NATIONAL COMMUNITY
INVESTMENT FUND AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2016 AND 2015

NATIONAL COMMUNITY INVESTMENT FUND AND SUBSIDIARY

YEARS ENDED DECEMBER 31, 2016 AND 2015

CONTENTS

Independent Auditors' Report

Board of Trustees
National Community Investment Fund and Subsidiary

We have audited the accompanying consolidated financial statements of National Community Investment Fund and Subsidiary (NCIF), which comprise the consolidated statements of financial position as of December 31, 2016 and 2015, and the related consolidated statements of activities 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. 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.

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.

NBC Tower - Suite 1500 | 455 N. Cityfront Plaza Dr. | Chicago, IL 60611-5313 | P: 312.670.7444 | F: 312.670.8301 | www.orba.com
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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 Subsidiary as of December 31, 2016 and 2015, 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.

Ostrow Reisin Berk & Abrams, Ltd.

April 13, 2017

NATIONAL COMMUNITY INVESTMENT FUND AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

December 31,		**2016**		2015
ASSETS				
Current assets:				
Cash and cash equivalents	**$**	**4,785,330**	$	4,134,589
Interest receivable		**6,399**		16,444
Accounts and dividends receivable		**96,950**		108,465
Grants receivable		**1,000,000**		
Prepaid expenses		**37,477**		58,647
Total current assets		**5,926,156**		4,318,145
Investments		**500,177**		5,158,764
Equipment and website development costs, net of accumulated depreciation and amortization		**26,157**		42,685
Loans receivable (net of allowance for loan losses of $20,000 in 2016 and $30,000 in 2015)		**980,000**		970,000
Equity investments in Community Development Financial Institutions (CDFIs)		**11,779,566**		13,582,881
Investment in NCIF Capital, LLC		**19,081**		19,391
Security deposit		**4,515**		4,515
Total assets	**$**	**19,235,652**	$	24,096,381

See notes to consolidated financial statements.

NATIONAL COMMUNITY INVESTMENT FUND AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (CONTINUED)

December 31,		**2016**		2015
LIABILITIES AND NET ASSETS				
Current liabilities:				
Current portion of notes payable	$	**750,000**	$	5,889,515
Discount for below-market interest rate		**(203,576)**		(117,443)
Accounts payable and accrued expenses		**473,987**		414,387
Total current liabilities		**1,020,411**		6,186,459
Long-term liabilities:				
Notes payable, net of current portion		**4,312,500**		5,250,000
Discount for below-market interest rate		**(584,618)**		
Total long-term liabilities		**3,727,882**		5,250,000
Total liabilities		**4,748,293**		11,436,459
Net assets:				
Unrestricted		**12,699,165**		12,542,479
Temporarily restricted		**1,788,194**		117,443
Total net assets		**14,487,359**		12,659,922
Total liabilities and net assets	$	**19,235,652**	$	24,096,381

See notes to consolidated financial statements.

NATIONAL COMMUNITY INVESTMENT FUND AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF ACTIVITIES

Years ended December 31,	2016	2015
Revenue:		
Interest and dividend income	$ **475,193**	$ 404,491
New Markets Tax Credits fee income	**807,851**	1,838,719
Contract income	**144,309**	67,965
Other earned revenue	**14,686**	143,280
Net assets released from restrictions - grants		12,955
Total revenue	**1,442,039**	2,467,410
Expenses:		
Personnel related expenses	**1,245,119**	1,125,438
Professional services	**337,580**	379,536
Trustees' fees	**95,000**	95,000
Occupancy expenses	**70,986**	63,917
Travel	**69,023**	70,732
Membership dues and fees	**65,739**	44,452
Insurance	**44,807**	47,366
Interest expense - contractual	**27,697**	115,380
Depreciation and amortization	**16,528**	17,424
Loan reserve (recovery)	**(10,000)**	29,400
Other expenses	**52,566**	167,783
Total expenses	**2,015,045**	2,156,428
Change in unrestricted net assets before gain (loss) on equity investments in CDFIs and investments and interest amortization	**(573,006)**	310,982
Realized gains on equity investments in CDFIs	**467,668**	112,589
Unrealized gains on investments and equity investments in CDFIs	**262,022**	71,071
Change in unrestricted net assets before interest amortization	**156,684**	494,642

See notes to consolidated financial statements.

NATIONAL COMMUNITY INVESTMENT FUND AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF ACTIVITIES (CONTINUED)

Years ended December 31,	**2016**	2015
Net assets released from restrictions:		
Interest - amortization of discount	**$ 287,580**	$ 469,773
Expense:		
Interest - amortization of discount	**(287,580)**	(469,773)
Change in unrestricted net assets	**156,684**	494,642
Temporarily restricted net assets:		
Grant income	**1,000,000**	
Interest discount	**958,333**	
Net assets released from restrictions:		
Interest - amortization of discount	**(287,580)**	(469,773)
Grants and other		(12,955)
Change in temporarily restricted net assets	**1,670,753**	(482,728)
Change in net assets	**1,827,437**	11,914
Net assets, beginning of year	**12,659,922**	12,648,008
Net assets, end of year	**$ 14,487,359**	$ 12,659,922

See notes to consolidated financial statements.

NATIONAL COMMUNITY INVESTMENT FUND AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31,	**2016**	2015
Cash flows from operating activities:		
Change in net assets	**$ 1,827,437**	$ 11,914
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	**16,528**	17,424
Loan reserve (recovery)	**(10,000)**	29,400
Interest discount	**(958,333)**	
Discount amortization on below-market interest rate loans	**287,580**	469,773
Amortization of investment premiums	**215**	1,613
Impairment of equity investments in CDFIs		12,500
Realized gains on equity investments in CDFIs	**(467,668)**	(125,089)
Unrealized gains on investments and equity investments in CDFIs	**(263,018)**	(71,071)
Change in operating assets and liabilities:		
Interest receivable	**10,045**	6,643
Accounts and dividends receivable	**11,515**	(48,175)
Grants receivable	**(1,000,000)**	
Prepaid expenses	**21,170**	(10,621)
Deferred loan fees		3,750
Accounts payable and accrued expenses	**59,600**	103,566
Net cash provided by (used in) operating activities	**(464,929)**	401,627
Cash flows from investing activities:		
Repayments from CDFIs on loans receivable		60,000
Investments in CDFIs on loans receivable		(1,000,000)
Proceeds from sales of equity investments in CDFIs	**2,635,502**	409,990
Proceeds from redemption of securities	**601,075**	500,000
Investment in LLC	**310**	(453)
Net redemptions of certificates of deposit	**4,052,918**	1,880,169
Purchases of equity investments in CDFIs	**(99,472)**	(1,000,000)
Proceeds from paydowns on investments	**2,352**	3,195
Purchase of equipment and website development costs		(4,226)
Net cash provided by investing activities	**7,192,685**	848,675

See notes to consolidated financial statements.

NATIONAL COMMUNITY INVESTMENT FUND
AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

Years ended December 31,	**2016**	2015
Cash flows from financing activity:		
Principal paid on notes payable	**$ (6,077,015)**	$ (640,000)
Net cash used in financing activity	**(6,077,015)**	(640,000)
Change in cash and cash equivalents	**650,741**	610,302
Cash and cash equivalents, beginning of year	**4,134,589**	3,524,287
Cash and cash equivalents, end of year	**$ 4,785,330**	$ 4,134,589
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	**$ 27,697**	$ 115,380

See notes to consolidated financial statements.

1. Organization

The National Community Investment Fund (referred to as NCIF), an independent nonprofit trust, was founded in December 1995. Its mission is to invest capital in institutions, primarily banks, that increase access to responsible financial products and services in underserved communities. NCIF generates reasonable 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 is the sole member of NCIFMLLC and NCIFMLLC is treated as a disregarded entity for tax purposes. All activities are consolidated in these financial statements and all references to NCIF refer to the consolidated entity, unless otherwise designated.

NCIF formed NCIF Capital, LLC as a limited liability company in the state of Delaware. NCIF Capital, LLC’s purpose is to act as the managing member in one or more limited liability companies that are 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. As of December 31, 2016 and 2015, NCIF owns 100% of NCIF Capital, LLC. The carrying value of NCIF’s investment at December 31, 2016 and 2015 approximates NCIF’s underlying equity in the net equity of NCIF Capital, LLC. See Note 12 for further detail on NMTC activities.

2. Summary of significant accounting policies

Basis of accounting:

The accompanying consolidated financial statements of NCIF have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Basis of presentation:

NCIF’s net assets are classified into three classes: unrestricted, temporarily restricted and permanently restricted – according to the existence or absence of donor-imposed restrictions. Unrestricted net assets are not subject to donor-imposed restrictions. Temporarily restricted net assets are subject to donor-imposed restrictions that either expire by passage of time or can be fulfilled and removed by actions of NCIF. Permanently restricted net assets are subject to donor-imposed restrictions to be maintained permanently by NCIF; only the income generated from certain grants may be available for operations. NCIF did not have any permanently restricted net assets at December 31, 2016 and 2015.

Principles of consolidation:

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

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. 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, 2016 and 2015.

NCIF is the sole member and 100% owner of NCIFMLLC, which is treated as a disregarded entity for tax purposes.

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.

Investments:

Investments consist of widely traded U.S. government obligations, U.S. government agency securities, mortgage-backed securities, municipal bonds and certificates of deposit. Investments 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). The gains and losses on investments sold during the year are recorded as realized gains (losses) for the year. Realized and unrealized gains or losses are combined and reflected in the consolidated statements of activities as gain (loss) on investments. Certificates of deposit are carried at cost, which approximates fair value.

Equipment and website development costs:

Equipment and website development 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 relatively high-risk, growing depository institutions that demonstrate a high social impact. The types of loans that NCIF provides include 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.

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 process of collection as determined by management. At December 31, 2016 and 2015, there were no nonaccrual loans. Loan fees and direct loan origination costs are deferred and amortized over the term of the loan as a yield adjustment.

2. Summary of significant accounting policies (continued)

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, 2016 and 2015. 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, 2016 and 2015.

Equity investments in CDFIs:

NCIF also makes noncontrolling equity investments in CDFIs. Most of these investments are not readily marketable and, accordingly, are recorded at historical cost. However, for those investments which have readily available market prices and trade actively on a public exchange, the carrying amount is fair value, net of any incentives payable to the lenders.

Contributions:

Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support depending on the existence or nature of any donor restrictions. All contributions are considered to be available for unrestricted use 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 temporarily restricted or permanently restricted support that increases those net asset classes.

When a temporary restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities as net assets released from restrictions. Temporarily restricted net assets relate to NCIF’s program to expand investments in CDFIs. See Note 11.

2. Summary of significant accounting policies (continued)

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.

3. Concentration of credit risk

NCIF primarily maintains its cash in federally-insured bank accounts and on some occasions, may exceed federally-insured limits in order to support our banks. The uninsured cash balance at December 31, 2016 and 2015 was approximately $4,003,000 and $2,468,000, respectively. NCIF has not experienced any losses in such accounts. Management believes that NCIF is not exposed to any significant credit risk on cash.

4. Grants receivable

During the year ended December 31, 2016, NCIF was awarded a grant of $1,000,000. See Note 11. Management expects it to be collected in one year or less and has not recorded an allowance for doubtful accounts at December 31, 2016.

5. Investments

Investments are stated at fair value. Fair values as of December 31, 2016 and 2015 are summarized as follows:

December 31,	**2016**	2015
Mortgage-backed securities	**$ 6,825**	$ 9,501
U.S. government agencies/municipal bonds		602,991
Certificates of deposit	**493,352**	4,546,272
Total	**$ 500,177**	$ 5,158,764

6. Fair value measurements

U.S. GAAP establishes a framework for measuring fair value. That framework provides a 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 or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described as follows:

Level 1	Inputs to valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that NCIF has the ability to access.
Level 2	Inputs to the valuation methodology include: • quoted prices for similar assets or liabilities in active markets; • quoted prices for identical or similar assets or liabilities in inactive markets; • inputs other than quoted prices that are observable for the asset or liability; • inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.
Level 3	Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

6. Fair value measurements (continued)

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2016 and 2015.

Mortgage-backed and U.S. government securities: The fair values of debt investments are determined by quoted market prices of similar securities with similar due dates or matrix pricing, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2 inputs).

Certificates of deposit: Fair values are estimated to approximate deposit account balances, payable on demand, as no discounts for credit quality or liquidity were determined to be applicable (Level 2 inputs).

Equity investments in CDFIs: The fair values of equity investments in CDFIs that are readily marketable are determined by obtaining quoted prices on nationally recognized security exchanges (Level 1 inputs).

Assets measured on a recurring basis:

Assets measured at fair value on a recurring basis at December 31, 2016:

	Level 1	Level 2	Total
Assets:			
Mortgage-backed securities		**$ 6,825**	**$ 6,825**
Certificates of deposit		**493,352**	**493,352**
Marketable equity investments in CDFIs	**$ 4,619,491**		**4,619,491**
	$ 4,619,491	**$ 500,177**	**$ 5,119,668**

6. Fair value measurements (continued)

Assets measured on a recurring basis: (continued)

Assets measured at fair value on a recurring basis at December 31, 2015:

	Level 1	Level 2	Total
Assets:			
Mortgage-backed securities		$ 9,501	$ 9,501
U.S. government agencies/municipal bonds		602,991	602,991
Certificates of deposit		4,546,272	4,546,272
Marketable equity investments in CDFIs	$ 4,311,875		4,311,875
	$ 4,311,875	$ 5,158,764	$ 9,470,639

7. Equity investments in Community Development Financial Institutions (CDFIs)

In accordance with U.S. GAAP and as discussed in Note 2, NCIF's equity investments in CDFIs that are not readily marketable are carried at historical cost, net of any reductions for permanent impairments. Determination of whether there is a permanent impairment is based on a review of available indicators including book value, prices on OTC bulletin boards and comparable arms length transactions. As of December 31, 2016 and 2015, NCIF held $7,160,075 and $9,271,006 in equity investments in CDFIs that are not readily marketable, respectively. For the years ended December 31, 2016 and 2015, NCIF recognized $0 and $12,500 of permanent impairment reductions on its equity investments in CDFIs, respectively.

8. Loans receivable and allowance for loan losses

December 31,		**2016**		2015
Total loans receivable	**$**	**1,000,000**	$	1,000,000

Changes in the allowance for loan losses are as follows:

Years ended December 31,		**2016**		2015
Balance, beginning of year	**$**	**30,000**	$	600
Increase (decrease) in provision for losses		**(10,000)**		29,400
Balance, end of year	**$**	**20,000**	$	30,000
Loans receivable, net of allowance for loan losses	**$**	**980,000**	$	970,000

9. Long-term debt

December 31,		**2016**		2015
Interest-free note payable to Bank of America Community Development Corporation, due October 1, 2023, quarterly principal payments of $187,500.	**$**	**5,062,500**	$	11,139,515
Current portion		**(750,000)**		(5,889,515)
Discount for imputed interest on below-market interest rate loans; see below.		**(788,194)**		(117,443)
Total long-term debt, net of current portion and discount for imputed interest	**$**	**3,524,306**	$	5,132,557

During 2016, NCIF refinanced its then existing 1% note payable to Bank of America Community Development Corporation and made a principal repayment of $5,514,515.

9. Long-term debt (continued)

A discount on below-market interest rate loans was imputed using an interest rate of 5.00% and 6.75% for the years ended December 31, 2016 and 2015, respectively, and is included in temporarily restricted contribution revenue in the year the loan is issued. The discount represents the cumulative amount of net revenue that has been recognized due to below-market interest rate loans. Each year, as the interest expense is recognized, the discounted amount is amortized to expense.

Future maturities of long-term debt are as follows:

Year ending December 31:	Amount
2017	$ 750,000
2018	750,000
2019	750,000
2020	750,000
2021	750,000
Thereafter	1,312,500
Total	$ 5,062,500

10. Functional expenses

The consolidated statements of activities includes the following functional expense categories:

Years ended December 31,	**2016**	2015
Fund advisory and investing	**$ 1,314,922**	$ 1,331,384
Grant related and special projects	**316,427**	390,549
General and administrative expenses	**326,919**	424,055
Fundraising	**56,777**	10,440
Total expenses	**$ 2,015,045**	$ 2,156,428

11. Temporarily restricted net assets

Temporarily restricted net assets are available for the following purpose or time restrictions:

December 31,	**2016**	2015
Time:		
CDFI Fund - Financial Assistance Award receivable	**$ 1,000,000**	
Imputed interest on below-market interest rate loans	**788,194**	$ 117,443
Total temporarily restricted net assets	**$ 1,788,194**	$ 117,443

Temporarily restricted net assets were released from restrictions in 2016 and 2015 as follows:

Years ended December 31,	**2016**	2015
Imputed interest on below-market interest rate loans	**$ 287,580**	$ 469,773
W.K. Kellogg Foundation grant - measuring the social impact of financial services providers		$ 12,955

12. New Markets Tax Credits (NMTC) activities

NCIF has been awarded a total of $271 million in NMTC allocations across the 2003, 2008, 2009, 2012, 2013 and 2016 program years. NCIF earned fee income from all closed deals of $807,851 and $1,838,719 during the years ended December 31, 2016 and 2015, 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 the probability of these being invoked is remote.

13. Lease commitments

NCIFMLLC has an operating lease agreement for office space in Chicago, Illinois through May 31, 2019. The lease is guaranteed by NCIF. Future minimum annual lease payments under this operating lease are as follows:

Year ending December 31:	Amount
2017	$ 72,286
2018	73,587
2019	30,887
Total	$ 176,760

13. Lease commitments (continued)

Rent expense under this lease (including real estate taxes) was approximately $71,000 and $64,000 for the years ended December 31, 2016 and 2015, respectively.

14. Subsequent events

Management of NCIF has reviewed and evaluated subsequent events from December 31, 2016, the consolidated financial statement date, through April 13, 2017, the date the consolidated financial statements were available to be issued. No events have occurred during this period that would be required to be recognized and/or disclosed in these consolidated financial statements as required by generally accepted accounting principles.