NATIONAL COMMUNITY INVESTMENT FUND AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS AND CONSOLIDATING SUPPLEMENTARY INFORMATION

YEAR ENDED DECEMBER 31, 2019

NATIONAL COMMUNITY INVESTMENT FUND
AND SUBSIDIARIES

YEAR ENDED DECEMBER 31, 2019

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Independent Auditors' Report

Board of Trustees
National Community Investment Fund and Subsidiaries

We have audited the accompanying consolidated financial statements of National Community Investment Fund and Subsidiaries (NCIF), which comprise the consolidated statement of financial position as of December 31, 2019, and the related consolidated statements of activities, functional expenses, and cash flows for the year 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 audit. We conducted our audit 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.

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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 Subsidiaries as of December 31, 2019, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2 to the consolidated financial statements, NCIF has adopted ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*, and ASU 2016-01, *Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. Our opinion is not modified with respect to these matters.

Other Matters

Consolidating Supplementary Information

Our audit was conducted for the purpose of forming an opinion om the consolidated financial statements as a whole. The consolidating information on pages 26 and 27 is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, changes in net assets and cash flows of the individual entities, and is not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 related to the consolidated financial statements as a whole.

Ostrow Reisin Berk & Abrams, Ltd.

June 17, 2020

NATIONAL COMMUNITY INVESTMENT FUND AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

December 31, 2019		
ASSETS		
Cash and cash equivalents	$	5,580,819
Investments		12,021,413
Other receivables		106,962
Prepaid expenses and other assets		56,466
Notes receivable, net		8,917,582
Property and equipment, net		66,319
Restricted cash		1,304,300
Total assets	$	28,053,861
LIABILITIES AND NET ASSETS		
Liabilities:		
Notes payable, net	$	8,679,901
Accounts payable and accrued expenses		637,690
Deferred revenue		70,000
Deposits		125,000
Total liabilities		9,512,591
Net assets:		
Without donor restrictions		18,178,872
With donor restrictions		362,398
Total net assets		18,541,270
Total liabilities and net assets	$	28,053,861

See notes to consolidated financial statements.

NATIONAL COMMUNITY INVESTMENT FUND AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF ACTIVITIES

Year ended December 31, 2019	Without donor restrictions	With donor restrictions	Total
Revenue:			
New Markets Tax Credit fees	$ 2,333,948		$ 2,333,948
Interest income	412,706		412,706
Net investment income	3,206,872		3,206,872
Contributions	553,000		553,000
Other	60,327		60,327
Net assets released from restrictions	146,482	$ (146,482)	
Total revenue	6,713,335	(146,482)	6,566,853
Expenses and other costs:			
Program services	1,796,440		1,796,440
Management and general	990,218		990,218
Fundraising	100,706		100,706
Total expenses	2,887,364		2,887,364
Other expenses:			
Start-up costs - professional fees	279,500		279,500
Total expenses and other costs	3,166,864		3,166,864
Change in net assets	3,546,471	(146,482)	3,399,989
Net assets, beginning of year	14,632,401	508,880	15,141,281
Net assets, end of year	$ 18,178,872	$ 362,398	$ 18,541,270

See notes to consolidated financial statements.

NATIONAL COMMUNITY INVESTMENT FUND AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Year ended December 31, 2019	Program Services			Supporting Services		
	Fund advisory and investing	Grant related and special projects	Total	Management and general	Fundraising	Total
Adjustment of allowance for loan losses				$ 15,647		$ 15,647
Depreciation and amortization	$ 6,195	$ 341	$ 6,536	2,187	$ 231	8,954
Education and conferences	2,805	154	2,959	990	105	4,054
Insurance	24,936	1,373	26,309	8,802	931	36,042
Interest	137,927	7,592	145,519	48,679	5,152	199,350
Membership dues and fees	74,413	4,096	78,509	26,264	2,779	107,552
Occupancy expenses	78,056	4,297	82,353	27,548	2,916	112,817
Other office and administrative	41,494	2,284	43,778	14,645	1,550	59,973
Personnel related expenses	1,191,186	65,571	1,256,757	420,409	44,493	1,721,659
Professional services	53,657	10,040	63,697	314,934	39,362	417,993
Technology	37,857	2,084	39,941	13,360	1,414	54,715
Travel	47,469	2,613	50,082	16,753	1,773	68,608
Trustees' fees				80,000		80,000
Total expenses	$ 1,695,995	$ 100,445	$ 1,796,440	$ 990,218	$ 100,706	$ 2,887,364

See notes to consolidated financial statements.

NATIONAL COMMUNITY INVESTMENT FUND AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended December 31, 2019	
Cash flows from operating activities:	
Change in net assets	$ 3,399,989
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Donated investment	(553,000)
Depreciation and amortization	156,853
Adjustment of allowance for loan losses	15,647
Net gain on investments held and sold	(2,965,648)
(Increase) decrease in operating assets:	
Other receivables	(23,659)
Prepaid expenses and other assets	3,215
Increase in operating liabilities:	
Accounts payable and accrued expenses	229,934
Deferred revenue	70,000
Deposits	45,000
Net cash provided by operating activities	378,331
Cash flows from investing activities:	
Originations of notes receivable	(4,224,476)
Repayments of notes receivable	1,590,691
Distributions from investments	3,454
Proceeds from sales of investments	2,647,005
Purchases of investments	(502,800)
Purchase of property and equipment	(75,273)
Net cash used in investing activities	(561,399)

See notes to consolidated financial statements.

NATIONAL COMMUNITY INVESTMENT FUND AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

Year ended December 31, 2019		
Cash flows from financing activities:		
Payments for loan fees	$	(38,248)
Proceeds from notes payable		6,196,375
Principal paid on notes payable		(779,743)
Net cash provided by financing activities		5,378,384
Net change in cash and cash equivalents and restricted cash		5,195,316
Cash and cash equivalents and restricted cash, beginning of year		1,689,803
Cash and cash equivalents and restricted cash, end of year	$	6,885,119
Supplemental disclosure of cash flow information:		
Cash paid for interest	$	16,466
Reconciliation of cash and cash equivalents and restricted cash reported within the consolidated statement of financial position that sum to the total of the same amount presented in the consolidated statement of cash flows:		
Cash and cash equivalents	$	5,580,819
Restricted cash		1,304,300
Total cash and cash equivalents and restricted cash	$	6,885,119

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's wholly-owned management entity, NCIF Management, Inc., employs staff and provides services to NCIF.

NCIF Capital is a wholly-owned subsidiary of NCIF and 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.

NCIF Credit Strategies Fund LLC (CSF) is a wholly-owned subsidiary of NCIF formed on June 14, 2019. CSF provides financial products and services in underserved markets nationally.

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.

Recent accounting pronouncements:

On January 1, 2019, NCIF adopted ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This guidance requires that NCIF recognize revenue to depict the transfer of promised goods and services to customers in an amount that reflects the consideration to which NCIF expects to be entitled in exchange for those goods or services. The guidance uses a principles-based approach for determining revenue recognition, eliminates the transaction and industry-specific guidance, and establishes a five step approach for the recognition of revenue. NCIF implemented this standard effective January 1, 2019 using the modified retrospective method. There were no material changes in the timing of recognition of revenue and therefore no material impact to the consolidated statement of financial position upon adoption.

2. Summary of significant accounting policies (continued)

Recent accounting pronouncements: (continued)

Effective January 1, 2019, NCIF adopted ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. This guidance requires a statement of cash flows to explain the change during the period in the total of cash, cash equivalents, restricted cash, and restricted cash equivalents and any internal transfers between cash, cash equivalents, restricted cash, and restricted cash equivalents are no longer presented in the consolidated statement of cash flows. NCIF has adjusted the presentation in the consolidated statement of cash flows accordingly.

Effective January 1, 2019, NCIF adopted ASU 2016-01, *Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. This guidance requires equity investments, with certain exceptions, to be measured at fair value with changes in fair value recognized in net income, simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment, and eliminates the requirement to disclose the methods and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the consolidated statement of financial position. There was no cumulative effect adjustment resulting from the adoption of ASU 2016-01 as of January 1, 2019.

Principles of consolidation:

The accompanying consolidated financial statements include the accounts of NCIF, NCIF Management, Inc., NCIF Capital and NCIF Credit Strategies Fund 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, 2019.

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.

Through July 2019, NCIF Management, Inc. was a limited liability company disregarded as an entity separate from NCIF for tax purposes. In July 2019, NCIF Management was converted to a corporation and is subject to federal and state income taxes.

NCIF Capital is a limited liability company that has elected to be treated as a taxable corporation.

NCIF Credit Strategies Fund LLC is a single member limited liability company disregarded as an entity separate from NCIF for federal tax purposes.

Management has determined that NCIF was not required to record a liability related to uncertain tax provisions as of December 31, 2019.

Cash and cash equivalents and restricted cash:

Cash and cash equivalents and restricted cash consist of cash and other highly liquid resources, such as money market funds, with an original maturity of three months or less when purchased.

Property and equipment:

Property and equipment is stated at cost. Depreciation and amortization is calculated on the straight-line method over the estimated useful lives of the assets as follows:

Furniture and equipment	7 years
Leasehold improvements	Shorter of life of lease or 15 years

2. Summary of significant accounting policies (continued)

Notes 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. Maturities vary with the needs of the recipient and are collateralized, when possible, by the assets of the business being financed.

Notes receivable are stated at the principal amount outstanding, net of unearned discount and loan origination fees, when applicable. The accrual of interest is discontinued whenever principal or interest has been in default ninety consecutive days or more, unless the note is in the process of collection as determined by management. At December 31, 2019, there were no nonaccrual loans.

Allowance for loan losses:

An allowance for loan losses has been established to provide for those notes 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. NCIF experienced no charge-offs for the year ended December 31, 2019.

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.

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, 2019.

2. Summary of significant accounting policies (continued)

Investments:

Investments consist of equity securities in publicly-traded and privately-held Community Development Financial Institutions (CDFI's) and investments in limited liability companies. NCIF has no controlling interests in CDFI's.

Marketable equity securities are measured 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). Marketable equity securities are stated at fair value based on quoted prices in active markets.

Non-marketable equity securities are measured at cost minus impairment, if any, plus or minus changes resulting from observable prices in orderly transactions for the identical or similar investment of the same issuer. Non-marketable equity securities are also assessed for impairment. 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.

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.

Dividend income, realized and unrealized gains and losses, changes from observable transactions, impairment and investment expenses are included under the caption net investment income on the consolidated statement of activities.

Donations of marketable equity securities are recognized at fair value on the date of donation.

Long-term debt:

Loan fees are capitalized and amortized over the life of the notes payable. Unamortized loan fees are reported on the consolidated statement of financial position as a direct deduction from notes payable. Loan fee amortization expense is included in interest expense.

Loans with below-market interest rates are discounted to present value. The discount is recognized as restricted contributions 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.

2. Summary of significant accounting policies (continued)

Revenue and revenue recognition:

NCIF generally measures revenue based on the amount of consideration NCIF expects to be entitled for the transfer of goods or services to a customer, then recognizes this revenue when or as NCIF satisfies its performance obligations under the contract, which requires significant judgment, except in transactions where accounting principles generally accepted in the United States of America provide other applicable guidance. Material revenue streams are reported separately on the consolidated statement of activities.

NCIF primarily generates revenue from New Markets Tax Credit fees which consist of sponsor fees, asset management fees, and success fees.

<u>Sponsor fees</u>

Revenue from sponsor fees is recognized at a point in time. Sponsor fees are generally paid to NCIF from both the CDE investor member and the CDE for NCIF's allocation of the New Markets Tax Credit award to the CDE and other start-up and organizational services benefiting the CDE investor member and CDE. The sponsor fees are a fixed percentage of the equity investment made by the CDE investor member. The performance obligation by NCIF is to assist in the transfer of its New Markets Tax Credit allocation to a CDE and to provide start-up and organizational services benefiting the CDE investor member and CDE; therefore, the performance obligation is satisfied and revenue is recognized when the deal closes.

<u>Asset management fees</u>

Revenue from asset management fees is recognized over a period of time. Asset management fees are earned by NCIF for management services provided to CDEs. Asset management fees are a fixed annual amount equal to a percentage of the equity investment made from the CDE investor member to the CDE. Asset management fees are accrued monthly and are paid monthly or quarterly. The performance obligations are estimated to be satisfied evenly over the year, which is a significant judgement, and as such are recognized over time in one calendar year.

2. Summary of significant accounting policies (continued)

Revenue and revenue recognition: (continued)

Success fees

Revenue from success fees is recognized at a point in time. The success fee is an additional payment, made upon the end of the seven-year CDE compliance period, solely to the extent that a NMTC recapture event has not occurred. Success fees are equal to a fixed percentage of the equity investment made from the CDE investor member to the CDE. Success fee revenue is not recorded until the end of the compliance period when the hurdle is met since there is variable consideration due to a possibility of a significant reversal. Payment is due when the deal successfully unwinds with no NMTC recapture events. There was no revenue from success fees recognized in 2019.

Practical expedients, disaggregation of revenue, and contract balances

NCIF applied the modified-retrospective method upon adoption of ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)* which allowed the new accounting standard to be applied only to contracts that were not considered substantially complete as of January 1, 2019. The effect of applying the expedient was not material to the consolidated financial statements.

NCIF does not adjust the contract price for the effects of a significant financing component if NCIF expects, at contract inception, that the period between when NCIF transfers a service to a customer and when the customer pays for that service will be one year or less.

Since 2003, NCIF has been awarded $326 million in NMTC allocations. 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.

2. Summary of significant accounting policies (continued)

Revenue and revenue recognition: (continued)

Practical expedients, disaggregation of revenue, and contract balances (continued)

New Markets Tax Credit fees are recognized either at a point in time or over a period of time as follows:

Year ended December 31, 2019	
New Markets Tax Credit fees recognized at a point in time:	
Sponsor fees	$ 1,400,000
New Markets Tax Credit fees recognized over time:	
Asset management fees	933,948
Total New Markets Tax Credit fees	$ 2,333,948

There were no contract assets or contract liabilities as of January 1, 2019 or December 31, 2019.

Contributions:

Contributions 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 statement of activities as net assets released from restrictions.

2. Summary of significant accounting policies (continued)

Start-up costs:

Start-up costs include professional fees incurred for the formation of NCIF Credit Strategies Fund LLC.

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, education and conferences, insurance, interest, membership dues and fees, occupancy expenses, other office and administrative, technology, and travel expenses are allocated by the percentage of personnel related expenses in each functional category to total personnel related expenses. Professional services expenses and trustees' fees are allocated directly to the program and supporting services for which they benefit.

Risks and uncertainties:

NCIF invests in equity securities which are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with equity securities, it is at least reasonably possible that changes in the values of equity securities will occur in the near term and that such changes could materially affect the amounts reported on the consolidated statement of financial position at December 31, 2019.

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.

Subsequent events:

Management has reviewed and evaluated subsequent events from December 31, 2019, the consolidated financial statement date, through June 17, 2020, the date the consolidated financial statements were available to be issued.

2. Summary of significant accounting policies (continued)

Subsequent events: (continued)

NCIF borrowed $1,099,441 in January 2020 and $3,388,035 in March 2020 under the Master Loan Agreement dated August 23, 2019. Proceeds were used to purchase notes receivable.

As a result of the spread of the COVID-19 coronavirus, economic uncertainties have arisen which may negatively impact NCIF's investments and notes receivable. Other financial impact could occur though such potential impact is unknown at this time.

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, 2019 was approximately $5,870,000. Management believes that NCIF is not exposed to any significant credit risk on cash.

4. Restricted cash

Cash is restricted for the following purposes:

December 31, 2019	
Debt service reserve	$ 136,856
Investment and loan purchases	1,090,358
Notes payable principal payments	77,086
Total restricted cash	$ 1,304,300

The debt service reserve represents cash restricted for payment of senior and subordinated notes payable principal and interest. The debt service reserve is funded from senior and subordinated notes payable proceeds.

Cash received from certain investment sales is restricted for new investment and loan purchases.

Notes receivable principal payments received on certain notes receivable are restricted for senior and subordinated notes payable principal payments.

5. Liquidity and availability

The following represents NCIF's financial assets available to meet general expenditures within one year:

December 31, 2019	
Cash and cash equivalents	$ 5,580,819
Less net assets with donor restrictions	(100,000)
Financial assets available to meet general expenditures within one year	$ 5,480,819

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 NMTC fees, investment income, and Community Development Financial Institution (CDFI) grants. When NCIF acts as the 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 be needed for upcoming operational expenditures.

6. Property and equipment

The components of property and equipment are as follows:

December 31, 2019	
Furniture and equipment	$ 64,379
Leasehold improvements	10,894
	75,273
Less accumulated depreciation and amortization	(8,954)
Property and equipment, net	$ 66,319

7. Investments

The following is a summary of NCIF's investments:

December 31, 2019	
Marketable CDFI equity securities	$ 4,126,831
Non-marketable CDFI equity securities	7,877,425
Investment in limited liability companies	17,157
Total investments	$ 12,021,413

There were no upward or downward adjustments to non-marketable CDFI equity securities measured at cost during the year ended December 31, 2019.

NCIF recognized an impairment loss of $293,893 on non-marketable CDFI equity securities during the year ended December 31, 2019.

7. Investments (continued)

Investment income is as follows:

Year ended December 31, 2019	Marketable CDFI equity securities	Non-marketable CDFI equity securities	Investment in limited liability companies	Total
Dividends	$ 215	$ 241,009		$ 241,224
Realized gains (losses)	(40,366)	2,157,122		2,116,756
Unealized gains (losses)	1,142,582	(293,893)	$ 203	848,892
Net investment income	$ 1,102,431	$ 2,104,238	$ 203	$ 3,206,872

Investment in limited liability companies:

During the year ended December 31, 2019, NCIF had a 0.01% ownership interest in NCIF New Markets Capital Funds VII – XXXVIII CDE, LLC’s. At December 31, 2019, NCIF has a 0.01% ownership interest in NCIF New Markets Capital Funds XII – XXXVIII 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, 2019	
Assets	$ 158,127,280
Liabilities	(302,487)
Members’ equity	$ 157,824,793

Year ended December 31, 2019	
Revenue	$ 2,672,740
Expenses	(1,623,943)
Net income	$ 1,048,797

8. Notes receivable

Notes receivable require quarterly payments of interest at rates ranging from 4.10% to 9.00%. Principal repayment requirements vary. In general, principal repayments are not required during initial periods and required principal payments are based on principal amortization periods that exceed the maturity date and include a balloon payment at maturity. Loans may be repaid without penalty.

The following is a summary of notes receivable:

December 31, 2019	
Notes receivable	$ 9,089,294
Less allowance for loan losses	(171,712)
Total notes receivable, net	$ 8,917,582

Future principal maturities of notes receivable are as follows:

Year ending December 31:	Amount
2020	$ 316,478
2021	1,555,514
2022	330,423
2023	313,185
2024	1,693,555
Thereafter	4,880,139
Total	$ 9,089,294

9. Notes payable

December 31, 2019	
Note payable (A)	$ 2,812,500
Senior notes payable (B)	5,197,821
Subordinated notes payable (B)	968,809
	8,979,130
Less unamortized loan fees	(36,831)
Less unamortized discount	(262,398)
Total notes payable, net	$ 8,679,901

(A) Interest-free note payable to Bank of America Community Development Corporation, due October 1, 2023, quarterly principal payments of $187,500. Discounted at 5%.

Future minimum payments are as follows:

Year ending December 31:	Amount
2020	$ 750,000
2021	750,000
2022	750,000
2023	562,500
Total	$ 2,812,500

9. Notes payable (continued)

(B) NCIF received $15,000,000 in loan commitments from lenders under a master loan agreement dated August 23, 2019. At December 31, 2019, the remaining loan commitment is $8,803,625. Loan proceeds are used to purchase notes receivable. Loans must be requested by NCIF during a two year availability period starting on August 23, 2019. The loan availability period may be extended by one year with the lenders' consent.

The notes are unsecured, bear interest at rates ranging from 3.15% to 4.25% and mature seven years after the final loans are made. Payments of interest are due quarterly. The notes require quarterly principal payments equal to cash received during the quarter from:

1) Specified notes receivable principal payments or prepayments received,
2) Other payments at maturity or liquidation of specified notes receivable and specified investments,
3) The sale or other disposition of specified notes receivable and specified investments, less expenses, including management fees, and
4) Proceeds from interest, fees and other income received from specified notes receivable and specified investments, less expenses other than management fees.

NCIF has the right to reinvest proceeds from the sale or transfer of specified investments instead of including as cash received for quarterly principal payments. Each note may be repaid or prepaid without penalty.

Quarterly principal payments are due within 45 days of the end of each quarter to senior and subordinated lenders as follows:

First, to the senior lenders:

1) Pro-rata to each senior lender in proportion to the respective principal amounts owed until each such senior lender receives total distributions equal to the principal amount of loans made by such senior lender.
2) Pro-rata to each such senior lender in proportion to the respective principal amounts owed until such senior lender receives total distributions equal to remaining obligations (including interest) with respect to loans made by such senior lender.

9. Notes payable (continued)

Second, to the subordinated lenders:

1) Pro-rata to each subordinated lender in proportion to the respective amounts owed until each such subordinate lender receives total distributions equal to the principal amount of loans made by such subordinated lender.
2) Pro-rata to each such subordinated lender in proportion to the respective amounts owed until such subordinated lender receives total distributions equal to remaining obligations (including interest) with respect to loans made by such subordinated lender.

NCIF maintains a debt service reserve for payment of senior and subordinated notes payable principal and interest. The debt service reserve is funded from senior and subordinated notes payable proceeds.

Starting in August 2024, NCIF must repay the notes quarterly in an amount equal to the greater of principal payments made in the prior quarter or 3% of outstanding principal.

10. Net assets with donor restrictions

As of December 31, 2019, net assets with donor restrictions are restricted for the following purpose or time restrictions:

December 31, 2019		
Time restricted:		
Unamortized discount on below-market interest rate loan	$	262,398
Purpose restricted:		
Investing in Outcomes		100,000
Total net assets with donor restrictions	$	362,398

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

Year ended December 31, 2019		
Time restricted:		
Amortization of discount on below-market interest rate loan	$	146,482

11. Lease commitments

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

Year ending December 31:	Amount
2020	$ 124,063
2021	125,948
2022	127,832
2023	129,717
2024	120,608
Total	$ 628,168

Rent expense was approximately $110,000 for the year ended December 31, 2019.

NATIONAL COMMUNITY INVESTMENT FUND AND SUBSIDIARIES

CONSOLIDATING SCHEDULE OF FINANCIAL POSITION

December 31, 2019	National Community Investment Fund	NCIF Management, Inc.	NCIF Capital, LLC	NCIF Credit Strategies Fund LLC	Eliminations	Consolidated
ASSETS						
Cash and cash equivalents	$ 5,360,885	$ 130,382	$ 29,171	$ 60,381		$ 5,580,819
Investments	964,910		17,157	11,039,346		12,021,413
Other receivables	73,250	86,409	988	41,889	$ (95,574)	106,962
Prepaid expenses and other assets	18,126	38,340				56,466
Notes receivable, net	1,352,201			7,565,381		8,917,582
Property and equipment, net		66,319				66,319
Restricted cash				1,304,300		1,304,300
Investment in subsidiaries	13,761,751				(13,761,751)	
Total assets	$ 21,531,123	$ 321,450	$ 47,316	$ 20,011,297	$ (13,857,325)	$ 28,053,861
LIABILITIES AND NET ASSETS, SHAREHOLDER'S DEFICIENCY AND MEMBER'S EQUITY						
Liabilities:						
Notes payable, net	$ 2,550,102			$ 6,129,799		$ 8,679,901
Accounts payable and accrued expenses	244,751	$ 323,532	$ 18,587	146,394	$ (95,574)	637,690
Deferred revenue	70,000					70,000
Deposits	125,000					125,000
Total liabilities	2,989,853	323,532	18,587	6,276,193	(95,574)	9,512,591
Net assets, shareholder's deficiency and member's equity	18,541,270	(2,082)	28,729	13,735,104	(13,761,751)	18,541,270
Total liabilities and net assets, shareholder's deficiency and member's equity	$ 21,531,123	$ 321,450	$ 47,316	$ 20,011,297	$ (13,857,325)	$ 28,053,861

NATIONAL COMMUNITY INVESTMENT FUND AND SUBSIDIARIES

CONSOLIDATING SCHEDULE OF ACTIVITIES

Year ended December 31, 2019	National Community Investment Fund	NCIF Management, Inc.	NCIF Capital, LLC	NCIF Credit Strategies Fund LLC	Eliminations	Consolidated
Revenue:						
New Markets Tax Credit fees	$ 2,333,948					$ 2,333,948
Interest income	316,110			$ 96,596		412,706
Net investment income	2,285,934		$ 203	920,735		3,206,872
Contributions	553,000					553,000
Management fees		$ 2,438,127			$ (2,438,127)	
Loss from subsidiaries	(3,197,942)				3,197,942	
Forgiveness of amounts due from subsidiaries	3,846,022				(3,846,022)	
Other	60,327					60,327
Total revenue	6,197,399	2,438,127	203	1,017,331	(3,086,207)	6,566,853
Expenses and other costs	2,797,410	6,064,129	1,003	588,469	(6,284,147)	3,166,864
Change in net assets and net income (loss)	3,399,989	(3,626,002)	(800)	428,862	3,197,940	3,399,989
Net assets, shareholder's deficiency and member's equity, beginning of year	15,141,281	3,623,920	29,529		(3,653,449)	15,141,281
Capital contribution				13,306,242	(13,306,242)	
Net assets, shareholder's deficiency and member's equity, end of year	$ 18,541,270	$ (2,082)	$ 28,729	$ 13,735,104	$ (13,761,751)	$ 18,541,270