

COMMUNITY INVESTMENT CORPORATION

Audited Financial Statements

For the year ended December 31, 2015

COMMUNITY INVESTMENT CORPORATION

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Community Investment Corporation

We have audited the accompanying financial statements of Community Investment Corporation (a nonprofit organization), (the Organization) which comprise the statement of financial position as of December 31, 2015, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of Community Investment Corporation as of December 31, 2015, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses on page 15 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

ROBERTS ALVAROIS G. BOWEN

July 21, 2016

COMMUNITY INVESTMENT CORPORATION

STATEMENT OF FINANCIAL POSITION

December 31, 2015

ASSETS

Current assets:	
Cash and equivalents	\$ 1,853,188
Accounts receivable	764,579
Lines of credit - direct loan program, current portion	204,274
Notes receivable - direct loan program, current portion	<u>856,818</u>
Total current assets	3,678,859
Lines of credit - direct loan program, non-current portion	142,118
Notes receivable - direct loan program, non-current portion	451,754
Property and equipment, net	6,936
Investments	1,006,648
Community Investment Program	<u>155,943</u>
Total assets	<u>\$ 5,442,258</u>

LIABILITIES AND NET ASSETS

Current Liabilities:	
Accounts payable and accrued expenses	<u>\$ 34,425</u>
Total current liabilities	34,425
Amounts due to the Industrial Development Authorities of the City of Tucson and the County of Pima	<u>1,828,091</u>
Total liabilities	1,862,516
Net assets:	
Unrestricted	<u>3,579,742</u>
Total unrestricted net assets	<u>3,579,742</u>
Total liabilities and net assets	<u>\$ 5,442,258</u>

See independent auditor's report and
notes to financial statements.

COMMUNITY INVESTMENT CORPORATION

STATEMENT OF ACTIVITIES
For the year ended December 31, 2015

Unrestricted revenue, gains and other support:	
Program service revenue	\$ 654,486
Grant income	50,477
Interest income	74
Investment income, net	(106,019)
Gain (loss) on disposition - Community Investment Program	<u>(20,358)</u>
Total unrestricted revenue, gains and other support	578,660
Unrestricted expenses:	
Program services	672,734
Management and general	<u>35,406</u>
Total unrestricted expenses	<u>708,140</u>
Change in unrestricted net assets	(129,480)
Unrestricted net assets, beginning of year	<u>3,709,222</u>
Unrestricted net assets, end of year	<u><u>\$ 3,579,742</u></u>

See independent auditor's report and
notes to financial statements.

COMMUNITY INVESTMENT CORPORATION

STATEMENT OF CASH FLOWS
For the year ended December 31, 2015

Cash flows from operating activities:	
Change in unrestricted net assets	\$ (129,480)
Adjustment to reconcile change in unrestricted net assets to net cash flows from operating activities:	
Depreciation and amortization	4,966
(Gain) loss on disposition - Community Investment Program	20,358
Change in operating assets and liabilities:	
Accounts receivable	(40,907)
Notes receivable - direct loan program net of collections, advances, non-cash transactions and uncollectible note	(450,640)
Accounts payable and accrued expenses	888,495
Total adjustments	<u>422,272</u>
Net cash flow from operating activities	292,792
Cash flows from investing activities:	
Decrease in value of investments	(178,737)
Proceeds from disposal - Community Investment Program	22,454
Return of principal on investment - Community Investment Program	791,296
Net cash flows from investing activities	<u>635,013</u>
Change in cash and equivalents	927,805
Cash and equivalents, beginning of year	<u>925,383</u>
Cash and equivalents, end of year	<u>\$ 1,853,188</u>

Supplemental disclosure of non-cash activities:

Unrealized loss on investments of \$163,325 occurred this year.

See independent auditor's report and notes to financial statements.

COMMUNITY INVESTMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS
December 31, 2015

1. Nature of Activities

Community Investment Corporation (CIC) is a non-profit corporation organized under the laws of the State of Arizona. CIC was formed to support the economic development activities of the Industrial Development Authority (IDA) of the County of Pima. Toward that end, CIC conducts programs which encourage the creation of well-paying jobs for Pima County.

CIC secures strategic investments in our communities through programs such as bond compliance post issuance and other related services under the Charter School Bond Compliance Program, loan programs for non-profits and small businesses, as a fiscal agent for the City of Tucson and Pima County Housing Assistance Programs, and financial education and counseling.

2. Summary of Significant Accounting Policies

Basis of Presentation

CIC is required to report information regarding its financial position and activities according to three classes of net assets (unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets) based upon the existence or absence of donor-imposed restrictions.

- Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations.
- Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met either by actions of CIC and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. No amounts have been reflected in the financial statements as temporarily restricted support because CIC received no such gifts or contributions during or before the year ended December 31, 2015.
- Permanently restricted net assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by CIC. No amounts have been reflected in the financial statements as permanently restricted support because CIC received no such gifts or contributions during or before the year ended December 31, 2015.

Basis of Accounting

The financial statements of CIC have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

Cash and Equivalents

CIC considers cash and highly-liquid debt instruments which mature within three months or less to be cash and equivalents. The Federal Deposit Insurance Corporation (FDIC) insures cash accounts in non-interest bearing accounts at banks regardless of the account balance and interest bearing accounts up to \$250,000. At December 31, 2015, CIC had \$1,297,069 in a bank in excess of the FDIC insurance limit. It is the opinion of the Organization's management that the solvency of the referenced financial institution is not of concern at this time.

Accounts Receivable

Accounts receivable are stated at unpaid balances and are considered fully collectible. Receivables are considered impaired if full principal payments are not received in accordance with the contractual terms. Management provides for probable uncollectible amounts through an allowance for uncollectible accounts. At December 31, 2015 the balance of the allowance was \$-0-.

Program Advances and Related Fees Earned

Program advances includes funds held as fiscal agent for the 2012 Pima Tucson Homebuyer's Solution Program. Under the terms of the Program, the Organization receives advances from the Industrial Development Authorities of the City of Tucson and the County of Pima (IDAs) for the

COMMUNITY INVESTMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS
December 31, 2015

2. Summary of Significant Accounting Policies, Continued

Program Advances and Related Fees Earned, continued

purpose of providing down-payment assistance through program intermediaries to qualifying homebuyers in the Tucson area. After closing, pooled mortgages are securitized and sold on the open market generating both fee income to the Organization and the IDAs and the return of the down payment assistance advanced, based on the realized spread between prevailing tax-advantaged bond rates and the underlying rate at which mortgages are made. Fees earned by the Organization under the Program total \$87,850 for the year ended December 31, 2015 and are included in program service revenue. Through December 31, 2015, total cumulative advances and earnings due to the IDA's equal \$1,828,091. The IDAs have indicated their intention to allow the advances and earnings to remain in the program until the program ends in 2017.

Property and Equipment

Property and equipment are recorded at cost and depreciated using the straight-line method over the estimated useful lives of the assets. The cost of maintenance and repairs is charged to expense in the year incurred. Expenditures in excess of \$5,000 that increase the useful lives of the assets are capitalized and depreciated. The costs and related accumulated depreciation of assets sold or otherwise disposed of are removed from the accounts and any resulting gain or loss is reflected in the statement of activities in the year of disposition.

Depreciation for financial reporting is computed using straight-line and accelerated methods over the following estimated useful lives of the assets:

Computer equipment	5 years
Furniture and fixtures	5-7 years

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values based on quoted prices in active markets (all Level I measurements) in the statement of financial position. Unrealized gains and losses are included in the change in net assets.

Community Investment Program Equity Method Accounting

The Organization accounts for its Community Investment Program affiliates by the equity method. The Organization records its share of such earnings (loss) or gain (loss) in the Statement of Activities as "Equity in earnings (losses) of Community Investment Program" or "Gain (loss) on disposition – Community Investment Program" and the carrying value of the Organization's investment in unconsolidated affiliates is recorded in the Statements of Financial Position as "Community Investment Program".

Revenue Recognition

Program service revenue is generated through direct loans to small businesses, loan servicing of non-profit loans, charter school loan management services and fiscal agent activities for down payment assistances programs. Grant income is recognized upon receipt of the grant funds.

Functional Expenses

CIC allocates its expenses on a functional basis among its programs and support services. Expenses that can be identified with a specific program and support service are allocated directly according to their natural expenditure classification. Other expenses that are common to several functions are allocated by other reasonable methods.

COMMUNITY INVESTMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

2. Summary of Significant Accounting Policies. Continued

Income Tax

CIC is a tax-exempt non-profit organization described in Internal Revenue Code Section 501(c)(3) and Arizona Revised Statutes Section 43-1201(4). Therefore, no provision for income taxes has been made in the accompanying financial statements. However, income from certain activities not directly related to the organization's tax-exempt purpose is subject to taxation as unrelated business income. The Organization believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements. The Organization is also classified as a Type 2 Supporting Organization under Section 509(a)(3) of the Internal Revenue Code.

Any interest and penalties assessed to the Organization are recorded in operating expenses. For the year ended December 31, 2015 there were no interest or penalties recorded in the accompanying financial statements.

The Organization's federal income tax returns generally remain subject to examination by the Internal Revenue Service for three years from the date filed.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Date of Management's Review

The Organization has evaluated events and transactions for subsequent events that would impact the financial statements for the year ended December 31, 2015 through July 21, 2016, the date the financial statements were available to be issued. There were no subsequent events that require recognition or disclosure in the financial statements.

3. Notes Receivable - Lines of Credit

The Organization has entered into agreements with several small businesses and charter schools whereby CIC will provide revolving lines of credits for a specified period of time as evidenced by a promissory note. The lines of credit range between \$25,000 and \$220,000. Each borrower must submit a draw request in a minimum amount specified in each promissory note up to their maximum amount authorized. Payments of interest only are required on each draw. If the principal amount borrowed is repaid prior to maturity of the note, the borrower may again borrow up to the balance of the note. The lines of credit are secured by security agreements with a lien on assets, UCC financing statements, irrevocable secondary pledges and personal guarantees as specified in the promissory notes.

The maximum amount authorized on the lines of credit total \$920,000. The balance outstanding at December 31, 2015 is \$346,392.

COMMUNITY INVESTMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS
December 31, 2015

3. Notes Receivable - Lines of Credit, continued

Lines of Credit outstanding at December 31, 2015 consist of:

<u>Borrower</u>	<u>Maturity date</u>	<u>Interest rate</u>	<u>Maximum amount outstanding</u>	<u>Balance</u>
[REDACTED]	Sep-16	10.0%	\$ 100,000	\$ 100,000
[REDACTED]	Dec-17	8.0%	220,000	80,200
[REDACTED]	Nov-16	10.0%	75,000	74,941
[REDACTED]	Oct-16	10.0%	175,000	29,333
[REDACTED]	May-17	10.0%	25,000	24,979
[REDACTED]	Feb-17	10.0%	25,000	21,939
[REDACTED]	Jun-17	10.0%	150,000	15,000
[REDACTED]	Jul-16	10.0%	100,000	-
[REDACTED]	Aug-15	9.0%	50,000	-
				346,392
Less amounts due within one year				(204,274)
Notes payable, due after one year				\$ 142,118

4. Notes Receivable – Direct Loan Program

All notes receivable are collateralized. The Organization believes that the value of such collateral is in excess of the loans receivable as of December 31, 2015 and, therefore, no allowance has been provided. Notes receivable consisted of the following at December 31, 2015:

	<u>Collateral</u>	<u>Interest rate</u>	<u>Monthly payment</u>	<u>Maturity date</u>	<u>Balance</u>
Note receivable	Security agreement & pledge of state payments	10.00%	\$ 3,965	Jul 2016	\$ 295,570
Note receivable	Deed of trust	8.50%	interest only	Mar 2016	199,821
Note receivable	Security agreement & unconditional promise to pay	9.00%	3,114	May 2016	135,630
Note receivable	Security agreement & unconditional promise to pay	10.00%	2,125	Oct 2016	97,340
Note receivable	Security agreement & UCC-1 financing statement	10.00%	2,125	Feb 2017	88,451
Note receivable	Security agreement & UCC-1 financing statement	10.00%	1,322	Dec 2015	85,798

COMMUNITY INVESTMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS
December 31, 2015

4. Notes Receivable – Direct Loan Program, Continued

	<u>Collateral</u>	<u>Interest rate</u>	<u>Monthly payment</u>	<u>Maturity date</u>	<u>Balance</u>
Note receivable	Security agreement	8.50%	interest only	Dec 2016	72,822
Note receivable	Security agreement	10.00%	1,806	Dec 2017	70,993
Note receivable	Security agreement & UCC-1 financing statement	10.00%	1,195	Oct 2015	60,491
Note receivable	Security agreement	10.00%	interest only	May 2016	60,000
Note receivable	Security agreement	10.00%	1,707	Aug 2017	32,943
Note receivable	Security agreement & personal guarantee	10.00%	interest only	Mar 2016	30,000
Note receivable	Security agreement & personal guarantee	10.00%	5,026	Jun 2016	27,374
Note receivable	Security agreement	10.00%	531	Oct 2017	24,451
Note receivable	Security agreement	10.00%	319	Jun 2017	13,820
Note receivable	Deed of trust & assignment of rents	6.00%	60	Nov 2038	7,458
Note receivable	Security agreement & personal guarantee	10.00%	645	Apr 2016	2,968
Note receivable	Security agreement	10.00%	645	Apr 2016	2,645
					<u>1,308,572</u>
Less amounts due within one year					<u>856,818</u>
Notes payable, due after one year					<u>\$ 451,754</u>

Scheduled future maturities of the above notes receivable are as follows:

2016	\$ 856,818
2017	444,869
2018	314
2019	333
2020	356
Thereafter	5,882
	<u>\$ 1,308,572</u>

COMMUNITY INVESTMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS
December 31, 2015

5. Property and Equipment

Property and equipment consist of the following at December 31, 2015:

Furniture and fixtures	\$ 29,477
Equipment	<u>6,832</u>
Total property and equipment	36,309
Less accumulated depreciation	<u>(29,373)</u>
Property and equipment, net	<u>\$ 6,936</u>

6. Investments and Fair Value Measurement

The Organization invests in a mix of marketable equity securities and bonds. Investments are carried at fair value based on quoted prices in active markets for identical assets (Level 1). Investments held and their maturity dates at December 31, 2015 were as follows:

Investment Type	Fair Value	Investment Maturity (In Years)			
		Less than 1	1 - 5	6 - 10	over 10
Marketable equity securities	\$ 506,901	\$ -	\$ -	\$ -	\$ -
Corporate bonds	485,796	184,450	264,451	34,429	2,466
US Treasuries	13,951	-	6,970	6,981	-
Total	<u>\$ 1,006,648</u>	<u>\$ 184,450</u>	<u>\$ 271,421</u>	<u>\$ 41,410</u>	<u>\$ 2,466</u>

No single asset represents 5% or more of the Organization's investments.

Credit Risk

Credit quality distribution for investments, with credit exposure as a percentage of total investments is as follows at year end:

Investment Type	Rating	Percentage
Corporate Bonds	AAA+ to A-	7.0%
Corporate Bonds	BBB+ to B-	37.0%
Corporate Bonds	CCC- to CCC+	3.0%

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the Organization will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. The Organization does not have a formal policy for custodial credit risk.

The Organization's investments are held in the street name of the investment firm holding the securities. The investment firm is a member of the SIPC and thus provides SIPC coverage on assets up to \$500,000. They carry additional "excess SIPC" insurance through Lloyds of London up to \$150 million. Thus the \$1,006,648 invested in bonds and securities is fully insured.

Concentration of Credit Risk

The Organization diversifies its investments by security type and institution. Investment policies are governed by board decisions. All funds shall be invested with due regard for prudent investment management. The Organization's objectives are capital appreciation and moderate income growth.

COMMUNITY INVESTMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS
December 31, 2015

6. Investments and Fair Value measurement, continued

Investment income, net, consisted of the following at December 31, 2015:

Unrestricted:

Dividend and interest	\$ 25,759
Net gains and losses on investments	(119,365)
Investment expenses	<u>(12,413)</u>
Investment income, net	<u>\$ (106,019)</u>

7. Community Investment Program

CIC holds equity investments in unconsolidated for-profit entities that are accounted for by the equity method, adjusted for impairment of value. The following table summarizes the Organization's equity in the net assets of and losses of affiliates.

bioVidria, Inc. (40,000 shares, Preferred Series B)	\$ 50,000
Desert Tech LLC (3.1153% interest)	5,943
Medipacs, Inc. (250,000 shares, Preferred, Series A-3)	<u>100,000</u>
	<u>\$ 155,943</u>

Gain (loss) on disposition - Community Investment Program

Engineering Synthesis Design, Inc	\$ 22,454
BioVigilent	<u>(42,812)</u>
	<u>\$ (20,358)</u>

No impairment losses were recognized in the year ended December 31, 2015.

8. Program Service Revenue

Program service revenue for the year ended December 31, 2015 consists of the following:

Direct loan program	\$ 138,436
Loan servicing program	94,900
Charter school loan program	311,620
Down payment assistance programs	<u>109,530</u>
	<u>\$ 654,486</u>

COMMUNITY INVESTMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS
December 31, 2015

9. Program and Supporting Services

The following program and supporting services are included in the accompanying financial statements:

Program services - Includes 1) account servicing activities on loans to non-profit organizations; 2) direct loans to small businesses within the community that are unable to secure sufficient financing through traditional channels and providing business planning assistance to small businesses; 3) charter school loan management services; and 4) down payment counseling assistance as agent for the City of Tucson and the Pima-Tucson Homebuyers Solutions Program. \$ 672,734

Management and general - Includes the functions necessary to ensure an adequate working environment; provide coordination and articulation of the Organization's program strategy; secure proper administrative functioning of the Board of Directors; maintain competent legal services for the program administration of the Organization; and manage the financial budgetary responsibilities of the Organization. 35,406

\$ 708,140

10. Related Party and Affiliated Organization Transactions

CIC was formed to support the economic development activities of the Industrial Development Authority of the County of Pima (IDA). Family Housing Resources, Inc. (FHR) and Southern Arizona Land Trust, Inc. (SALT) are also supporting organizations of IDA. Each of the supporting organizations has two of their three voting board members in common with IDA. Additionally, SALT and FHR have one board member common to both organizations.

IDA has a direct loan program available to non-profit corporations. CIC and IDA have a Loan Administration Agreement which provides for annual compensation of \$72,000 payable to CIC for servicing the IDA loan portfolio. CIC earned and received \$72,000 in loan servicing fees from IDA during the year ended December 31, 2015.

IDA is a participating member of the PTHS program which CIC serves as fiscal agent as described in Note 2. Of the \$87,850 earned under the program for the year, \$43,925 is considered to have been earned from the IDA.

11. Retirement Plan

CIC has a SIMPLE retirement plan that provides for employee salary reduction contributions plus an employer matching contribution. The employer matching contribution for the year ended December 31, 2015 was \$9,602.

SUPPLEMENTARY INFORMATION

COMMUNITY INVESTMENT CORPORATION

STATEMENT OF FUNCTIONAL EXPENSES
For the year ended December 31, 2015

	Program Services	Management and general	Total
Salaries and wages	\$ 353,139	\$ 18,586	\$ 371,725
Occupancy	60,688	3,194	63,882
Bad debt expense	55,332	2,912	58,244
Legal and professional	49,618	2,611	52,229
Payroll expense	38,749	2,039	40,788
Office expense	26,619	1,401	28,020
Bank service charge	16,506	869	17,375
Insurance	14,052	740	14,792
Computer expense	13,725	722	14,447
Auto expense	12,713	669	13,382
Telephone and internet	11,054	582	11,636
Advertising	7,835	412	8,247
Meals and entertainment	6,740	355	7,095
Depreciation and amortization	4,718	248	4,966
Dues and subscriptions	1,246	66	1,312
Total expenses	<u>\$ 672,734</u>	<u>\$ 35,406</u>	<u>\$ 708,140</u>

See independent auditor's report and
notes to financial statements.

