

LIFTFUND INC.

Consolidated Financial Statements
Independent Auditor's Report
Single Audit Reports
Supplementary Information

December 31, 2019

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

LIFTFUND INC.
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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, 2019, 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, 2019, and the changes in their net assets and their 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 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 17, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2018 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 29, 2020, 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 29, 2020

LIFTFUND INC.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2019

(WITH COMPARATIVE TOTALS FOR 2018)

Assets	2019	2018
Cash and cash equivalents	\$ 5,328,422	\$ 8,085,971
Cash, restricted	4,768,897	4,598,066
Investments	1,566,141	845,884
Receivables:		
Loans receivable, net of allowance for loan losses of \$2,759,309 in 2019 and \$2,815,395 in 2018	45,375,314	45,813,366
Grants and contributions receivable, net of allowance for doubtful accounts of \$26,693 in 2019 and 2018	5,819,280	4,036,831
Program accounts receivable	1,064,359	526,529
New Market Tax Credit loan receivable	4,454,220	4,454,220
Accrued interest receivable	289,218	264,028
Prepaid expenses and other assets	763,834	769,041
Recovered asset inventory	11,000	11,000
Property and equipment, net of accumulated depreciation of \$4,770,615 in 2019 and \$4,193,193 in 2018	8,226,152	8,668,270
Total assets	\$ 77,666,837	\$ 78,073,206
Liabilities and Net Assets		
	2019	2018
Liabilities:		
Accounts payable	\$ 940,582	\$ 647,363
Accrued liabilities	2,377,755	911,074
Deferred revenue	817,964	1,494,605
Notes payable	44,462,819	47,267,853
Equity equivalents	10,022,500	11,442,500
Total liabilities	58,621,620	61,763,395
Commitments and contingencies		
Net assets:		
Without donor restrictions		
Unrestricted	10,565,388	9,205,470
Noncontrolling interest in LLC company	4,250,313	1,750,313
With donor restrictions	4,229,516	5,354,028
Total net assets	19,045,217	16,309,811
Total liabilities and net assets	\$ 77,666,837	\$ 78,073,206

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

LIFTFUND INC.
CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2019
(WITH COMPARATIVE TOTALS FOR 2018)

	2019			2018
	Without Donor Restrictions	With Donor Restrictions	Total	
Revenue and support:				
Public support:				
Governmental support	\$ 2,947,469	500,000	\$ 3,447,469	\$ 3,230,484
Grants and contributions	2,353,556	1,628,164	3,981,720	2,551,361
In-kind contributions	1,222,717	-	1,222,717	1,084,681
Revenue:				
Loan interest and fees	6,633,031	-	6,633,031	8,662,114
SBA 504 income	1,943,378	-	1,943,378	1,881,726
Gain on sale of loans	414,426	-	414,426	657,290
Portfolio management services	317,234	-	317,234	232,331
Gain on sale of rental property	-	-	-	182,371
Office space rental income	120,751	-	120,751	167,035
Interest	40,218	-	40,218	32,229
Miscellaneous revenue	54,986	-	54,986	27,928
Total public support and revenue	16,047,766	2,128,164	18,175,930	18,709,550
Net assets released from restrictions	3,252,676	(3,252,676)	-	-
Total revenue and support	19,300,442	(1,124,512)	18,175,930	18,709,550
Expenses:				
Program services - lending	15,813,814	-	15,813,814	16,643,717
Leasing activity	271,375	-	271,375	271,007
Management and general	792,837	-	792,837	560,938
Fundraising	1,062,498	-	1,062,498	1,156,141
Total expenses	17,940,524	-	17,940,524	18,631,803
Change in net assets before noncontrolling interest in LLC	1,359,918	(1,124,512)	235,406	77,747
Change in net assets from noncontrolling interest in LLC companies	2,500,000	-	2,500,000	500,313
Change in net assets	3,859,918	(1,124,512)	2,735,406	578,060
Net assets at beginning of year	10,955,783	5,354,028	16,309,811	15,731,751
Net assets at end of year	<u>\$ 14,815,701</u>	<u>4,229,516</u>	<u>\$ 19,045,217</u>	<u>\$ 16,309,811</u>

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

LIFTFUND INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2019
(WITH COMPARATIVE TOTALS FOR 2018)

	2019	2018
Cash flows from operating activities:		
Change in net assets	\$ 2,735,406	\$ 578,060
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
(Gain)/loss on sale of loans	(414,426)	(657,290)
Net (gain)/loss on property disposition	-	(182,371)
Provision for loan losses	1,866,909	1,849,244
Depreciation	577,423	657,316
(Increase) decrease in operating assets		
Grants receivable	(1,782,449)	(1,972,635)
Program accounts receivable	(537,830)	(421,506)
Accrued interest receivable	(25,190)	195,400
Prepaid expenses and other assets	5,207	(28,937)
Recovered asset inventory	-	100,000
Increase (decrease) in operating liabilities		
Accounts payable	293,219	(76,646)
Accrued liabilities	1,466,681	124,475
Deferred revenue	(676,641)	908,491
	<u>3,508,309</u>	<u>1,073,601</u>
Cash flows from investing activities:		
Disbursements under loan programs	(21,659,123)	(32,398,096)
Collections under loan programs	16,468,378	19,262,357
Proceeds from sale of loans	4,176,314	7,394,197
Purchases of investments	(834,533)	(1,200)
Proceeds from disposition of investments	114,276	111,725
Purchases of property and equipment	(135,305)	(276,474)
Proceeds from sale of of property and equipment	-	840,133
	<u>(1,869,993)</u>	<u>(5,067,358)</u>
Cash flows from financing activities:		
Change in restricted cash	(170,831)	(608,273)
Proceeds from notes payable and equity equivalents	9,435,256	11,889,912
Repayments of notes payable and equity equivalents	(13,660,290)	(7,521,126)
	<u>(4,395,865)</u>	<u>3,760,513</u>
Net increase (decrease) in cash, all unrestricted	(2,757,549)	(233,244)
Cash at beginning of year	<u>8,085,971</u>	<u>8,319,215</u>
Cash at end of year	<u>\$ 5,328,422</u>	<u>\$ 8,085,971</u>
Supplementary Disclosure of Cash Flow Information:		
Cash paid during the year for interest	<u>\$ 1,461,460</u>	<u>\$ 1,414,827</u>
In-kind donations of occupancy, services, equipment, and interest	<u>\$ 1,222,717</u>	<u>\$ 1,084,681</u>

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

LIFTFUND INC.
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2019
(WITH COMPARATIVE TOTALS FOR 2018)

	Program Services	Leasing Activity	Supporting Services		2019 Total	2018
			Management and General	Fundraising		
Personnel costs:						
Salaries and wages	\$ 5,946,207	\$ -	360,541	644,903	\$ 6,951,651	\$ 7,097,123
Payroll taxes	441,840	-	20,308	48,761	510,909	542,048
Employee benefits	661,781	-	100,239	73,151	835,171	917,175
Total personnel costs	7,049,828	-	481,088	766,815	8,297,731	8,556,346
Advertising	169,290	-	1,917	8,542	179,749	183,423
Conferences and meetings	163,705	-	7,536	35,022	206,263	138,692
Consultants	282,795	-	73,768	136,184	492,747	738,719
Dues and subscriptions	110,862	-	57,427	2,344	170,633	204,897
Equipment rental and maintenance	182,010	-	8,089	8,089	198,188	221,971
Insurance	173,190	-	7,694	7,694	188,578	179,040
Interest	1,498,497	61,200	-	-	1,559,697	1,431,432
In-kind interest	1,222,717	-	-	-	1,222,717	1,081,881
Loan loss provision	1,866,909	-	-	-	1,866,909	1,849,244
Miscellaneous	1,402	11,232	9,152	142	21,928	63,129
Office expenses	151,014	-	7,295	3,629	161,938	169,029
Occupancy buildings	338,362	-	4,645	4,645	347,652	428,223
In-kind occupancy	-	-	-	-	-	2,800
Portfolio expenses	508,097	-	-	-	508,097	762,962
Professional fees	416,314	13,520	49,588	521	479,943	541,464
Program expenses (grant funded)	276,340	-	18,263	44,582	339,185	184,372
Property taxes	118,981	-	5,286	5,286	129,553	205,371
Service charges and fees	129,192	-	-	-	129,192	131,947
Telecommunications	670,953	-	15,444	15,444	701,841	700,677
Travel	138,474	-	22,086	-	160,560	198,868
Total expenses before depreciation	15,468,932	85,952	769,278	1,038,939	17,363,101	17,974,487
Depreciation	344,882	185,423	23,559	23,559	577,423	657,316
Total expenses	\$ 15,813,814	\$ 271,375	792,837	1,062,498	\$ 17,940,524	\$ 18,631,803
Percent of total expenses	88.1%	1.5%	4.4%	5.9%	100%	

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

LIFTFUND INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2019

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 controlled subsidiary named ACCION Martin Holdings, Inc., a Texas corporation. ACCION Martin Holdings, Inc. owns and manages LiftFund's Martin Street headquarters under an arrangement qualifying as a New Market Tax Credit (NMTC) investment (see note 12).

LiftFund is a member of LiftFund Funding, LLC and LiftFund Funding II, LLC, Texas limited liability companies (LLC). The purpose of the two LLC companies is to further the mission of LiftFund by the formation of capital to be deployed by LiftFund. LiftFund is the managing member with a voting interest of fifty-one percent (51%) of the two LLC companies. The other noncontrolling members are nonmanaging members who have a voting interest of forty-nine percent (49%). Members share net income, gains, net losses, and distributions in accordance with their percentage interests of the aggregate capital accounts. The LLC companies have a dissolution date unless the operating agreements are amended to extend the term.

The financial statements of LiftFund, ACCION Martin Holdings, Inc., and the noncontrolling interests in the LLC companies are presented in the financial statements on a consolidated basis. Inter-organization transactions and balances have been eliminated for financial statement purposes.

LIFTFUND INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2019

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 Accounting Standards Update 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. 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 LiftFund and changes therein are classified and reported as follows:

Net assets without donor restrictions – Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of LiftFund's management and the board of directors.

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 by the donor has stipulated the funds be maintained in perpetuity.

Contributions, which include unconditional promises to give, are recognized as revenues in the period received. 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 net assets with donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Support that is restricted by the donor is reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the support is recognized.

Fees for service receipts from customers and government agencies are recognized in the period earned. Reimbursable earnings not yet received from grantors and customers are recorded as receivables. Funds received in excess of actual earnings are recorded as deferred revenue. Expenditures for goods and services are recorded at the time goods are received or services are rendered.

Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions 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.

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.

LIFTFUND INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2019

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 fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Realized gains and losses are recorded using the specific identification method upon the sale of investment assets. The fair value of investments is subject to ongoing fluctuation. The amount ultimately realized upon disposition will differ from the amounts reported in these financial statements.

Restricted Cash

Restricted cash consists of cash accounts that are required to be maintained for a specific purpose or required by the grantor.

Program Accounts Receivable and Grants and Contributions Receivable

Program accounts receivable and grants and contributions 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 accounts receivable based on various

LIFTFUND INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2019

factors, including an assessment of the credit worthiness of its donors and customers, 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 accounts 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 6.25% of the outstanding portfolio, net of loans covered by SBA, TCAP, and Foundation guarantees, as of December 31, 2019.

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, 2019.

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. Contributions with donor-imposed stipulations regarding specific purposes the contributed assets must be used for are recorded as net assets with donor restrictions; otherwise, the contributions are recorded as net assets without donor restrictions. 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.

LIFTFUND INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2019

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

Costs by their natural classification are presented in the statement of functional expenses. The costs of providing various programs and other activities of LiftFund 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.

Expenditures benefiting all segments of the organization are allocated to programs in proportion to the benefits received from shared expenditures. Such allocations are determined by management on an equitable basis. The expenses that are allocated include the following:

Expense	Method of Allocation
Salaries and benefits	Time and effort
Professional services	Time and effort
Insurance	Time and effort
Office expenses	Time and effort
Occupancy	Time and effort
Travel	Time and effort
Depreciation	Time and effort

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 2018

The financial information as of December 31, 2018 and for the year then ended is presented for comparative purposes and is not intended to be a complete financial statement presentation.

LIFTFUND INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2019

Note 2 – Availability and Liquidity

The following represents LiftFund’s financial assets and liabilities at December 31, 2019:

Financial assets at year end:	
Cash and cash equivalents	\$ 5,328,422
Investments	1,566,141
Current portion of loans receivable, net of allowance for loan losses of \$2,759,309	9,784,904
Current portion of grants and contracts receivable, net of allowance for doubtful accounts of \$26,693	4,840,947
Program accounts receivable	1,064,359
Accrued interest receivable	289,218
Total financial assets at year end	<u>22,873,991</u>
Less financial liabilities at year end:	
Program accounts payable and accrued liabilities	(3,318,337)
Current portion of notes payable	(17,524,803)
Total financial liabilities at year end	<u>(20,843,140)</u>
Less net assets with purpose restrictions to be met in more than a year	<u>(1,462,381)</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 568,470</u>

LiftFund’s goal is generally to maintain financial assets to meet 90 days of operating expenses before depreciation (approximately \$4,300,000). As part of its liquidity plan, excess cash is invested in short-term investments, including money market accounts.

At December 31, 2019, LiftFund was scheduled to make \$17,524,803 in principal repayments on its outstanding notes payable during 2020. 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 2020.

Note 3 – Loans Receivable

LiftFund offers loans to qualifying businesses. These loans are offered to startup or established businesses. Loans generally range from \$500 to \$500,000 with loan terms of 5 to 120 months. Individual and group loans carry a 5.5% to 18% annual interest rate, calculated on the declining balance of the loan. During 2019, LiftFund disbursed \$21,659,123 in new loans.

2,482 loans receivable were outstanding as of December 31, 2019 for a total balance receivable of \$48,134,623, less an allowance for loan losses of \$2,759,309.

LIFTFUND INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2019

Note 3 – Loans Receivable (Continued)

The loan delinquency status at December 31, 2019 was as follows:

Current	\$ 46,560,921	96.7%
Past Due		
31-60 days	635,204	1.3%
61-90 days	233,424	0.5%
91-120 days	228,954	0.5%
Over 120 days	476,120	1.0%
Subtotal	<u>1,573,702</u>	<u>3.7%</u>
 Total LiftFund portfolio	 <u>\$ 48,134,623</u>	 <u>100%</u>

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

Changes in loans receivable during 2019 were as follows:

Balance, December 31, 2018	\$ 48,628,761
New loans	21,659,123
Principal collected on loans	(16,156,551)
Sale of loans	(3,761,888)
Loans written off	<u>(2,234,822)</u>
Balance, December 31, 2019	<u>\$ 48,134,623</u>

Changes in the allowance for loan losses during 2019 were as follows:

Balance, December 31, 2018	\$ 2,815,395
Loans written off	(2,234,822)
Loan loss accruals	1,866,909
Recoveries	<u>311,827</u>
Balance, December 31, 2019	<u>\$ 2,759,309</u>

LiftFund has estimated a loan loss reserve balance of 6.25% at December 31, 2019, which was calculated using LiftFund's total loan portfolio of \$48,134,623, less the SBA guaranteed balance of \$699,378, the TCAP guaranteed balance of \$442,929, and the Goldman Sachs Hurricane Harvey guaranteed balance of \$2,837,564, which equals a \$44,154,752 balance assessed 6.25% a loan loss reserve.

Non-performing loans fall into one of the following categories: (1) loans in Chapter 13 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, 2019.

LIFTFUND INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2019

Note 3 – Loans Receivable (Continued)

LiftFund assesses and monitors the credit quality of its loans receivable on an ongoing basis. The company 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 company 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, 2019.

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 2019, 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.

LIFTFUND INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2019

During 2019, LiftFund originated 29 SBA CA loans totaling \$4,175,700 with an SBA guaranteed portion of \$3,602,212. Among other compliance requirements, the SBA CA program requires the establishment of loan reserves equal to at least 5% of the unguaranteed portion of the SBA CA portfolio, as well as 5% of the sold guaranteed portion (up from 3% for loans made prior to October 1, 2018) of the SBA CA portfolio. At December 31, 2019, LiftFund was in compliance with the loan loss reserve requirements.

Note 4 - Investments

LiftFund's investments at December 31, 2019 consist of mortgage backed securities totaling \$666,408, Federal Home Loan Bank stock totaling \$66,400, and a programmatic investment in Acceso Loan Fund, LLC totaling \$833,333.

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.

LiftFund's investments totaling \$1,566,141 are all considered by management to be Level 2 investments.

Note 5 – Property and Equipment

Property and equipment consists of the following at December 31:

	2019	2018
Land	\$ 1,113,568	\$ 1,113,568
Buildings	8,198,912	8,183,262
Equipment	1,049,530	943,151
Software	2,472,365	2,459,090
Vehicles	162,392	162,392
Total cost	12,996,767	12,861,463
Less accumulated depreciation	(4,770,615)	(4,193,193)
Net property and equipment	\$ 8,226,152	\$ 8,668,270

LITTFUND INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2019

Note 5 – Property and Equipment (Continued)

Building improvements totaling \$15,650, equipment totaling \$106,379, and website improvements totaling \$13,275 were placed in service during 2019. There were no dispositions during 2019.

Depreciation expense was \$577,423 for the year ended December 31, 2019.

Note 6 – Notes Payable

Notes payable consist of the following:

<u>Name</u>	<u>Maturity</u> <u>Date</u>	<u>Interest</u> <u>Rate</u>	<u>Balance</u> <u>12/31/2019</u>	<u>Collateral</u>
Adorers of the Blood of Christ	10/8/2024	2.00%	\$ 50,000	
Adrian Dominican Sisters	8/15/2021	3.00%	100,000	
Affordable Homes of South Texas	10/1/2025	2.75%	500,000	
Aissatou Sidime-Blanton	6/15/2020	2.00%	4,287	
Allegiance Bank	9/25/2022	4.50%	250,000	
Allegiance Bank	8/2/2022	4.50%	484,889	
Amegy Bank	7/6/2020	4.25%	50,000	
American Bank, N.A.	12/24/2022	3.00%	100,000	
Anna Brooke Gutzler	1/4/2020	2.00%	5,157	
Appalachian Community Capital Corp.	5/10/2023	2.00%	100,000	
Arthur Z. Medina	8/21/2019	2.00%	1,020	
Bank of America	8/3/2023	3.00%	1,600,000	
Basilian Fathers of Toronto	4/1/2021	3.00%	200,000	
Beldon Family Foundation	6/25/2020	2.25%	500,000	
Benjamin Coerver	4/26/2020	2.00%	1,000	
Broadway Bank	10/1/2020	4.75%	75,000	
Cadence Bank	6/30/2020	4.50%	899,750	
Cadence Bank	6/30/2020	4.00%	295,553	
Capital One	1/1/2021	1.00%	500,000	
Central Bank	5/16/2021	4.50%	123,004	
Charles A. Gonzalez	1/1/2021	0.00%	1,000	
CNote Group Inc.	12/11/2020	3.70%	155,286	
CNote Group Inc.	12/20/2020	3.70%	76,180	
CNote Group Inc.	12/25/2020	3.70%	104,552	
CNote Group Inc.	1/22/2021	3.70%	181,019	
CNote Group Inc.	2/6/2021	3.70%	183,774	
CNote Group Inc.	2/15/2021	3.70%	80,458	
CNote Group Inc.	2/28/2021	3.70%	146,448	
CNote Group Inc.	3/9/2021	3.70%	89,346	
CNote Group Inc.	3/9/2021	3.70%	158,582	
CNote Group Inc.	3/16/2021	3.70%	54,875	

LITTFUND INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2019

Note 6 – Notes Payable (Continued)

<u>Name</u>	<u>Maturity</u> <u>Date</u>	<u>Interest</u> <u>Rate</u>	<u>Balance</u> <u>12/31/2019</u>	<u>Collateral</u>
CNote Group Inc.	4/15/2021	3.70%	34,732	
CNote Group Inc.	4/22/2021	3.70%	252,085	
CNote Group Inc.	5/19/2021	3.70%	64,020	
CNote Group Inc.	6/2/2021	3.70%	95,753	
CNote Group Inc.	6/4/2021	3.70%	500,000	
CNote Group Inc.	6/5/2021	3.70%	9,990	
CNote Group Inc.	6/17/2021	3.70%	98,002	
CNote Group Inc.	7/15/2021	3.70%	126,524	
CNote Group Inc.	7/28/2021	3.70%	235,606	
CNote Group Inc.	8/5/2021	3.70%	68,412	
CNote Group Inc.	9/18/2021	3.70%	26,460	
CNote Group Inc.	10/1/2021	3.70%	194,043	
CNote Group Inc.	10/15/2021	3.70%	136,974	
CNote Group Inc.	10/21/2021	3.70%	195,500	
CNote Group Inc.	11/6/2021	3.70%	294,204	
CNote Group Inc.	11/23/2021	3.70%	163,025	
CNote Group Inc.	12/24/2021	3.70%	26,434	
CNote Group Inc.	12/31/2021	3.70%	289,287	
CNote Group Inc.	1/7/2022	3.70%	144,885	
CNote Group Inc.	1/21/2022	3.70%	235,630	
CNote Group Inc.	4/2/2022	3.70%	120,151	
CNote Group Inc.	5/3/2022	3.70%	118,957	
CNote Group Inc. - Wisdom Fund	7/15/2024	4.50%	150,000	
Congregation of Divine Providence	6/22/2021	4.00%	150,000	
Cynthia Merla Spielman	5/16/2020	2.00%	1,020	
Daniel Lopez & Gina Amatangelo	12/28/2019	0.00%	6,000	
David Blair	7/1/2020	2.00%	60,000	
Debra Salge	2/22/2020	2.00%	1,061	
Dr. Charles Conlon	1/1/2020	2.00%	25,000	
East West Bank	8/1/2020	4.25%	500,000	
Edward and Luz Elena Day	10/1/2020	2.00%	3,247	
Edward and Luz Elena Day	11/1/2020	2.00%	10,824	
Edward Banos and Brenda Lanzel	8/13/2020	1.00%	250,000	
Eliot M. Lee	1/1/2020	2.00%	1,040	
Elizabeth Blissman	3/22/2020	2.00%	20,000	
Ellen Riojas Clark	3/2/2020	2.00%	5,306	
Ellen Riojas Clark	4/30/2020	2.00%	15,300	
Ellen Riojas Clark	3/8/2020	2.00%	10,000	
Eloise V. Avila	5/12/2020	2.00%	10,404	

LIFTFUND INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2019

Note 6 – Notes Payable (Continued)

<u>Name</u>	<u>Maturity</u> <u>Date</u>	<u>Interest</u> <u>Rate</u>	<u>Balance</u> <u>12/31/2019</u>	<u>Collateral</u>
Farm Bureau Bank	6/30/2020	4.75%	200,000	
Farm Bureau Bank	12/31/2021	3.75%	200,000	
Father Blanco Memorial Fund	6/24/2020	2.00%	10,612	
First Citizens Bank	3/7/2020	4.00%	50,000	
First Citizens Bank	3/7/2020	4.00%	50,000	
First Citizens Bank	3/29/2020	4.00%	50,000	
First National Bank Texas	5/30/2020	4.00%	499,781	
Frost Bank	10/5/2020	3.99%	1,000,000	
George & Elizabeth Godwin	11/4/2020	1.00%	10,406	
George B. Hernandez	11/3/2020	2.00%	10,608	
Goldman Sachs	12/31/2020	3.75%	734,361	*
Goldman Sachs	6/30/2023	0.00%	2,866,145	*
Hancock Whitney Bank	11/9/2022	2.00%	423,300	
Hancock Whitney Bank	3/28/2020	3.25%	2,000,000	
Harry Shafer	1/1/2020	2.00%	2,081	
Iberia Bank	8/27/2020	4.75%	1,149,804	*
Iberia Bank	8/27/2020	4.75%	224,479	*
Iberia Bank	8/27/2020	4.75%	380,505	*
Immaculate Heart of Mary Church	6/24/2020	2.00%	53,060	
Kathryn Martin	10/13/2020	2.00%	1,040	
Laura & Sam Dawson	4/6/2020	3.00%	250,000	
Lissa A. Martinez	6/18/2021	2.00%	100,000	
Lucas Coerver	4/26/2020	2.00%	8,000	
Lucia Coerver	4/26/2020	2.00%	5,000	
Marcus and Tracie Hervey	3/18/2020	2.00%	1,000	
Maria and Manuel Berriozabal	3/30/2020	2.00%	57,229	
Maria T. Green	1/4/2020	2.00%	1,061	
Mary Esther Escobedo	5/10/2020	2.00%	7,000	
MUFG Union Bank	8/1/2024	3.00%	3,000,000	
NALCAB	8/25/2020	3.00%	500,000	
Nazareth Literary & Benevolent Inst	5/18/2023	0.50%	200,000	
Norma Gonzalez	10/28/2020	2.00%	1,082	
Oblate International Pastoral	10/15/2020	4.00%	215,988	
Opportunity Finance Network	3/31/2021	3.00%	1,875,000	
Origin Bank	5/6/2020	3.99%	500,000	
People Fund	10/1/2043	1.02%	1,523,780	**
People Fund	7/1/2038	1.00%	4,454,220	**
Pete and Andrea Sitterle	12/18/2020	2.00%	26,520	
Pioneer Bank	1/1/2020	5.00%	500,019	
Priti Mody-Bailey	3/6/2020	2.00%	1,000	

LIFTFUND INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2019

Note 6 – Notes Payable (Continued)

<u>Name</u>	<u>Maturity</u> <u>Date</u>	<u>Interest</u> <u>Rate</u>	<u>Balance</u> <u>12/31/2019</u>	<u>Collateral</u>
Randolph-Brooks Federal CU	4/13/2021	4.00%	250,000	
Raza Development Fund	12/19/2023	1.67%	300,000	
REAP Green Enterprise	5/31/2020	3.00%	1,000,000	
REAP Green Enterprise	5/31/2020	4.00%	1,000,000	
Redman Foundation	11/18/2022	2.00%	10,000	
Reed and Sherri Hurley	4/12/2020	2.00%	10,000	
Reed Bonnie	7/5/2020	2.00%	10,000	
Regions Bank	9/22/2020	3.00%	39,969	
Rhonda Wiley-Jones	5/12/2021	2.00%	3,000	
Rick Schimpff	4/30/2020	1.00%	20,000	
Robert Boehlert	10/5/2020	2.00%	215,047	
Rose Mary Fry	8/1/2020	2.00%	1,040	
Scrap Source, LLC	7/18/2020	2.25%	25,000	
Sisters of Saint Dominic	11/11/2020	2.00%	50,000	
Sisters of the Incarnate Word	2/24/2020	3.00%	300,000	
Small Business Administration	9/7/2026	0.00%	2,083,333	*
Small Business Administration	6/15/2027	0.00%	1,450,861	*
Society of the Divine Word	2/26/2020	2.00%	50,000	
Songbae Lee	3/10/2021	1.00%	1,020	
Sustainable Communities Fund	9/6/2025	3.50%	200,000	
Sustainable Communities Fund	9/6/2025	3.50%	200,000	
Sylvia and Arthur Reyna	10/28/2020	2.00%	1,040	
Tanya Spencer	12/22/2020	2.50%	209,100	
Terri and Roger Virost	6/1/2020	1.00%	17,500	
Texas Department of Agriculture	8/31/2029	1.00%	713,555	*
Texas Women's Foundation	2/13/2019	2.50%	75,000	
The Bank of San Antonio	12/31/2019	2.00%	500,000	
Tides Foundation	3/2/2021	0.00%	100,000	
Tolleson Private Bank	5/27/2020	3.00%	50,000	
William and Mary Regan	12/20/2021	1.00%	2,000	
William Elizondo	10/10/2019	2.00%	1,000	
William G. Moll	7/20/2021	2.00%	10,217	
Woodforest National Bank	7/15/2020	4.50%	700,000	
			<u>\$44,462,819</u>	

* Collateralized by loans receivable, and bank accounts if the SBA

** Collateralized by Martin Street property

LIFTFUND INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2019

Note 6 – Notes Payable (Continued)

Scheduled principal payments of notes payable are as follows:

Years Ending December 31,	
2020	\$ 17,524,803
2021	9,747,763
2022	3,196,514
2023	1,781,660
2024	3,782,362
Thereafter	8,429,717
	<u>\$ 44,462,819</u>

Note 7 – 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, 2019. Equity equivalents consist of the following loans:

Lender	Interest Rate	Balance 12/31/2019
AmericanBank	4.50%	\$ 500,000
Bancorp South	3.00%	1,000,000
Bank SNB	3.00%	500,000
BBVA Compass Bank	2.00%	200,000
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
Mutual of Omaha	2.00%	250,000
Mutual of Omaha	2.00%	250,000
Texas Community Bank	3.00%	420,000
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		<u>\$ 10,022,500</u>

LIFTFUND INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2019

Note 8 – Restrictions on Net Assets

Net assets with donor restrictions at December 31, 2019 are available for the following purposes:

For subsequent years' activities:	
Loan programs	\$ 225,000
Client education and technical assistance	2,747,135
Debt service payments	<u>20,000</u>
Subtotal	2,992,135
For required reserves:	
Goldman Sachs Bank	480,000
For ACCION Martin Holdings, Inc. NMTC	<u>757,381</u>
Total net assets with donor restrictions	<u><u>\$ 4,229,516</u></u>

Net assets were released from donor restrictions by meeting the stipulations or time restrictions specified by the donors during 2019 as follows:

Loan programs	\$ 1,549,121
Client education and technical assistance	1,703,555
Debt service payments	20,000
Small Business Administration required reserves	179,923
ACCION Martin Holdings, Inc. NMTC	<u>209,752</u>
Total net assets released from restrictions	<u><u>\$ 3,252,676</u></u>

Note 9 – 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 \$193,853 in 2019.

Note 10 – Operating Leases Commitments

LiftFund leases office space under noncancelable operating leases expiring through April of 2022. LiftFund leases copiers and computer equipment under operating leases expiring through July of 2022. Lease expense charged to operations for the year ended December 31, 2019 was \$302,221.

LIFTFUND INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2019

Note 10 – Operating Leases Commitments (Continued)

Future minimum lease payments under the operating leases in excess of one year as of December 31, 2019 are as follows:

Years Ending December 31,	
2020	\$ 174,236
2021	62,160
2022	52,360
Thereafter	-
	<u>\$ 288,756</u>

Note 11 – Loan Sale Agreements

LiftFund sold the guaranteed portion of 59 SBA 7(a) Community Advantage loans totaling \$3,761,888 on the secondary market during 2019 at a gain of \$414,426.

Note 12 – New Market Tax Credit Agreement

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 13 – 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.

LIFTFUND INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2019

Note 13 – Concentrations of Credit Risk (Continued)

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, 2019 the cash balances in excess of FDIC limits approximated \$8,613,262.

At December 31, 2019, LiftFund was scheduled to make \$17,524,803 in principal repayments on its outstanding notes payable during 2020. 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 2020.

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 14 – 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 15 – 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 29, 2020, the date on which the financial statements were available to be issued.

In January 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a "Public Health Emergency of International Concern," which continues to spread throughout the world and has adversely impacted global commercial activity and contributed to significant declines and volatility in financial markets.

LIFTFUND INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2019

Note 15 – Evaluation of Subsequent Events (Continued)

Changes in LiftFund's loan delinquency status between December 31, 2019 and April 30, 2020 were as follows:

	12/31/2019		4/30/2020	
	Amount	Percentage	Amount	Percentage
Current	\$ 46,560,921	96.7%	\$ 48,928,621	96.4%
Past Due:				
31-60 days	635,204	1.3%	682,491	1.3%
61-90 days	233,424	0.5%	265,726	0.5%
91-120 days	228,954	0.5%	311,622	0.6%
Over 120 days	476,120	1.0%	564,034	1.1%
Subtotal Past Due	1,573,702	3.3%	1,823,873	3.6%
Total Portfolio	<u>\$ 48,134,623</u>	<u>100.0%</u>	<u>\$ 50,752,494</u>	<u>100.00%</u>

At April 30, 2020, LiftFund's loan portfolio was covered by guarantees, reserves, and coverages as follows:

Portfolio Makeup	Amount	Average % Guaranteed	Amount Guaranteed/ or Separate Reserve	Amount Exposed
SBA 7A Portfolio (LF Portion)	\$ 4,537,880	0%	\$ -	\$4,537,880
SBA PPP Portfolio	762,300	100%	762,300	-
SBA Microloan Portfolio	2,879,118	0%	-	2,879,118
Goldman Sachs HH Relief	2,406,915	0%	2,406,915	-
Texas Capital Access	316,164	100%	316,164	-
Non-Guaranteed +\$100k size	9,988,989	0%	-	9,988,989
Non-Guaranteed <=\$100k size	29,861,128	0%	-	29,861,128
Total Portfolio	<u>\$50,752,494</u>		<u>\$ 3,485,379</u>	<u>\$47,267,115</u>

Amounts exposed at April 30, 2020 consisted of the following:

Portfolio Makeup	Amount Exposed Paid by SBA (6 mos, estimate)	Net Amount Exposed	Net Amount Exposed on Deferment	Net Amount Exposed Not on Deferment Current	Net Amount Exposed Not on Deferment Past Due
SBA 7A Portfolio (LF Portion)	\$ 159,710	\$ 4,378,170	\$ -	\$ 4,217,529	\$ 160,641
SBA PPP Portfolio	-	-	-	-	-
SBA Microloan Portfolio	396,529	2,482,589	-	2,379,953	102,636
Goldman Sachs HH Relief	-	-	-	-	-
Texas Capital Access	-	-	-	-	-
Non-Guaranteed +\$100k size	-	9,988,989	2,239,154	7,697,676	52,159
Non-Guaranteed <=\$100k size	-	29,861,128	7,361,316	21,502,067	997,745
Total Portfolio	<u>\$ 556,239</u>	<u>\$46,710,876</u>	<u>\$9,600,470</u>	<u>\$35,797,225</u>	<u>\$1,313,181</u>

SUPPLEMENTARY INFORMATION

LIFTFUND INC.
CONSOLIDATING STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2019

	Liftfund Inc.	ACCION Martin Holdings, Inc.	Funding LLC Companies	Intercompany Eliminations	Total
Revenue and support:					
Public support:					
Governmental support	\$ 3,447,469	\$ -	\$ -	\$ -	\$ 3,447,469
Grants and contributions	3,981,720	-	-	-	3,981,720
In-kind contributions	1,222,717	-	-	-	1,222,717
Revenue:					
Loan interest and fees	6,633,031	-	5,000	(5,000)	6,633,031
SBA 504 income	1,943,378	-	-	-	1,943,378
Gain on sale of loans	414,426	-	-	-	414,426
Portfolio management services	317,234	-	-	-	317,234
Office space rental income	120,751	61,000	-	(61,000)	120,751
Interest	39,595	623	-	-	40,218
Miscellaneous revenue	54,986	-	-	-	54,986
Total revenue and support	18,175,307	61,623	5,000	(66,000)	18,175,930
Expenses:					
Program services - lending	15,874,617	-	5,197	(66,000)	15,813,814
Leasing activity	-	271,375	-	-	271,375
Management and general	792,837	-	-	-	792,837
Fundraising	1,062,498	-	-	-	1,062,498
Total expenses	17,729,952	271,375	5,197	(66,000)	17,940,524
Change in net assets before noncontrolling interest in LLC	445,355	(209,752)	(197)	-	235,406
Change in net assets from noncontrolling interest in LLC					
Capital contributions	-	-	2,500,000	-	2,500,000
Gain on LLC activity	-	-	55,000	-	55,000
Distributions	-	-	(55,000)	-	(55,000)
Total change in net assets from noncontrolling interest in LLC	-	-	2,500,000	-	2,500,000
Change in net assets	445,355	(209,752)	2,499,803	-	2,735,406
Net assets at beginning of year	13,592,350	967,133	1,750,328	-	16,309,811
Intercompany transfers	-	-	-	-	-
Net assets at end of year	\$ 14,037,705	\$ 757,381	\$ 4,250,131	\$ -	\$ 19,045,217

See independent auditor's report

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

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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, 2019, 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 29, 2020.

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 29, 2020

WEST, DAVIS & COMPANY, LLP

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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, 2019. 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, 2019.

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 29, 2020

LIFTFUND INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2019

<u>Federal Grantor/Pass-through Grantor/ Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
U.S. Department of the Treasury, Community Development Financial Institutions Fund:		
CDFI Financial Assistance - Grant	21.020	\$ 799,000
CDFI Financial Assistance - Loans	21.020	200,000
Total U.S. Department of the Treasury		<u>999,000</u>
U.S. Small Business Administration:		
Microloan Program:		
Microloan Demonstration Program - Loans	59.046	4,684,917
Microloan Demonstration Program - Technical Assistance Grant	59.046	1,046,891
Total Microloan Program		<u>5,731,808</u>
7(a) Loan Guarantees	59.012	3,602,212
Women's Business Ownership Assistance	59.043	284,961
Veterans Business Development Prime Grant	59.044 59.050	106,733 127,726
Total Small Business Administration		<u>9,853,440</u>
U.S. Department of Agriculture:		
Intermediary Relending Program - Loans	10.767	<u>201,784</u>
U.S. Economic Development Administration		
Economic Adjustment Assistance - Grant	11.307	788,468
Economic Adjustment Assistance - Loans	11.307	5,455,071
Total U.S. Economic Development Administration		<u>6,243,539</u>
Total Federal Expenditures		<u>\$ 17,297,763</u>

See accompanying notes to schedule of expenditures of federal awards.

LIFTFUND INC.
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2019

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.

3. Nonmonetary Assistance

LiftFund neither received nor disbursed federal awards in the form of nonmonetary assistance during the fiscal year ended December 31, 2019.

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.

LIFTFUND INC.
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
YEAR ENDED DECEMBER 31, 2019

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:

	<u>21.020</u>	<u>59.012</u>	<u>59.046</u>	<u>10.767</u>
Value of new loans made	\$ -	\$ -	\$ -	\$ -
Value of new loan guarantees made	-	3,602,212	-	-
Loan balance, beginning of the year	<u>200,000</u>	<u>-</u>	<u>4,684,918</u>	<u>201,784</u>
 Total expenditures of federal awards presented for loan and loan guarantee programs	 <u>200,000</u>	 <u>3,602,212</u>	 <u>4,684,918</u>	 <u>201,784</u>
 Balance of loans and loan guarantees at December 31, 2019	 <u>\$ -</u>	 <u>\$ -</u>	 <u>\$3,534,195</u>	 <u>\$ -</u>

During 2019, LiftFund issued 29 loans with a face value \$4,175,700 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 \$3,602,212.

During the year ended December 31, 2019, 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 2018 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, 2019	\$3,333,698
Cash balance in RLF at December 31, 2019	2,021,796
Administrative expenses paid out of the RLF in 2019	99,577
Unpaid principal of all RLF loans written off during the year	-
Total RLF expenditures	<u>\$5,455,071</u>

LIFTFUND INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2019

Section 1 - Summary of Auditors' Results

Financial Statements

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

Internal control over financial reporting:

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

Federal Awards

Internal control over major programs:

- Material weakness(es) identified: Yes No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? Yes 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 No

Identification of Major Programs

- 11.307 - U.S. Economic Development Administration Revolving Loan Fund
 - 10.767 - U.S. Department of Agriculture Intermediary Relending Program
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 - Yes

Section 2 - Financial Statement Findings - None

Section 3 - Federal Award Findings and Questioned Costs - None

Section 4 - Prior Year Audit Findings - None