LIFTFUND INC.

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

December 31, 2017

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, 2017, 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, 2017, 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 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 19, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016 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 25, 2018, 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 25, 2018

LIFTFUND INC.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2017
(WITH COMPARATIVE TOTALS FOR 2016)

Assets

	2017	2016
Cash and cash equivalents	$ 8,319,215	$ 8,150,761
Cash, restricted	3,989,793	4,524,043
Investments	956,409	1,003,284
Receivables:		
Loans receivable, net of allowance for loan losses of $2,816,708 in 2017 and $3,001,078 in 2016	41,263,778	37,033,687
Grants and contributions receivable, net of allowance for doubtful accounts of $26,693 in 2017 and $51,993 in 2016	2,064,196	2,892,158
New Market Tax Credit loan receivable	4,454,220	4,454,220
Accrued interest receivable	459,428	337,567
Accrued late and NSF fees	54,985	46,942
Other	297,334	318,723
Prepaid expenses and other assets	492,808	509,005
Recovered asset inventory	111,000	11,500
Property and equipment, net of accumulated depreciation of $3,822,077 in 2017 and $3,127,397 in 2016	9,706,874	10,030,928
Total assets	$ 72,170,040	$ 69,312,818

Liabilities and Net Assets

	2017	2016
Liabilities:		
Accounts payable	$ 724,009	$ 418,841
Accrued liabilities	786,599	917,664
Deferred revenue	586,114	146,382
Notes payable	43,029,067	40,871,514
Equity equivalents	11,312,500	11,532,500
Total liabilities	56,438,289	53,886,901
Commitments and contingencies		
Net assets:		
Unrestricted		
Unrestricted	9,872,872	11,589,348
Noncontrolling interest in LLC company	1,250,000	-
Temporarily restricted	4,031,716	3,259,406
Permanently restricted	577,163	577,163
Total net assets	15,731,751	15,425,917
Total liabilities and net assets	$ 72,170,040	$ 69,312,818

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

LIFTFUND INC.
CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2017
(WITH COMPARATIVE TOTALS FOR 2016)

	2017				
	Unrestricted	Temporarily restricted	Permanently restricted	Total	2016
Revenue and support:					
Public support:					
Contributions	$ 2,057,298	1,667,000	-	$ 3,724,298	$ 5,770,219
Governmental grants	2,388,487	-	-	2,388,487	2,366,949
Revenue:					
Interest	42,625	-	-	42,625	2,362
Loan interest and fees	7,045,157	-	-	7,045,157	7,456,621
Portfolio management services	189,442	-	-	189,442	320,581
SBA 504 income	1,083,756	-	-	1,083,756	1,199,949
Gain on sale of loans	465,495	-	-	465,495	696,136
Office space rental income	135,239	-	-	135,239	89,924
In-kind contributions	804,188	-	-	804,188	534,342
Miscellaneous revenue	112,965	-	-	112,965	12,671
Total public support and revenue	14,324,652	1,667,000	-	15,991,652	18,449,754
Net assets released from restrictions	894,690	(894,690)	-	-	-
Total revenue and support	15,219,342	772,310	-	15,991,652	18,449,754
Expenses:					
Program services - lending	15,262,054	-	-	15,262,054	15,036,321
Management and general	880,599	-	-	880,599	1,081,411
Fundraising	793,165	-	-	793,165	721,831
Total expenses	16,935,818	-	-	16,935,818	16,839,563
Change in net assets from operations before noncontrolling interest in LLC company	(1,716,476)	772,310	-	(944,166)	1,610,191
Change in net assets from noncontrolling interest in LLC company					
Capital contributions	1,250,000	-	-	1,250,000	-
Total change in net assets from noncontrolling interest in LLC company	1,250,000	-	-	1,250,000	-
Change in net assets	(466,476)	772,310	-	305,834	1,610,191
Net assets at beginning of year	11,589,348	3,259,406	577,163	15,425,917	13,815,726
Net assets at end of year	$ 11,122,872	4,031,716	577,163	$ 15,731,751	$ 15,425,917

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

LIFTFUND INC.

CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2017

(WITH COMPARATIVE TOTALS FOR 2016)

	2017	2016
Cash flows from operating activities:		
Change in net assets	$ 305,834	$ 1,610,191
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Gain on sale of loans	(465,495)	(696,136)
Net (gain)/loss on investments	110,875	(3,284)
Provision for loan losses	1,872,188	1,877,138
Depreciation	694,680	606,908
(Increase) decrease in operating assets		
Grants receivable	827,962	1,661,590
Accrued interest receivable	(121,861)	(62,619)
Accrued late and NSF fees	(8,043)	(6,610)
Other receivables	21,389	(40,493)
Prepaid expenses and other assets	16,197	(65,312)
Recovered asset inventory	(99,500)	55,014
Increase (decrease) in operating liabilities		
Accounts payable	305,168	(67,540)
Accrued liabilities	(131,065)	382,202
Deferred revenue	439,732	110,773
Net cash provided (used) by operating activities	3,768,061	5,361,822
Cash flows from investing activities:		
Disbursements under loan programs	(29,924,472)	(30,327,883)
Collections under loan programs	19,058,537	18,583,923
Proceeds from sale of loans	5,229,151	8,766,172
Purchases of investments	(64,000)	(1,000,000)
Purchases of property and equipment	(370,626)	(886,678)
Net cash provided by investing activities	(6,071,410)	(4,864,466)
Cash flows from financing activities:		
Change in restricted cash	534,250	(1,601,824)
Proceeds from notes payable and equity equivalents	9,320,819	9,518,427
Repayments of notes payable and equity equivalents	(7,383,266)	(7,383,266)
Net cash provided by financing activities	2,471,803	533,337
Net increase (decrease) in cash	168,454	1,030,693
Cash at beginning of year	8,150,761	7,120,068
Cash at end of year	$ 8,319,215	$ 8,150,761
Supplementary Disclosure of Cash Flow Information:		
Cash paid during the year for interest	$ 1,461,146	$ 1,201,374
In-kind donations of occupancy, services, equipment, and interest	$ 804,188	$ 534,342

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

LIFTFUND INC.
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2017
(WITH COMPARATIVE TOTALS FOR 2016)

	Program Services	Supporting Services: Management and General	Supporting Services: Fundraising	2017 Total	2016
Personnel costs:					
Salaries and wages	$ 5,610,831	270,747	512,957	$ 6,394,535	$ 6,601,970
Payroll taxes	443,516	15,307	39,320	498,143	515,527
Employee benefits	704,281	81,858	58,957	845,096	775,857
Total personnel costs	6,758,628	367,912	611,234	7,737,774	7,893,354
Advertising	137,916	2,704	10,316	150,936	260,206
Conferences and meetings	116,003	40,032	13,359	169,394	123,654
Consultants	561,503	120,705	35,368	717,576	643,717
In-kind consultants	-	-	-	-	8,000
Dues and subscriptions	346,904	93,622	32,001	472,527	420,652
Equipment rental and maintenance	185,321	20,591	-	205,912	226,557
In-kind equipment	-	-	-	-	176,198
Insurance	157,548	8,753	8,753	175,054	148,399
Interest	1,486,233	-	-	1,486,233	1,232,073
In-kind interest	804,188	-	-	804,188	346,342
Mileage and parking	36,319	468	2,793	39,580	41,370
Occupancy	311,664	17,315	17,315	346,294	341,492
In-kind occupancy	-	-	-	-	3,802
Office supplies	38,740	5,288	1,835	45,863	41,418
Portfolio expenses	348,244	-	-	348,244	628,745
Postage	27,169	20,743	1,501	49,413	50,649
Printing	21,587	1,199	1,199	23,985	40,885
Professional fees	324,418	75,364	-	399,782	672,105
Loan loss provision	1,872,188	-	-	1,872,188	1,877,138
Service charges and fees	151,754	-	-	151,754	123,458
Property taxes	268,687	14,927	14,927	298,541	152,296
Telecommunications	436,288	13,736	-	450,024	386,964
Travel	154,492	36,823	7,699	199,014	195,802
Special programs	91,048	5,683	131	96,862	197,379
Total expenses before depreciation	14,636,842	845,865	758,431	16,241,138	16,232,655
Depreciation	625,212	34,734	34,734	694,680	606,908
Total expenses	$ 15,262,054	880,599	793,165	$ 16,935,818	$ 16,839,563
Percent of total expenses	90.1%	5.2%	4.7%	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. LiftFund is a member of LiftFund Funding, LLC, a Texas limited liability company (LLC). The purpose of the LLC 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 LLC. The other 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 has a dissolution date unless the operating agreements are amended to extend the term. The financial statements of LiftFund, ACCION Martin Holdings, Inc. and LiftFund Inc’s noncontrolling interest in LiftFund Funding, LLC, are presented in the financial statements on a consolidated basis. 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 6.9% of the outstanding portfolio as of December 31, 2017.

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, 2017.

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 2016

The financial information as of December 31, 2016 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 2017, LiftFund disbursed $29,924,472 in new loans.

2,683 loans receivable were outstanding as of December 31, 2017 for a total balance receivable of $44,080,486, less an allowance for loan losses of $2,816,708.

The loan delinquency status at December 31, 2017 was as follows:

Current	$ 42,453,078	96.3%
Past Due		
31-60 days	718,530	1.6%
61-90 days	250,094	0.6%
91-120 days	245,352	0.6%
Over 120 days	413,432	0.9%
Subtotal	1,627,408	3.7%
Total LiftFund portfolio	$ 44,080,486	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 2017 were as follows:

Balance, December 31, 2016	$ 40,034,765
New loans	29,924,472
Principal collected on loans	(18,391,892)
Sale of loans	(4,763,656)
Loans written off	(2,723,203)
Balance, December 31, 2017	$ 44,080,486

Changes in the allowance for loan losses during 2017 were as follows:

Balance, December 31, 2016	$ 3,001,078
Loans written off	(2,723,203)
Loan loss accruals	1,872,189
Recoveries	666,644
Balance, December 31, 2017	$ 2,816,708

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, 2017.

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, 2017.

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 2017, 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 2017, LiftFund originated 53 SBA CA loans totaling $6,248,100 with an SBA guaranteed portion of $5,201,485. 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, 2017, 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 $956,409 at December 31, 2017, 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:

	2017	2016
Land	$ 1,243,418	$ 1,243,418
Buildings	8,997,374	8,997,374
Equipment	943,151	908,010
Software	2,182,616	1,847,131
Vehicles	162,392	162,392
Total Cost	13,528,951	13,158,325
Less accumulated depreciation	(3,822,077)	(3,127,397)
Net property and equipment	$ 9,706,874	$ 10,030,928

Depreciation expense was $694,680 for the year ended December 31, 2017.

Note 5 – Notes Payable

Notes payable consist of the following:

Name	Maturity Date	Interest Rate	Balance 12/31/2017	Collateral	
Adorers of The Blood Of Christ	10/8/19	2.00%	$ 50,000		
Adrian Dominican Sisters	8/15/21	3.00%	100,000		
Affordable Homes of South Texas	10/1/25	2.75%	500,000		
Aissatou Sidime-Blanton	6/15/18	2.00%	4,121		
Allegiance Bank	8/2/19	4.50%	500,000		
Amegy Bank	7/6/18	4.00%	400,000		
Anna Brooke Gutzler	1/4/18	2.00%	4,957		
Anne P Messbarger Eguia	11/6/18	1.00%	6,000		
Annie E. Casey Foundation	6/30/19	3.00%	1,000,000		
Arthur Z. Medina	8/21/18	2.00%	1,000		
Bank of America	8/3/23	3.00%	2,000,000		
Bank of America	5/24/18	3.57%	635,250	****	635,250
Benjamin Coerver	4/26/18	2.00%	8,000		
Bonnie Reed	7/5/20	2.00%	10,000		
Bradley Lehman	1/1/18	1.00%	2,000		
Broadway Bank	10/1/18	4.50%	625,000		
Broadway Bank	10/1/18	4.50%	75,000		
Cadence Bank	6/30/18	4.00%	345,545		
Capital One	1/1/21	1.00%	500,000		
Capital One	12/18/18	3.98%	2,819,445	***	
Carla Marshall & L. Doxsey	11/8/18	2.00%	115,995		
Carla Marshall & L. Doxsey	3/4/18	2.00%	27,061		
Carla Marshall & L. Doxsey	4/16/18	2.00%	16,236		

Note 5 – Notes Payable (Continued)

Name	Maturity Date	Interest Rate	Balance 12/31/2017		Collateral
Central Bank	4/19/18	4.25%	18,434		
Charles A. Gonzalez	1/28/18	0.00%	1,000		
Church of The Blessed Sacrament	7/14/19	3.00%	100,000		
Church of The Blessed Sacrament	2/28/18	3.00%	100,000		
Comerica Bank	2/1/19	4.25%	17,105		
Cynthia Merla Spielman	5/16/18	2.00%	1,020		
Dallas Womens Foundation	2/13/18	2.50%	75,000		
Daniel Lopez & Gina Amatangelo	12/28/19	0.00%	6,000		
David W. Blair	7/1/18	2.00%	75,000		
David W. Blair	1/15/18	2.00%	25,000		
Debra Salge	2/22/18	2.00%	1,020		
Dr. Charles Conlon	1/1/18	2.00%	25,000		
Dr. Harry J. Shafer	1/1/18	2.00%	2,000		
Dr. William Elizondo	10/10/18	2.00%	1,000		
East West Bank	8/1/18	3.50%	250,000		
Edward R. and Luz Elena Day	10/1/18	2.00%	3,121		
Edward R. and Luz Elena Day	11/1/18	2.00%	10,404		
Eliot M. Lee	1/1/18	2.00%	1,000		
Elizabeth Annah Jensen	5/4/18	2.00%	1,000		
Elizabeth Blissman	3/22/18	2.00%	20,000		
Ellen Riojas Clark	3/2/18	2.00%	5,100		
Embrey Family Foundation	1/12/18	2.00%	50,000		
Farm Bureau Bank	12/31/19	3.50%	100,000		
Father Blanco Memorial Fund	6/24/18	2.00%	10,404		
Federal Home Loan Bank	1/12/18	1.65%	815,000	*****	
First Citizens Bank	2/9/18	5.25%	25,000		
First Citizens Bank	2/9/18	5.25%	25,000		
First Citizens Bank	2/9/18	5.25%	50,000		
Framboyant Learning Center	5/14/19	2.00%	50,000		
Frost Bank	4/13/18	4.25%	1,000,000		
George B Hernandez Jr.	11/3/18	2.00%	10,200		
George H & Elizabeth Godwin	11/4/18	1.00%	10,201		
Gloria P Arrechi	2/3/18	2.00%	15,300		
Goldman Sach's	12/31/20	3.75%	3,401,838	*	3,401,838
Heartspring Methodist Foundation	6/1/18	2.00%	500,000		
Iberia Bank	6/23/18	5.00%	2,500,000	*	2,500,000
Iberia Bank	6/23/18	4.50%	1,500,000	*	1,500,000
Iberia Bank	6/23/18	4.50%	296,290	*	296,290
Iberia Bank	6/23/18	4.50%	124,139	*	124,139
Immaculate Heart of Mary Church	6/24/18	2.00%	52,020		
Jose M.R. and Eloise V Avila	5/12/18	2.00%	10,200		
Kathryn Martin	10/13/18	2.00%	1,000		
Kiva	12/31/20	0.00%	25,504		
Laura & Sam Dawson	4/6/18	0.00%	250,000		

Note 5 – Notes Payable (Continued)

Name	Maturity Date	Interest Rate	Balance 12/31/2017		Collateral
Linda Foster	12/3/18	3.00%	10,609		
Lucas Coerver	4/26/18	2.00%	8,000		
Lucia Coerver	4/26/19	2.00%	5,000		
Margaret G Mireles	2/6/18	2.00%	43,356		
Maria and Manuel P Berriozabal	3/30/18	2.00%	55,007		
Mary Esther Escobedo	5/10/20	2.00%	7,000		
Mary Hitt	6/27/18	2.00%	15,000		
Mary T Green	1/4/18	2.00%	1,020		
Mercantil Commercebank	7/9/18	6.25%	49,179	*	
Midsouth Bank	11/9/19	2.00%	423,300		
Moody National Bank	1/5/20	2.00%	500,000		
Nazareth Literary & Benevolent Inst.	5/18/18	0.50%	150,000		
Norma Gonzalez	10/28/18	2.00%	1,040		
Oblate International Pastoral	10/15/20	4.00%	623,361		
Opportunity Finance Network	1/31/18	3.00%	2,500,000	*	2,500,000
People Fund	10/1/43	1.02%	1,523,780	**	
People Fund	7/1/38	1.02%	4,454,220	**	
Pete & Andrea Sitterle	12/18/18	2.00%	25,500		
Philip Eash Gates	10/1/19	3.00%	30,918		
Pioneer Bank	10/1/19	3.75%	500,019		
Priti Mody-Bailey	3/6/20	2.00%	1,000		
Reap Green Enterprise	5/31/18	3.00%	450,000		
Reap Green Enterprise	5/31/18	3.00%	100,000		
Reap Green Enterprise	5/31/18	3.00%	250,000		
Reap Green Enterprise	5/31/18	3.00%	200,000		
Redman Foundation	11/18/19	2.00%	10,000		
Regions Bank	9/22/20	3.00%	142,192		
Rhonda Wiley-Jones	5/12/19	2.00%	3,000		
Rick Schimpff	4/21/18	1.00%	10,000		
Robert Boehlert	10/5/18	2.00%	206,696		
Rose Mary Fry	8/1/18	2.00%	1,000		
Sisters of The Incarnate Word	2/24/18	3.00%	300,000		
Sisters of Charity Incarnate Word	11/22/19	2.00%	200,000		
Sisters of Saint Dominic	11/11/19	2.00%	50,000		
Small Business Administration	12/12/21	0.00%	361,111	*	361,111
Small Business Administration	12/12/21	0.00%	361,111	*	361,111
Small Business Administration	6/15/27	0.00%	1,700,000	*	1,700,000
Small Business Administration	9/7/26	0.00%	2,500,000	*	2,500,000
Society of The Divine Word	2/26/18	2.00%	50,000		
Songbae Lee	3/10/18	1.00%	1,000		

Note 5 – Notes Payable (Continued)

Name	Maturity Date	Interest Rate	Balance 12/31/2017		Collateral
Sustainable Communities Fund	7/31/19	3.00%	300,000		
Sylvia & Arthur C Reyna Jr	10/28/18	2.00%	1,020		
Tanya Spencer	12/22/18	2.00%	200,000		
Terri & Roger Virost	7/10/18	1.00%	12,500		
Texas Department of Agriculture	8/31/19	1.00%	800,000	*	800,000
The Bank of San Antonio	12/31/19	2.00%	500,000		
The Basilian Fathers of Toronto	4/1/21	3.00%	200,000		
Tides Foundation	4/3/18	0.00%	100,000		
Tolleson Private Bank	5/27/18	3.00%	50,000		
U.S. Department of Agriculture	4/7/34	1.00%	231,218	*	231,218
U.S. Treasury CDFI Fund	6/30/19	0.00%	200,000		
Valley Economic Development Ctr.	8/25/20	3.00%	500,000		
Whitney Bank	10/23/18	3.50%	100,000		
William G Moll	5/20/18	2.00%	5,000		
Woodforest Bank	3/15/18	3.50%	700,000		
			$43,029,067		

* Collateralized by loans receivable, and bank accounts if the SBA.
** Collateralized by Martin Street property
*** Collateralized by Poplar Street property & capital campaign pledges & grants receivable
**** Collateralized by the SBA guaranteed portion of 7A loans.
***** Collateralized by a Mortgage Backed Security.

Scheduled principal payments of notes payable are as follows:

Years Ending December 31,	
2018	$ 18,841,389
2019	4,845,343
2020	5,210,895
2021	1,522,223
2022	-
Thereafter	12,609,217
	$ 43,029,067

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, 2017. Equity equivalents consist of the following loans:

Lender	Interest Rate	Balance 12/31/2017
AmericanBank	4.50%	$ 500,000
Bancorp South	3.00%	1,000,000
Bank SNB	3.00%	500,000
BBVA Compass Bank	2.00%	400,000
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
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%	460,000
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		$ 11,312,500

Note 7 – Restrictions on Net Assets

Temporarily restricted net assets at December 31, 2017 are available for the following purposes:

For subsequent years' activities:	
Loan programs	$ 2,037,110
SBA Technical Assistance	162,500
Subtotal	2,199,610
For required reserves:	
Small Business Administration	1,350,484
Goldman Sachs Bank	481,622
Subtotal	1,832,106
Total temporarily restricted net assets	$ 4,031,716

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

Net assets were released from donor restrictions by meeting the stipulations or time restrictions specified by the donors during 2017 as follows:

Loan programs	$ 837,190
SBA Technical Assistance	57,500
Total net assets released from restrictions	$ 894,690

Permanently restricted net assets of $577,163 at December 31, 2017 and 2016 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 $175,656 in 2017.

Note 9 – Operating Leases Commitments

LiftFund leases office space under noncancelable operating leases expiring through July of 2022. LiftFund leases copiers and computer equipment under operating leases expiring through April of 2021. Lease expense charged to operations for the year ended December 31, 2017 was $306,737.

Future minimum lease payments under the operating leases in excess of one year as of December 31, 2017 are as follows:

Years Ending December 31,	
2018	$ 303,981
2019	194,238
2020	117,533
2021	43,916
2022	18,620
Thereafter	-
	$ 678,288

Note 10 – Loan Sale Agreements

LiftFund sold the guaranteed portion of 47 SBA 7(a) Community Advantage loans totaling $4,763,656 on the secondary market during 2017 at a gain of $465,495.

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, 2017 the cash balances in excess of FDIC limits approximated $11,703,039.

At December 31, 2017, LiftFund was scheduled to make $18,841,389 in principal repayments on its outstanding notes payable during 2018. 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 2018.

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 25, 2018, the date on which the financial statements were available to be issued.

LiftFund responded to the August 2017 Hurricane Harvey disaster that struck the Gulf Coast region of the United States by raising grant and loan capital to further serve those in desperate need with a newly created Hurricane Harvey disaster relief loan program. In December 2017, LiftFund received approval from Goldman Sachs on a $5.0 million, 0% interest rate loan facility to fund Texas Gulf Coast Hurricane Harvey relief loans in 2018, and a $2.0 million donation from the Rebuild Texas Fund to provide funding for a loan loss reserve and interest buy down for these disaster loan borrowers. This, in addition to a September 2017 JPMorgan Chase Foundation $1.0 million donation for disaster relief loan funds and interest buy down, along with $676,000 of other Hurricane Harvey relief fund donations committed through year end 2017 created a disaster relief program totaling $8,676,000. The loan capital will be disbursed in 2018 and $1,500,000 of grant funds received for interest buy down will be recognized in 2018.

SUPPLEMENTARY INFORMATION

LIFTFUND INC.
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2017

Assets

	Liftfund Inc.	ACCION Martin Holdings, Inc.	LiftFund Funding, LLC	Intercompany Eliminations	Total
Cash and cash equivalents	$ 6,936,153	$ 133,062	$ 1,250,000	$ -	$ 8,319,215
Cash, restricted	3,850,428	139,365	-	-	3,989,793
Investments	956,409	-	-	-	956,409
Receivables:					
Loans receivable, net of allowance for loan losses of $2,816,708 in 2017	41,263,778	-	-	-	41,263,778
Grants and contributions receivable, net of allowance for cost refunds of $26,693 in 2017	2,064,196	-	-	-	2,064,196
New Market Tax Credit loan receivable	4,454,220	-	-	-	4,454,220
Accrued interest receivable	459,428	-	-	-	459,428
Accrued late and NSF fees	54,985	-	-	-	54,985
Other	297,334	5,083	-	(5,083)	297,334
Prepaid expenses and other assets	200,670	292,138	-	-	492,808
Recovered asset inventory	111,000	-	-	-	111,000
Property and equipment, net of accumulated depreciation of $3,822,077 in 2017	3,102,940	6,603,934	-	-	9,706,874
Total assets	$ 63,751,541	$ 7,173,582	$ 1,250,000	$ (5,083)	$ 72,170,040

Liabilities and Net Assets

	Liftfund Inc.	ACCION Martin Holdings, Inc.	LiftFund Funding, LLC	Intercompany Eliminations	Total
Liabilities:					
Accounts payable	$ 729,092	$ -	$ -	$ (5,083)	$ 724,009
Accrued liabilities	767,635	18,964	-	-	786,599
Deferred revenue	586,114	-	-	-	586,114
Notes payable	37,051,067	5,978,000	-	-	43,029,067
Equity equivalents	11,312,500	-	-	-	11,312,500
Total liabilities	50,446,408	5,996,964	-	(5,083)	56,438,289
Commitments and contingencies					
Net assets:					
Unrestricted	9,872,872	-	1,250,000	-	11,122,872
Temporarily restricted	2,855,098	1,176,618	-	-	4,031,716
Permanently restricted	577,163	-	-	-	577,163
Total net assets	13,305,133	1,176,618	1,250,000	-	15,731,751
Total liabilities and net assets	$ 63,751,541	$ 7,173,582	$ 1,250,000	$ (5,083)	$ 72,170,040

See independent auditor's report

LIFTFUND INC.
CONSOLIDATING STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2017

	Liftfund Inc.	ACCION Martin Holdings, Inc.	LiftFund Funding, LLC	Intercompany Eliminations	Total
Revenue and support:					
Public support:					
Contributions	$ 3,724,298	$ -	$ -	$ -	$ 3,724,298
Governmental grants	2,388,487	-	-	-	2,388,487
Revenue:					
Interest	42,507	118	-	-	42,625
Loan interest and fees	7,045,157	-	-	-	7,045,157
Portfolio management services	189,442	-	-	-	189,442
SBA 504 income	1,083,756	-	-	-	1,083,756
Gain on sale of loans	465,495	-	-	-	465,495
Office space rental income	135,239	-	-	-	135,239
In-kind contributions	804,188				804,188
Miscellaneous revenue	112,965	61,000	-	(61,000)	112,965
Total revenue and support	15,991,534	61,118	-	(61,000)	15,991,652
Expenses:					
Program services - lending	15,052,429	270,625	-	(61,000)	15,262,054
Management and general	880,599	-	-	-	880,599
Fundraising	793,165	-	-	-	793,165
Total expenses	16,726,193	270,625	-	(61,000)	16,935,818
Change in net assets from operations before noncontrolling interest in LLC company	(734,659)	(209,507)	-	-	(944,166)
Change in net assets from noncontrolling interest in LLC company					
Capital contributions	-	-	1,250,000	-	1,250,000
Total change in net assets from noncontrolling interest in LLC company	-	-	1,250,000	-	1,250,000
Change in net assets	(734,659)	(209,507)	1,250,000	-	305,834
Net assets at beginning of year	14,039,792	1,386,125	-	-	15,425,917
Intercompany transfers	-	-	-	-	-
Net assets at end of year	$ 13,305,133	$ 1,176,618	$ 1,250,000	$ -	$ 15,731,751

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, 2017, 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 25, 2018.

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 25, 2018

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, 2017. 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, 2017.

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 25, 2018

LIFTFUND INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2017

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		1,347,000
CDFI Financial Assistance - Loans	21.020		200,000
Total U.S. Department of the Treasury			1,547,000
U.S. Small Business Administration:			
Microloan Program:			
Microloan Demonstration Program - Loans	59.046		5,237,880
Microloan Demonstration Program - Technical Assistance Grant	59.046		318,064
Total Microloan Program			5,555,944
7(a) Loan Guarantees	59.012		5,201,485
Women's Business Ownership Assistance	59.043		148,543
Veterans Business Development	59.044		29,460
Prime Grant	59.050		22,882
Total Small Business Administration			10,958,314
U.S. Department of Housing and Urban Development:			
Border Community Capital Initiative (BCCI)	14.266	96,240	125,977
Delta Community Capital Initiative (DCCI)	14.271		176,127
Total Department of Housing and Urban Development			302,104
U.S. Department of Agriculture:			
Intermediary Relending Program - Loans	10.767		260,738
U.S. Economic Development Administration			
Revolving Loan Fund - Loans	11.307		5,280,661
Total U.S. Economic Development Administration			5,280,661
Total Federal Expenditures			18,348,817

See accompanying notes to schedule of expenditures of federal awards.

LIFTFUND INC.
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2017

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, 2017.

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	$ -	$ -	$2,700,000	$ -
Value of new loan guarantees made	-	5,201,485	-	-
Loan balance, beginning of the year	200,000	-	2,537,880	260,738
Total expenditures of federal awards presented for loan and loan guarantee programs	200,000	5,201,485	5,237,880	260,738
Balance of loans and loan guarantees at December 31, 2017	$ 200,000	$ -	$3,628,122	$ 231,218

During 2017, LiftFund issued loans with a face value $6,248,100 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 $5,201,485.

During the year ended December 31, 2017, 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 2016 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, 2017	$3,848,496
Cash balance in RLF at December 31, 2017	1,295,628
Administrative expenses paid out of the RLF in 2017	136,537
Unpaid principal of all RLF loans written off during the year	-
Total RLF expenditures	$5,280,661

LIFTFUND INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2017

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

- 59.046 - Small Business Administration Microloan Program
- 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 - **No**

Section 2 - Financial Statement Findings - None

Section 3 - Federal Award Findings and Questioned Costs - None

Section 4 - Prior Year Audit Findings - None