NATIONAL COMMUNITY INVESTMENT FUND AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

NATIONAL COMMUNITY INVESTMENT FUND AND SUBSIDIARIES

YEARS ENDED DECEMBER 31, 2018 AND 2017

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Independent Auditors' Report

Board of Trustees
National Community Investment Fund and Subsidiaries

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of National Community Investment Fund and Subsidiaries (NCIF), which comprise the consolidated statements of financial position as of December 31, 2018 and 2017, the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits 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 from material misstatement.

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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 consolidated financial position of National Community Investment Fund and Subsidiaries as of December 31, 2018 and 2017, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 29, 2019, on our consideration of NCIF'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 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 NCIF's internal control over financial reporting and compliance.

Ostrow Reisin Berk & Abrams, Ltd.

April 29, 2019
Chicago, Illinois

NATIONAL COMMUNITY INVESTMENT FUND AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

December 31,		**2018**		2017
ASSETS				
Cash and cash equivalents	**$**	**1,689,803**	$	3,911,634
Grants receivable				776,500
Prepaid expenses and other assets		**142,984**		131,183
Equipment and website development costs, net				9,725
Loans receivable, net of allowance for loan losses		**6,299,444**		2,984,500
Investments:				
Community Development Financial Institutions		**10,632,818**		14,148,290
Limited liability companies		**17,608**		18,407
Total assets	**$**	**18,782,657**	$	21,980,239
LIABILITIES AND NET ASSETS				
Liabilities:				
Note payable, net	**$**	**3,153,620**	$	3,727,882
Accounts payable and accrued expenses		**407,756**		360,766
Deposits		**80,000**		5,000
Total liabilities		**3,641,376**		4,093,648
Net assets:				
Without donor restrictions		**14,632,401**		16,425,473
With donor restrictions		**508,880**		1,461,118
Total net assets		**15,141,281**		17,886,591
Total liabilities and net assets	**$**	**18,782,657**	$	21,980,239

See notes to consolidated financial statements.

NATIONAL COMMUNITY INVESTMENT FUND
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF ACTIVITIES

Years ended December 31,	2018			2017		
	Without donor restrictions	**With donor restrictions**	**Total**	Without donor restrictions	With donor restrictions	Total
Revenue:						
New Markets Tax Credits fees	**$ 2,503,020**		**$ 2,503,020**	$ 2,519,019		$ 2,519,019
Contracts				455,540		455,540
Grants					$ 876,500	876,500
Interest income	**267,430**		**267,430**	121,862		121,862
Other	**55,733**		**55,733**	19,540		19,540
Net assets released from restrictions	**952,238**	**$ (952,238)**		1,203,576	(1,203,576)	
Total revenue	**3,778,421**	**(952,238)**	**2,826,183**	4,319,537	(327,076)	3,992,461
Expenses:						
Program services	**1,565,686**		**1,565,686**	2,004,279		2,004,279
Management and general	**798,949**		**798,949**	482,295		482,295
Fundraising	**356,816**		**356,816**	111,998		111,998
Total expenses	**2,721,451**		**2,721,451**	2,598,572		2,598,572
Change in net assets before investment activity	**1,056,970**	**(952,238)**	**104,732**	1,720,965	(327,076)	1,393,889
Investment activity:						
Net investment income (loss):						
Dividends	**171,984**		**171,984**	131,072		131,072
Net realized gain (loss)	**267,413**		**267,413**	(17,324)		(17,324)
Net unrealized gain (loss)	**(2,910,387)**		**(2,910,387)**	1,891,595		1,891,595
Total net investment income (loss)	**(2,470,990)**		**(2,470,990)**	2,005,343		2,005,343
Impairment loss on investments	**(379,052)**		**(379,052)**			
Total investment activity	**(2,850,042)**		**(2,850,042)**	2,005,343		2,005,343
Change in net assets	**(1,793,072)**	**(952,238)**	**(2,745,310)**	3,726,308	(327,076)	3,399,232
Net assets, beginning of year	**16,425,473**	**1,461,118**	**17,886,591**	12,699,165	1,788,194	14,487,359
Net assets, end of year	**$ 14,632,401**	**$ 508,880**	**$ 15,141,281**	$ 16,425,473	$ 1,461,118	$ 17,886,591

See notes to consolidated financial statements.

NATIONAL COMMUNITY INVESTMENT FUND AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES

Years ended December 31,	2018						2017
	Program Services			Supporting Services			
	Fund advisory and investing	Grant related and special projects	Total	Management and general	Fundraising	Total	Total
Adjustment of allowance for loan losses				$ 90,565		$ 90,565	$ 45,500
Depreciation and amortization	$ 95,654	$ 18,839	$ 114,493	51,938	$ 19,032	185,463	220,008
Education and conferences	21,045	4,145	25,190	9,287	4,187	38,664	10,981
Insurance	19,473	3,835	23,308	8,594	3,875	35,777	39,173
Membership dues and fees	43,379	8,544	51,923	19,143	8,631	79,697	82,122
Occupancy expenses	40,749	8,026	48,775	17,982	8,108	74,865	72,286
Other expenses	28,212	5,556	33,768	12,451	5,614	51,833	36,797
Personnel related expenses	878,298	172,981	1,051,279	387,593	174,756	1,613,628	1,328,687
Professional services	98,781	38,225	137,006	99,771	114,647	351,424	483,075
Technology	32,725	6,445	39,170	14,442	6,511	60,123	37,265
Travel	40,774		40,774	7,183	11,455	59,412	155,178
Trustees' fees				80,000		80,000	87,500
Total expenses	$ 1,299,090	$ 266,596	$ 1,565,686	$ 798,949	$ 356,816	$ 2,721,451	$ 2,598,572

See notes to consolidated financial statements.

NATIONAL COMMUNITY INVESTMENT FUND AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31,	2018	2017
Cash flows from operating activities:		
Change in net assets	$ (2,745,310)	$ 3,399,232
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	185,463	220,008
Adjustment of allowance for loan losses	90,565	45,500
Net (gain) loss on investments held and sold	2,642,974	(1,874,271)
Impairment loss on investments	379,052	
(Increase) decrease in operating assets:		
Grants receivable	776,500	223,500
Prepaid expenses and other assets	(11,801)	14,822
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	46,990	(108,221)
Deposits	75,000	
Net cash provided by operating activities	1,439,433	1,920,570
Cash flows from investing activities:		
Loans receivable	(4,528,250)	(2,050,000)
Payment on loans receivable	1,122,741	
Distributions from investments	1,167	264
Proceeds from sales of investments	993,080	963,232
Purchases of investments	(500,002)	(960,261)
Net cash used in investing activities	(2,911,264)	(2,046,765)
Cash flows from financing activity:		
Principal paid on note payable	(750,000)	(750,000)
Net cash used in financing activity	(750,000)	(750,000)
Net change in cash and cash equivalents	(2,221,831)	(876,195)
Cash and cash equivalents, beginning of year	3,911,634	4,787,829
Cash and cash equivalents, end of year	$ 1,689,803	$ 3,911,634

See notes to consolidated financial statements.

1. Organization

The National Community Investment Fund (NCIF), a 501(c)(4) trust, was founded in December 1995. Its mission is to increase the flow of financial products and services in low- and moderate-income communities. NCIF generates financial, social and environmental returns for its investors and funders and contributes to their success by aggregating capital and knowledge and leveraging opportunities. NCIF meets its mission through four related activities: "Investing, Lending, NMTC, and Research."

NCIF Management LLC (NCIFMLLC) is a wholly-owned subsidiary of NCIF that employs staff and provides services to NCIF.

NCIF Capital, LLC is a wholly-owned subsidiary of NCIF that is the managing member in limited liability companies, certified as Community Development Entities (CDEs), that are or will be set up for raising and deploying capital under CDFI Fund's New Markets Tax Credits (NMTC) program.

All activities are consolidated in these consolidated financial statements and all references to NCIF refer to the consolidated entity, unless otherwise noted.

2. Summary of significant accounting policies

Basis of accounting:

The accompanying consolidated financial statements of NCIF have been prepared in accordance with accounting principles generally accepted in the United States of America.

Principles of consolidation:

The accompanying consolidated financial statements include the accounts of NCIF, NCIFMLLC and NCIF Capital, LLC. All intercompany balances and transactions have been eliminated in consolidation.

Net assets:

NCIF's net assets are classified into two classes: net assets without donor restrictions and net assets with donor restrictions – according to the existence or absence of donor-imposed restrictions. Net assets without donor restrictions are not subject to donor-imposed restrictions. Net assets with donor restrictions are subject to donor-imposed restrictions that either expire by passage of time, can be fulfilled and removed by actions of NCIF or must be maintained permanently by NCIF. There were no net assets with donor restrictions that are required to be maintained permanently by NCIF at December 31, 2018 and 2017.

2. Summary of significant accounting policies (continued)

Tax status:

NCIF is generally exempt from federal income tax pursuant to Section 501(c)(4) of the Internal Revenue Code. NCIFMLLC is a disregarded entity for tax purposes. NCIF Capital, LLC has elected to be treated as a taxable corporation.

NCIF has adopted the requirements for accounting for uncertain tax positions and management has determined that NCIF was not required to record a liability related to uncertain tax provisions as of December 31, 2018 and 2017.

Cash and cash equivalents:

For the purpose of the consolidated statements of cash flows, NCIF considers all highly liquid investments with an initial maturity of three months or less when purchased to be cash equivalents.

Grants receivable:

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their future cash flows.

NCIF provides an allowance, as needed, for estimated grants receivable. At December 31, 2017, grants receivable was considered fully collectible and no allowance was considered necessary.

Equipment and website development costs:

Equipment and website development costs are stated at cost. Depreciation and amortization is calculated on the straight-line method over the estimated useful lives of the assets.

Loans receivable:

NCIF seeks to lend money to projects in partnership with depository or CDFI institutions, and/or to the depository institutions. The types of loans include project finance, and working capital loans for expansion, acquisition of existing assets or creation of affiliated development companies. Loan maturities vary with the needs of the recipient and are collateralized, when possible, by the assets of the business being financed.

2. Summary of significant accounting policies (continued)

Loans receivable: (continued)

Loans receivable are stated at the principal amount outstanding, net of unearned discount and loan origination fees. The accrual of interest is discontinued whenever principal or interest has been in default ninety consecutive days or more, unless the loan is in the process of collection as determined by management. At December 31, 2018 and 2017, there were no nonaccrual loans.

Allowance for loan losses:

An allowance for loan losses has been established to provide for those loans which may not be repaid in their entirety. The allowance is increased by provisions for loan losses charged to expense and decreased by charge-offs, net of recoveries. Although a loan is charged off by management when deemed uncollectible, collection efforts continue and future recoveries may occur.

The allowance is maintained by management at a level considered adequate to cover losses that are deemed possible based on past industry loss experience, general economic conditions, information about specific borrower situations including their financial position and other factors and estimates which are subject to change over time. Estimating the risk of loss and amount of loss on any loan is necessarily subjective and ultimate losses may vary from current estimates. These estimates are reviewed periodically and, as adjustments become necessary, they are reported in earnings in the periods in which they become known. NCIF experienced no charge-offs for the years ended December 31, 2018 and 2017. Loans considered to be impaired are reduced to the present value of expected future cash flows by allocating a portion of the allowance for loan losses to such loans. NCIF did not consider any loans to be impaired at December 31, 2018 and 2017.

Investments:

Investments with readily determinable values are carried at fair value. Changes in the fair value of investments owned at the end of the year are recorded as unrealized gains (losses). Gains and losses on investments sold during the year are recorded as realized gains (losses).

Non-controlling equity investments that are not readily marketable and have no readily determinable values are recorded at historical cost, net of any reductions for permanent impairments. Due to their illiquid nature, the transferability of these shares, especially in material quantities, is restricted. Determination of whether there is a permanent impairment is based on a review of available indicators including book value and comparable arms-length transactions.

2. Summary of significant accounting policies (continued)

Investments: (continued)

Non-controlling equity investments in limited liability companies that are not readily marketable and have no readily determinable values, but over which NCIF exerts significant influence as managing member, are accounted for under the equity method.

Long-term debt:

Loans with below-market interest rates are discounted to present value. The discount is recognized as restricted contribution revenue in the year the loan is issued. The discount is amortized to expense over the term of the loan using the effective interest method.

Revenue and revenue recognition:

NCIF generates revenue from sponsor fees and asset management fees for services provided to qualified community development entities (CDEs). Revenue from sponsor fees is recognized when investor and investment fund capital contributions are contributed to CDEs. Revenue from asset management fees is recognized as management services are performed for CDEs.

NCIF generates revenue from other contracted services. Revenue from other contracted services is recognized as services are performed.

Contributions:

Contributions and grants are recorded as without donor restrictions or with donor restrictions depending on the existence and/or nature of any donor restrictions. All contributions are considered to be available for use without donor restrictions unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as support with donor restrictions.

When a donor restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of activities as net assets released from restrictions.

2. Summary of significant accounting policies (continued)

Expense allocation:

The consolidated financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. Personnel related expenses are allocated on the basis of estimates of time and effort. Depreciation and amortization, insurance, membership dues and fees, occupancy expenses, and other expenses, are allocated by the percentage of personnel related expenses in each functional category to total personnel related expenses.

Use of estimates:

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires the management of NCIF to make estimates and assumptions that affect certain reported amounts and disclosures. NCIF's estimated allowance for loan losses is particularly sensitive to change in the near term. Accordingly, actual results could differ from these estimates.

Reclassifications:

Certain reclassifications have been made to the 2017 consolidated financial statement presentation to correspond to the current year's format. Net assets and changes in net assets are unchanged due to these reclassifications.

Subsequent events:

Management of NCIF has reviewed and evaluated subsequent events from December 31, 2018, the consolidated financial statement date, through April 29, 2019, the date the consolidated financial statements were available to be issued.

3. Concentration of credit risk

NCIF primarily maintains its cash in federally-insured bank accounts and on some occasions, may exceed federally-insured limits. The uninsured cash balance at December 31, 2018 and 2017 was approximately $878,000 and $3,100,000, respectively. Management believes that NCIF is not exposed to any significant credit risk on cash.

4. Liquidity and availability

The following represents NCIF's financial assets at December 31, 2018:

December 31, 2018	
Financial assets at year-end:	
Cash and cash equivalents	$ 1,689,803
Less net assets with donor restrictions	(100,000)
Financial assets available to meet general expenditures within one year	$ 1,589,803

The source of liquidity available to NCIF is cash and cash equivalents. NCIF strives to maintain sufficient cash and cash equivalents to cover 90 days of general expenditures. To facilitate this goal, management updates a rolling, 12-month projected cash flow statement on a monthly basis. Each month, management looks ahead to ensure that cash inflows and outflows are properly projected in light of any new information regarding NCIF's operations. In addition, management also refreshes its days cash on hand ratio to ensure upcoming expenditures can be met with liquid assets.

Cash inflows primarily arrive at NCIF in the form of New Markets Tax Credits (NMTC) fees, investment income, and Community Development Financial Institution (CDFI) grants. When NCIF acts as the Community Development Entity (CDE) in conjunction with NMTC deals, NCIF receives fees at closing, along with management fees for seven years on each deal. The timing of the cash inflows from NMTC deals is agreed-upon by all involved parties in advance in the form of executed financial models, and is thus predictable in nature, enabling NCIF to accurately project NMTC income on existing deals for years into the future. Cash from investments is received in the form of interest and dividend income, origination fees for new loan investments, and any capital gains realized for investments sold or repaid. NCIF does not project for future capital gains, and thus decisions on expenditures are not based on any assumed future investment sales.

In conjunction with projecting income, all of NCIF's material expenditures are either predictable or discretionary in nature, including personnel, professional fees, occupancy expenses, and principal payments on outstanding debt. This enables management to maintain an accurate projection of its liquidity position and plan its expenditures for long-term equity and/or loan investments by segregating cash that will not be needed for upcoming operational expenditures.

5. Investments

The following is a summary of NCIF's investments:

December 31,		**2018**		2017
Investments at fair value:				
Equity investments in Community Development Financial Institutions (CDFIs)	**$**	**2,650,309**	$	6,037,631
Investments at cost:				
Equity investments in Community Development Financial Institutions (CDFIs)		**7,982,509**		8,110,659
Equity method investments:				
Equity investments in limited liability companies		**17,608**		18,407
Total	**$**	**10,650,426**	$	14,166,697

Fair value:

Investments with readily determinable values are carried at fair value. NCIF reports investments at fair value in accordance with the fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

Equity investments in CDFI's are stated at fair value based on quoted prices in active markets.

NCIF's investments at fair value are as follows:

December 31,		**2018**		2017
		Level 1		
Equity investments in CDFIs	**$**	**2,650,309**	$	6,037,631

Cost:

NCIF's equity investments in CDFI's that are not readily marketable and have no readily determinable values are carried at historical cost, net of any reductions for permanent impairments. Permanent impairments of $379,052 and $-0- were recognized during the years ended December 31, 2018 and 2017, respectively.

5. Investments (continued)

Equity method:

NCIF has non-controlling and non-marketable equity investments in limited liability companies. Due to NCIF's ability to exert significant influence over these limited liability companies as managing member, these investments are accounted for under the equity method. At December 31, 2018, NCIF had a 0.01% ownership interest in NCIF New Markets Capital Funds VII – XXXIII CDE, LLC's. At December 31, 2017, NCIF had a 0.01% ownership interest in NCIF New Markets Capital Funds III – XXVII CDE, LLC's.

While the limited liability companies are independent legal entities, the following is an aggregate summary of financial information for all companies:

December 31,	**2018**	2017
Assets	**$ 170,998,740**	$ 181,075,690
Liabilities	**(332,024)**	(320,941)
Members' equity	**$ 170,666,716**	$ 180,754,749

Years ended December 31,	**2018**	2017
Revenue	**$ 2,391,189**	$ 2,955,915
Expenses	**(948,282)**	(1,011,514)
Net income	**$ 1,442,907**	$ 1,944,401

6. Loans receivable

December 31,	**2018**	2017
Loans receivable	**$ 6,455,509**	$ 3,050,000
Less allowance for loan losses	**(156,065)**	(65,500)
Total loans receivable, net of allowance for loan losses	**$ 6,299,444**	$ 2,984,500

All loans receivable call for quarterly payments of interest only until maturity at interest rates ranging from 2.25% to 9.00%.

Future principal maturities of loans receivable are as follows:

Year ending December 31:	Amount
2019	$ 789,541
2020	519,282
2021	567,966
2022	325,250
2023	305,180
Thereafter	3,948,290
Total	$ 6,455,509

As of December 31, 2018, NCIF has agreed to participate as a lender for $750,000. Funds have not been disbursed as of December 31, 2018.

7. Long-term debt

December 31,	**2018**	2017
Interest-free note payable to Bank of America Community Development Corporation, due October 1, 2023, quarterly principal payments of $187,500. Discounted at 5%.	**$ 3,562,500**	$ 4,312,500
Less unamortized discount	**(408,880)**	(584,618)
Total note payable, net of unamortized discount	**$ 3,153,620**	$ 3,727,882

7. Long-term debt (continued)

Future maturities of long-term debt are as follows:

Year ending December 31:	Amount
2019	$ 750,000
2020	750,000
2021	750,000
2022	750,000
2023	562,500
Total	$ 3,562,500

8. Net assets with donor restrictions

As of December 31, 2018 and 2017, net assets with donor restrictions are restricted for the following purpose or time restrictions:

December 31,	**2018**	2017
Time restricted:		
CDFI Fund - Financial Assistance Award receivable		$ 776,500
Unamortized discount on below-market interest rate loans	**$ 408,880**	584,618
Purpose restricted:		
Investing in Outcomes	**100,000**	100,000
Total net assets with donor restrictions	**$ 508,880**	$ 1,461,118

8. Net assets with donor restrictions (continued)

Net assets were released from donor restrictions by the passage of time or by incurring expenses satisfying purpose or time restrictions as follows:

Years ended December 31,		**2018**		2017
Time restricted:				
Amortization of discount on below-market interest rate loans	**$**	**175,738**	$	203,576
Purpose restricted:				
CDFI Fund - Financial Assistance Award receivable		**776,500**		1,000,000
Total net assets released from donor restrictions	**$**	**952,238**	$	1,203,576

9. New Markets Tax Credits (NMTC) activities

Since 2003, NCIF has been awarded $326 million in NMTC allocations. NCIF earned fee income from all closed deals of $2,503,020 and $2,519,019 during the years ended December 31, 2018 and 2017, respectively. The fee income includes one-time sponsor fees and asset management fees payable annually over a period of seven years. As part of the NMTC program, NCIF provides customary recapture indemnities to its investors. Management considers that the probability of these being invoked is remote.

10. Lease commitments

NCIF leases office space through November 2024. Future minimum rental payments for base rent are as follows:

Year ending December 31:		Amount
2019	$	132,964
2020		124,063
2021		125,947
2022		127,832
2023		129,716
Thereafter		120,608
Total	$	761,130

Rent expense was approximately $74,000 and $72,300 for the years ended December 31, 2018 and 2017, respectively.