

*** Collateralized by Poplar Street property & capital campaign pledges & gratst receivable

**** Collateralized by the SBA guaranteed portion of 7A loans

Scheduled principal payments of notes payable are as follows:

Years Ending December 31,	
2017	$ 9,915,236
2018	12,541,235
2019	7,001,466
2020	2,906,362
2021	1,432,397
Thereafter	7,074,818
	$40,871,514

Note 6 – Equity Equivalents

An equity equivalent is an unsecured general obligation. It is fully subordinated to the right of repayment of all other creditors. The obligation has a rolling term and therefore, an indeterminate maturity. Payment of interest is required quarterly and semi-annually. Interest payments are current at December 31, 2016. Equity equivalents consist of the following loans:

Lender	Interest Rate	Balance 12/31/2016
AmericanBank	4.50%	$ 500,000
Bancorp South	3.00%	1,000,000
Bank SNB	3.00%	500,000
BBVA Compass Bank	2.00%	100,000
BBVA Compass Bank	2.00%	500,000
BBVA Compass Bank	2.00%	1,000,000
BBVA Compass Bank	2.00%	2,000,000
BBVA Compass Bank	2.00%	1,000,000
Hometown Bank	3.00%	250,000

Note 6 – Equity Equivalents (Continued)

Lender	Interest Rate	Balance 12/31/2016
MUFG Union Bank	2.00%	1,000,000
Mutual of Omaha Bank	2.00%	250,000
Raza Development Fund	1.00%	100,000
Raza Development Fund	2.00%	200,000
Texas Community Bank	3.00%	480,000
The Bank of San Antonio	2.00%	250,000
Wells Fargo Bank	2.00%	1,000,000
Wells Fargo Bank	2.00%	1,402,500
Total		$ 11,532,500

Note 7 – Restrictions on Net Assets

Temporarily restricted net assets at December 31, 2016 are available for the following purposes:

For subsequent years' activities:	
Loan programs	$ 1,634,945
Subtotal	1,634,945
For required reserves:	
Small Business Administration	1,143,559
Goldman Sachs Bank	480,902
Subtotal	1,624,461
Total temporarily restricted net assets	$ 3,259,406

The net assets for all programs are restricted to use as defined by the grantor.

Net assets were released from donor restrictions by incurring expenses satisfying the purpose or time restrictions specified by the donors during 2016 as follows:

Construction	$ 5,000
Loan programs/operating expenses	2,252,020
Total net assets released from restrictions	$ 2,257,020

Permanently restricted net assets of $577,163 at December 31, 2016 and 2015 consist of various contributions received from banks and individuals restricted in perpetuity for loans to micro enterprises.

Note 8 – Retirement Plan

LiftFund has a defined contribution 401(k) plan covering all employees with at least three months and 390 hours of service. Employees are automatically enrolled to contribute 3% of the employee's salary unless they select a different amount or sign a waiver within 90 days of their enrollment date. Under the plan, LiftFund matches 100% of the employee's contributions up to 3% of the employee's salary, plus 50% of the employee's contributions up to the next 2% of the employee's salary. Total retirement plan expense charged to operations was $166,093 in 2016.

Note 9 – Operating Leases Commitments

LiftFund leases office space under noncancelable operating leases expiring through July of 2020. LiftFund leases copiers and computer equipment under operating leases expiring through June of 2019. Lease expense charged to operations for the year ended December 31, 2016 was $338,842.

Future minimum lease payments under the operating leases in excess of one year as of December 31, 2016 are as follows:

Years Ending December 31,	
2017	$ 245,149
2018	156,426
2019	85,973
2020	25,804
Thereafter	-
	$ 513,352

Note 10 – Loan Sale Agreements

LiftFund sold the guaranteed portion of 78 SBA 7(a) Community Advantage loans totaling $8,070,036 on the secondary market during 2016 at a gain of $696,136.

Note 11 – New Market Tax Credit Agreement

In 2013, LiftFund received a loan in the amount of $3,500,000 from Capital One, N.A. for LiftFund to construct its new headquarters on Martin Street in San Antonio, Texas. The loan is secured by LiftFund's land and buildings on Poplar Street and by a lien on LiftFund's capital campaign pledges and grants receivable. The loan bears interest at 3.5% and requires monthly payments of accrued interest plus $19,444 in principal through December of 2018, the loan's maturity date. Capital One requires that any collections of the capital campaign pledges and grants by LiftFund be placed into a collateralized bank account and applied to the loan balance on a quarterly basis.

In 2013, LiftFund and ACCION Martin Holdings, Inc. (AMHI), as a qualified active low-income community business (QALICB), entered into a series of agreements with COCRF Investor 21, LLC, as investor and PeopleFund, as sponsor, to finance the construction of LiftFund's Martin Street headquarters under an arrangement qualifying as a New Market Tax Credit (NMTC) investment. As of December 31, 2013, LiftFund had contributed cash in the amount of $4,454,220 to COCRF Investor 21, LLC evidenced by a promissory note. The promissory note payable to LiftFund has a fixed interest rate of 1% per annum and obligates COCRF Investor 21, LLC to make interest-only payments on a quarterly basis through January 2021 and thereafter quarterly payments of principal and interest through July of 2038, the loan's maturity date. COCRF Investor 21, LLC then provided the contributed cash along with an equity investment contribution to PeopleFund, as sponsor, who in turn provided two (2) loans to AMHI. The loans, totaling $5,978,000 are payable by AMHI to PeopleFund and are secured by a second lien on the Martin Street property and the new headquarters building. These loans have an interest rate of 1.02% and are payable in interest only installments quarterly through January of 2021 and in principal and interest installments quarterly through July of 2038, the loan’s maturity date. The United States Economic Development Administration holds a first lien on the Martin Street property and improvements pursuant to a grant of $1,315,000 dated April 8, 2011.

Note 12 – Concentrations of Credit Risk

LiftFund provides financing to small businesses in Texas, Alabama, Arkansas, Florida, Georgia, Kentucky, Louisiana, Mississippi, Missouri, New Mexico, Oklahoma, South Carolina, and Tennessee. The organization has been in business since 1994. Financial instruments that potentially subject the organization to concentrations of credit risk consist of cash and equivalents, notes payable, and revenue from government grants and contracts.

LiftFund maintains cash accounts in various financial institutions. Balances are insured up to $250,000. At December 31, 2016 the cash balances in excess of FDIC limits approximated $11,045,421.

At December 31, 2016, LiftFund was scheduled to make $9,915,236 in principal repayments on its outstanding notes payable during 2017. Based on its experience with lenders renewing their loans to LiftFund, the Organization believes that it is maintaining cash balances sufficient to cover all notes payable amounts due in 2017.

LiftFund receives substantial funding through grants and contracts with governmental agencies. Concentrations of credit risk with respect to grants and contracts receivable are reduced due to the limited amount of credit risk exposure from government grants and contracts.

Note 13 – Commitments and Contingencies

LiftFund's grant and contract programs are subject to inspection and audit by the appropriate governmental funding agencies. The purpose is to determine whether program funds were used in accordance with their respective guidelines and regulations. The potential exists for disallowance of previously funded program costs. The ultimate liability, if any, which may result from these governmental audits cannot be reasonably estimated and, accordingly, LiftFund has no provision for the possible disallowance of program costs included in its financial statements.

Note 14 – Evaluation of Subsequent Events

LiftFund adopted the provisions of Statement of Financial Accounting Standards ("SFAS") No. 165, "Subsequent Events" (ASC 855), as of January 1, 2009. ASC 855 established new accounting and disclosure requirements for subsequent events. Management has evaluated subsequent events through May 19, 2017, the date on which the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

LIFTFUND, INC. AND AFFILIATE
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2016

Assets

	Liftfund, Inc.	ACCION Martin Holdings, Inc.	Intercompany Eliminations	Total
Cash and cash equivalents	$ 8,085,956	$ 64,805	$ -	$ 8,150,761
Cash, restricted	4,314,703	209,340	-	4,524,043
Investments	1,003,284	-	-	1,003,284
Receivables:				
Loans receivable, net of allowance for loan losses of $3,001,078 in 2016	37,033,687	-	-	37,033,687
Grants and contributions receivable, net of allowance for cost refunds of $51,993 in 2016	2,892,158	-	-	2,892,158
New Market Tax Credit loan receivable	4,454,220	-	-	4,454,220
Accrued interest receivable	337,567	-	-	337,567
Accrued late and NSF fees	46,942	-	-	46,942
Other	318,723	12,450	(12,450)	318,723
Prepaid expenses and other assets	205,635	303,370	-	509,005
Recovered asset inventory	11,500	-	-	11,500
Property and equipment, net of accumulated depreciation of $3,127,396 in 2016	3,241,524	6,789,404	-	10,030,928
Total assets	$ 61,945,899	$ 7,379,369	$ (12,450)	$ 69,312,818

Liabilities and Net Assets

	Liftfund, Inc.	ACCION Martin Holdings, Inc.	Intercompany Eliminations	Total
Liabilities:				
Accounts payable	$ 431,291	$ -	$ (12,450)	$ 418,841
Accrued liabilities	902,420	15,244	-	917,664
Deferred revenue	146,382	-	-	146,382
Notes payable	34,893,514	5,978,000	-	40,871,514
Equity equivalents	11,532,500	-	-	11,532,500
Total liabilities	47,906,107	5,993,244	(12,450)	53,886,901
Commitments and contingencies				
Net assets:				
Unrestricted	11,589,348	-	-	11,589,348
Temporarily restricted	1,873,281	1,386,125	-	3,259,406
Permanently restricted	577,163	-	-	577,163
Total net assets	14,039,792	1,386,125	-	15,425,917
Total liabilities and net assets	$ 61,945,899	$ 7,379,369	$ (12,450)	$ 69,312,818

See independent auditor's report

LIFTFUND, INC. AND AFFILIATE
CONSOLIDATING STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2016

	Liftfund, Inc.	ACCION Martin Holdings, Inc.	Intercompany Eliminations	Total
Revenue and support:				
Public support:				
Contributions	$ 5,770,219	$ -	$ -	$ 5,770,219
Governmental grants	2,366,949	-	-	2,366,949
Revenue:				
Interest	2,307	55	-	2,362
Loan interest and fees	7,456,621	-	-	7,456,621
Portfolio management services	320,581	-	-	320,581
SBA 504 income	1,199,949	-	-	1,199,949
Gain on sale of loans	696,136	-	-	696,136
Office space rental income	89,924	-	-	89,924
In-kind contributions	534,342			534,342
Miscellaneous revenue	12,671	61,000	(61,000)	12,671
Total revenue and support	18,449,699	61,055	(61,000)	18,449,754
Expenses:				
Program services - lending	14,801,522	295,799	(61,000)	15,036,321
Management and general	1,081,411	-	-	1,081,411
Fundraising	721,831	-	-	721,831
Total expenses	16,604,764	295,799	(61,000)	16,839,563
Change in net assets	1,844,935	(234,744)	-	1,610,191
Net assets at beginning of year	12,194,857	1,620,869	-	13,815,726
Intercompany transfers	-	-	-	-
Net assets at end of year	$ 14,039,792	$ 1,386,125	$ -	$ 15,425,917

See independent auditor's report

REPORTS REQUIRED BY *GOVERNMENT AUDITING STANDARDS* AND THE UNIFORM GUIDANCE

WEST, DAVIS & COMPANY, LLP
CERTIFIED PUBLIC ACCOUNTANTS

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

To the Board of Directors
LiftFund, Inc.
San Antonio, Texas

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 LiftFund, Inc. (LiftFund), which comprise the consolidated statement of financial position as of December 31, 2016, and the related consolidated statements of activities, cash flows, and functional expenses for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated May 19, 2017.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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 entity’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

West, Davis & Company, LLP
Certified Public Accountants
Austin, Texas
May 19, 2017

WEST, DAVIS & COMPANY, LLP
CERTIFIED PUBLIC ACCOUNTANTS
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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Directors
LiftFund, Inc.
San Antonio, Texas

Report on Compliance for Each Major Federal Program

We have audited LiftFund, Inc.'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of LiftFund's major federal programs for the year ended December 31, 2016. LiftFund's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of LiftFund, Inc.'s compliance.

Opinion on Each Major Federal Program

In our opinion, LiftFund, Inc. complied, in all material respects, with the types of 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, 2016.

Report on Internal Control Over Compliance

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

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

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

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

West, Davis & Company, LLP
Certified Public Accountants
Austin, Texas
May 19, 2017

LIFTFUND, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2016

Federal Grantor/Pass-through Grantor/ Program or Cluster Title	Federal CFDA Number	Amount Passed to Subrecipients	Federal Expenditures
U.S. Department of the Treasury, Community Development Financial Institutions Fund:			
CDFI Financial Assistance - Grant	21.020		1,653,000
CDFI Financial Assistance - Loans	21.020		1,200,000
Total U.S. Department of the Treasury			2,853,000
U.S. Small Business Administration:			
Microloan Program:			
Microloan Demonstration Program - Loans	59.046		2,889,842
Microloan Demonstration Program - Technical Assistance Grant	59.046		242,372
Total Microloan Program			3,132,214
7(a) Loan Guarantees	59.012		5,893,740
Women's Business Ownership Assistance	59.043		160,480
Prime Grant	59.050		152,118
Total Small Business Administration			9,338,552
U.S. Department of Housing and Urban Development:			
Border Community Capital Initiative (BCCI)	14.266	167,009	550,149
Delta Community Capital Initiative (DCCI)	14.271		645,847
Total Department of Housing and Urban Development			1,195,996
U.S. Department of Agriculture:			
Intermediary Relending Program - Loans	10.767		289,682
U.S. Economic Development Administration			
Revolving Loan Fund - Loans	11.307		5,112,185
Financial Assistance Award	11.307		146,997
Total U.S. Economic Development Administration			5,259,182
Total Federal Expenditures			18,936,412

See accompanying notes to schedule of expenditures of federal awards.

1. Basis of Presentation

The accompanying schedule of federal awards includes the federal grant activity of LiftFund and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with 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). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the financial statements.

2. Summary of Significant Accounting Policies

Expenditures - Expenditures reported on 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 to reimbursement.

Indirect Cost Rate - LiftFund has elected to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

Grant, Award, or Other Identifying Number- Grant or award numbers are presented where available. The U.S. Small Business Administration 7(a) loan guarantee - Community Advantage Pilot Program does not have a grant or award number available. The basis of the identifying number provided on the schedule of expenditures of federal awards for that contract is the date of the 750 Agreement, or the loan guarantee agreement.

3. Nonmonetary Assistance

LiftFund neither received nor disbursed federal awards in the form of nonmonetary assistance during the fiscal year ended December 31, 2016.

4. Loans and Loan Guarantees Outstanding

In accordance with the *Uniform Guidance, §200.502 Basis for determining Federal awards expended,* since the federal government is at risk for loans and loan guarantees awarded until the debt is repaid, the amount to be presented as expenditures of federal awards for loans and loan guarantees awarded, including those awarded and expended in prior years that have continuing compliance requirements, is:

(1) Value of new loans or loan guarantees made or received during the audit period; plus
(2) Beginning of the audit period balance of loans and loan guarantees from previous years for which the federal government imposes continuing compliance requirements; plus
(3) Any interest subsidy, cash, or administrative cost allowance received.

Accordingly, LiftFund has reported loans and loan guarantees awarded in accordance with the aforementioned criteria. Amounts presented as expenditures of federal awards for loan and loan guarantee programs by federal CFDA number are as follows:

	21.020	59.012	59.046	10.767
Value of new loans made	$ -	$ -	$1,500,000	$ -
Value of new loan guarantees made	-	5,893,740	-	-
Loan balance, beginning of the year	1,200,000	-	1,389,842	289,682
Total expenditures of federal awards presented for loan and loan guarantee programs	1,200,000	5,893,740	2,889,842	289,682
Balance of loans and loan guarantees at December 31, 2016	$ 200,000	$ -	$2,537,880	$ 260,738

During 2016, LiftFund issued loans with a face value $7,422,400 under the U.S. Small Business Administration Community Advantage Pilot 7(a) Loan Guarantee Program (SBA CAP). Loan guarantees were provided under the SBA CAP for either 75% or 85% of the original loan balance, or $5,893,740.

During the year ended December 31, 2016, LiftFund received no insurance, no other loans or loan guarantees, and no other federal assistance for the purpose of administering federal programs.

5. Basis for Determining Expenditures of Federal Awards for the Economic Adjustment Assistance Program, Federal CFDA 11.307

The 2015 Office of Management and Budget (OMB) Compliance Supplement section 4-11.300 provides a formula to determine the amount to be presented on the schedule of expenditures of federal awards for revolving loan fund (RLF) grants under federal CFDA 11.307. The formula to determine expenditures to be reported in the Schedule is as follows:

(1) The balance of RLF loan outstanding at the end of the recipient's fiscal year, plus;
(2) The cash and investment balance in the RLF at the end of the fiscal year, plus;
(3) Administrative expenses paid out of the RLF during the year, plus;
(4) The unpaid principal of all loans written off during the year; and then multiply this sum by;
(5) The federal share of the RLF based on the federal grant rate as specified in the grant award.

Accordingly, the Organization has reported expenditures of federal awards for its Economic Adjustment Assistance funded RLF program as follows:

Balance of RLF loans outstanding at December 31, 2016	$2,743,473
Cash balance in RLF at December 31, 2016	2,242,890
Administrative expenses paid out of the RLF in 2016	125,822
Unpaid principal of all RLF loans written off during the year	-
Total RLF expenditures	$5,112,185

LIFTFUND, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2016

Section 1 - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued - **Unqualified**

Internal control over financial reporting:

• Material weakness(es) identified:	______ Yes	__X__ No
• Significant deficiency(ies) identified that are not considered to be material weaknesses?	______ Yes	__X__ None reported
Noncompliance material to financial statements noted?	______ Yes	__X__ No

Federal Awards

Internal control over major programs:

• Material weakness(es) identified:	______ Yes	__X__ No
• Significant deficiency(ies) identified that are not considered to be material weaknesses?	______ Yes	__X__ None reported

Type of auditor's report issued on compliance for major programs - **Unqualified**

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

Identification of Major Programs

- 59.012 - U.S. Small Business Administration 7(a) Loan Guarantees
- 14.266 - U.S. Department of Housing & Urban Development Border Community Capital Initiative

1. Dollar threshold used to distinguish between Type A and Type B programs **- $750,000.**

2. Is the auditee qualified as a low-risk auditee under the Uniform Guidance - **No**

Section 2 - Financial Statement Findings

None

Section 3 - Federal Award Findings and Questioned Costs

None

Section 4 - Prior Year Audit Findings

None