

COMMUNITY INVESTMENT CORPORATION

Audited Financial Statements

For the Year Ended December 31, 2017

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Community Investment Corporation

We have audited the accompanying financial statements of Community Investment Corporation (a nonprofit organization), which comprise the statement of financial position as of December 31, 2017, and the related statements of activities and changes in net assets 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, 2017, 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 Supplemental Schedule I 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.

Other Matter

In planning and performing our audit of the financial statements of Community Investment Corporation as of and for the year ended December 31, 2017, in accordance with auditing standards generally accepted in the United States of America, we considered the Organization's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control. During the audit, we identified deficiencies in internal control that we consider to be a material weakness. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Organization's financial statements will not be prevented, or detected and corrected, on a timely basis. We have reported to the management of Community Investment Corporation matters involving internal control and its operation in a separate letter dated February 15, 2019.

Collings CPA Firm, PLLC

Collings CPA Firm, PLLC

Tucson, Arizona
February 15, 2019

Community Investment Corporation
Statement of Financial Position
December 31, 2017

ASSETS

Current Assets	
Cash and cash equivalents	\$ 896,283
Cash - restricted agency funds	899,766
Accounts receivable	32,998
Notes receivable - direct loan program, current portion	758,235
Lines of credit - direct loan program, current portion	248,896
Prepaid expenses and other current assets	<u>49,988</u>
Total Current Assets	2,886,166
Property and Equipment, net of accumulated depreciation of \$14,583	388,311
Other Assets	
Pima Tucson Homebuyer's Solution advances receivable	1,278,524
Notes receivable - direct loan program, non-current portion, net of allowance for doubtful accounts of \$288,399	2,413,158
Long-term investments	1,085,702
Community investment program	<u>155,943</u>
Total Other Assets	<u>4,933,327</u>
Total Assets	<u>\$ 8,207,804</u>

LIABILITIES AND NET ASSETS

Current Liabilities	
Accounts payable	\$ 25,002
Accrued salaries and related expenses	35,792
Other accrued expenses	43,534
Agency funds - liabilities	<u>10,465</u>
Total Current Liabilities	114,793
Long-Term Liabilities	
Pima Tucson Homebuyer's Solution payable	2,167,826
Notes payable, related party	<u>1,500,000</u>
Total Long-Term Liabilities	<u>3,667,826</u>
Total Liabilities	3,782,619
Unrestricted Net Assets	<u>4,425,185</u>
Total Liabilities and Net Assets	<u>\$ 8,207,804</u>

See accompanying notes and independent auditor's report.

Community Investment Corporation
Statement of Activities and Changes in Net Assets
For the Year Ended December 31, 2017

	Unrestricted Net Assets
Revenue and Support	
Program service revenue and interest on notes receivable	\$ 732,179
Grant revenue	1,168,468
Interest and dividend income	36,477
Donations, cash	10,000
Donations, in-kind	6,815
Other revenue	19,995
Total Revenue and Support	1,973,934
Expenses	
Salaries and related expenses	458,456
Depreciation expense	6,594
Interest expense	12,206
General and administrative expenses	721,266
Total Expenses	1,198,522
Performance Earnings from Operations	775,412
Other Non-Operating Revenues (Expenses)	
Net appreciation of investments	53,271
Total Other Non-Operating Revenues (Expenses)	53,271
Total Increase (Decrease) in Unrestricted Net Assets	828,683
Unrestricted Net Assets, Beginning of Year	3,596,502
Unrestricted Net Assets, End of Year	\$ 4,425,185

See accompanying notes and independent auditor's report.

Community Investment Corporation
Statement of Cash Flows
For the Year Ended December 31, 2017

Cash Flows From Operating Activities	
Cash received from grants	\$ 523,823
Cash received from program fees and interest	919,900
Other revenues received	19,995
Cash donations received	10,000
Cash paid to suppliers	(1,167,320)
Interest expense paid	(4,672)
Interest income received	3,999
Dividends received	32,478
Income taxes paid	-
Net Cash Provided From (Used In) Operating Activities	338,203
 Cash Flows From Investing Activities	
Loans and lines of credit repaid	1,420,773
Loans and lines of credit made	(2,649,463)
Pima Tucson Homebuyer Solution funds wired in	5,809,877
Pima Tucson Homebuyer Solution funds wired out	(5,551,950)
Cash received for the sale of investments	233,360
Cash paid for the purchase of investments	(290,990)
Cash paid for the purchase of property and equipment	(383,197)
Net Cash Provided From (Used In) Investing Activities	(1,411,591)
 Cash Flows From Financing Activities	
Proceeds from notes payable, related parties	1,500,000
Net Cash Provided From (Used In) Financing Activities	1,500,000
Increase (Decrease) in Cash	426,612
Cash, Beginning of Year	469,671
Cash, End of Year	\$ 896,283
Non-Cash Transactions	
Notes receivables received and capitalized	\$ 644,645
Donations In-Kind received and expended	\$ 6,815

See accompanying notes and independent auditor's report.

Community Investment Corporation
Statement of Cash Flows
For the Year Ended December 31, 2017

RECONCILIATION OF CHANGE IN NET ASSETS TO NET
CASH FLOWS PROVIDED FROM OPERATING ACTIVITIES

Increase (Decrease) in Net Assets	\$	828,683
Adjustments to reconcile net increase (decrease) in net assets to net cash provided from (used in) operating activities		
Depreciation		6,594
Net gains and losses on investments		(53,271)
Disposal of assets		1,216
Donations in-kind		(644,645)
Change in operating assets and liabilities:		
(Increase) decrease in accounts receivable		(15,110)
(Increase) decrease in agency funds		247,475
(Increase) decrease in prepaid expenses		(5,344)
(Increase) decrease in accrued interest receivable		(44,644)
Increase (decrease) in accounts payable		5,958
Increase (decrease) in accrued payroll and related expenses		8,355
Increase (decrease) in other accrued expenses		25,000
Increase (decrease) in accrued interest payable		7,534
Increase (decrease) in agency funds payable		<u>(29,598)</u>
Net Cash Flow Provided From (Used In) Operating Activities	\$	<u>338,203</u>

See accompanying notes and independent auditor's report.

Community Investment Corporation
Notes to the Financial Statements
For the Year Ended December 31, 2017

Note 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 of the County of Pima (IDA). Toward that end, CIC conducts programs which encourage the creation of well-paying jobs for Pima County.

CIC secures strategic investments in their 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.

Note 2 - Summary of Significant Accounting Policies

The summary of significant accounting policies is presented to assist in the understanding of CIC's financial statements. The financial statements and notes are representations of CIC's management, who is responsible for their integrity and objectivity. Except as otherwise noted, these accounting policies conform to accounting principles generally accepted in the United States of America and have been consistently applied in the preparation of the financial statements.

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.

Basis of Presentation

Community Investment Corporation is required under accounting principles generally accepted in the United States 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. No amounts have been reflected in the financial statements as temporarily restricted nor permanently restricted net assets as CIC received no such gifts or contributions during the year ended December 31, 2017.

Cash and Cash Equivalents

CIC considers cash and highly-liquid debt instruments, which mature within three months or less, with no restrictions or designations as to withdrawal or use to be cash and cash equivalents.

Community Investment Corporation
Notes to the Financial Statements
For the Year Ended December 31, 2017

Note 2 - Summary of Significant Accounting Policies (Continued)

Accounts, Notes and Line of Credit Receivables

Receivables 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 has assessed the collectability of all receivables and has established an allowance for doubtful accounts in the amount of \$288,399 for the year ended December 31, 2017.

Property and Equipment

Acquisitions of property and equipment having a unit cost in excess of \$5,000 and a useful life of more than one year are capitalized. Depreciation is calculated on the straight-line basis over the estimated useful lives of assets. Repairs and maintenance 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.

Functional Expenses

Functional expenses have been allocated between program and administrative expenses. Expenses that can be identified with a specific program or administrative expense are allocated according to their natural expenditure classification.

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 assistance programs. Grant revenues are recognized when received and all significant grant terms have been performed. Grant receipts are subject to restrictions on the use of funds placed by the grantor. CIC administers these funds in accordance with grantor guidelines. Grant revenue under cost reimbursement arrangements is recognized as expenses are incurred. Amounts incurred but not yet reimbursed are reported as grant receivables. Amounts received but not yet earned are reported as deferred grant revenue.

Contributions are recognized as income when received or pledged. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire (that is, when a stipulated time restriction ends, or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Community Investment Corporation
Notes to the Financial Statements
For the Year Ended December 31, 2017

Note 2 - Summary of Significant Accounting Policies (Continued)

Revenue Recognition (Continued)

Contributions of services are recognized if the services received (a) create or enhance non-financial assets or (b) require specialized skill, the service is provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

Income Taxes

Community Investment Corporation is a not-for-profit organization as described in section 501(c)(3) of the Internal Revenue Code and Arizona Revised Statutes Section 43-1201(4), and as such, is exempt from federal and state income tax. Accordingly, there is no provision for income taxes. However, any income from certain activities that is not directly related to CIC's tax-exempt purpose would be subject to taxation as unrelated business income.

Accounting for Interest and Penalties on Taxes

CIC accounts for any interest expense incurred with respect to taxes as interest expense in the period in which CIC is first assessed or becomes aware of the obligation. CIC accounts for any penalties incurred with respect to taxes as other expenses in the period in which CIC is first assessed or becomes aware of the obligation. During the year ended December 31, 2017, CIC did not incur any interest and penalties.

In general, CIC's federal income tax returns have a three-year statute of limitations, and the state returns have a four-year statute of limitations. (With few exceptions, CIC is no longer subject to audit by taxing authorities prior to 2013).

Community Investment Program Equity Method of Accounting

CIC accounts for its Community Investment Program affiliates by the equity method. CIC 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 CIC's investment in unconsolidated affiliates is recorded in the Statement of Financial Position as "Community Investment Program". There was no activity recorded for the year ended December 31, 2017.

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the Statement of Financial Position. Unrealized gains and losses are included in the change in net assets.

Community Investment Corporation
Notes to the Financial Statements
For the Year Ended December 31, 2017

Note 2 - Summary of Significant Accounting Policies (Continued)

Fair Value of Financial Instruments

Community Investment Corporation's financial instruments are cash and cash equivalents, receivables which include notes receivables and lines of credits, accounts payable, and notes payables. The recorded values of cash and cash equivalents, receivables, and accounts payable approximate their fair values based on their short-term nature. The recorded values of notes receivables, lines of credits, and notes payables approximate their fair values, as interest approximates market rates.

Use of Estimates in Preparing Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect certain 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. Accordingly, actual results could differ from those estimates.

Risks and Uncertainties

CIC invests in various investment securities, notes receivables, and lines of credits which are exposed to various risks, such as interest rate, market risk, and credit risk. Due to the level of risk associated with certain investment securities, notes receivables, and lines of credits, it is at least reasonably possible that changes in the values will occur in the near term and such changes could materially affect the amounts reported in the Statement of Financial Position.

Accrued Leave

Vacation pay is accrued as a liability when employees earn a vested interest in this benefit. Accrued leave is included in the Statement of Financial Position within current liabilities. Accrued leave for the year ended December 31, 2017 was \$14,099.

Advertising and Marketing

Community Investment Corporation expenses all advertising and marketing costs as they are incurred. Total advertising and marketing costs incurred for the year ended December 31, 2017 was \$9,958.

Community Investment Corporation
Notes to the Financial Statements
For the Year Ended December 31, 2017

Note 3 – Lines of Credit - Direct Loan Program

The Organization has entered into agreements with several small businesses and charter schools whereby CIC will provide lines of credits for a specified period of time as evidenced by a promissory note. For the year ended December 31, 2017, the lines of credit ranged from \$25,000 to \$400,000. Each borrower must submit a draw request in a minimum amount specified in each promissory note up to the maximum amount authorized. Payments of interest only are required on each draw. If the principal amount borrowed is repaid prior to the 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 noted.

The maximum amount authorized on the lines of credit total \$250,000. The outstanding balance as of December 31, 2017 is \$248,896.

Lines of credit outstanding as of December 31, 2017 consist of:

<u>Borrower</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Maximum Amount Authorized</u>	<u>Balance</u>
[REDACTED]	11/2018	2%	<u>250,000</u>	248,896
			\$ 250,000	248,896
Less: amounts due within one year				<u>(248,896)</u>
Lines of Credit due after one year				<u>\$ -0-</u>

Note 4 – Notes Receivable – Direct Loan Program

CIC provides direct loans to small businesses and charter schools to help promote the growth of the local economy to those organizations that would typically not qualify for traditional financing. The original face amounts of the notes receivable range between \$1,500 and \$565,241, and the interest rates range from 2% to 10%. The total balance of notes receivable outstanding at December 31, 2017 is \$2,809,562. All notes receivable are collateralized. Management believes that the value of such collateral is in excess of the loans receivable as of December 31, 2017, and as such, no allowance has been provided.

Notes receivable consists of the following as of December 31, 2017:

Community Investment Corporation
Notes to the Financial Statements
For the Year Ended December 31, 2017

Note 4 – Notes Receivable – Direct Loan Program (Continued)

	Collateral	Interest Rate	Monthly Payment	Maturity Date	Balance
N/R	Security agreement, UCC-1 financing statement, deeds of trust and assignments of rents.	9%	\$ 4,320	9/2020	\$ 565,241
N/R	Security agreement, UCC-1 financing statement, deed of trust, and irrevocable pledge on statement payments	10%	\$ 3,781	3/2020	459,746
N/R	Security agreement, UCC-1 financing statement, and lien on the business assets	10%	\$ 3,965	7/2018	255,677
N/R	Security agreement, UCC-1 financing statement, and deed of trust on real property	3%	\$ 2,110	11/2022	217,209
N/R	Security agreement, UCC-1 financing statement, and deed of trust	10%	\$ 3,931	11/2019	168,892
N/R	Security agreement, UCC-1 financing statement, and lien on the business assets	2%	\$ 1,488	11/2023	150,000
N/R	Security agreement, lien on certain business assets	10%	\$ 3,187	8/2022	142,239
N/R	Security agreement, UCC-1 financing statement, and unconditional guarantee of payment	8%	\$ 4,055	3/2021	135,265
N/R	Security agreement, UCC-1 financing statement, and lien on certain business assets	9%	\$ 1,125	5/2020	78,294
N/R	Security agreement, UCC-1 financing statement, and lien on business assets	8%	\$ 2,522	11/2020	75,000

Community Investment Corporation
Notes to the Financial Statements
For the Year Ended December 31, 2017

Note 4 – Notes Receivable – Direct Loan Program (Continued)

	Collateral	Interest Rate	Monthly Payment	Maturity Date	Balance
N/R	Security agreement, UCC-1 financing statement, and unconditional guarantee of payment	10%	\$ 1,594	11/2019	74,900
N/R	Security agreement, UCC-1 financing statement, and deed of trust on real property	7%	\$ 1,146	12/2020	66,539
N/R	Security agreement, UCC-1 financing statement, lien on business assets	10%	\$ 3,730	10/2019	65,767
N/R	Security agreement, UCC-1 financing statement, and secondary pledge on state of payments	9%	\$ 2,500	12/2019	46,539
N/R	Security agreement, UCC-1 financing statement, secondary pledge on state of payments, and security interest in the business assets	10%	\$ 800	8/2020	39,666
N/R	Security agreement, and first position lien on business assets	10%	\$ 850	8/2022	38,473
N/R	Security agreement, and first position lien on business assets	9%	\$ 623	11/2022	29,429
N/R	Security agreement, and first position lien on business assets	8%	\$ 854	3/2021	26,369
N/R	Security agreement, and first position lien on business assets	8%	\$ 846	9/2020	24,743
N/R	Security agreement, UCC-1 financing statements, lien on personal property and personal guarantee	10%	\$ 800	7/2020	24,391
N/R	Security agreement, UCC-1 financing statement, personal guarantee	8%	\$ 162	4/2018	24,343

Community Investment Corporation
Notes to the Financial Statements
For the Year Ended December 31, 2017

Note 4 – Notes Receivable – Direct Loan Program (Continued)

	Collateral	Interest Rate	Monthly Payment	Maturity Date	Balance
N/R	Security agreement, UCC-1 financing statement, lien on the business assets, and a personal guarantee	9%	\$ 412	10/2021	17,005
N/R	Security agreement, UCC-1 financing statement, and lien on business assets	5%	\$ 1,119	10/2018	12,264
N/R	Security agreement, UCC-1 financing statement, and unconditional guarantee of payment	8%	\$ 304	9/2019	12,020
N/R	Security agreement, UCC-1 financing statement, and unconditional guarantee of payment	10%	\$ 710	3/2019	11,471
N/R	Security agreement, UCC-1 financing statement, and irrevocable pledge of state of payments	10%	\$ 1,846	5/2018	10,948
N/R	Security agreement, UCC-1 financing statement, and lien on business assets	10%	\$ 307	6/20220	8,042
N/R	Security agreement, deed of trust and assignment of rents	6%	\$ 55	11/2038	6,864
N/R	Security agreement, personal second lien	5%	\$ 162	9/2020	4,911
N/R	Security agreement, pledge of equipment	5%	\$ 150	11/2020	4,878
N/R	Security agreement, pledge of inventory and equipment	4%	\$ 148	8/2020	4,473
N/R	Security agreement, personal guarantee from owner	5%	\$ 150	4/2020	3,631

Community Investment Corporation
Notes to the Financial Statements
For the Year Ended December 31, 2017

Note 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>
N/R	Security agreement, and UCC-1 financing statement	3%	\$ 145	9/2019	2,981
N/R	Security agreement, lien on furniture and equipment, and personal guarantee	10%	\$ 132	11/2018	1,352
N/R	Security agreement, UCC-1 financing statements, and lien on personal property and other business assets	6%	\$ 5,785	12/2019	272,937
N/R	Security agreement, UCC-1 financing statements, and lien on personal property and other business assets	10%	\$ 12,907	4/2020	318,788
N/R	Security agreement, UCC-1 financing statements, and secured by certain business assets	8%	\$ 496	2/2021	23,697
N/R	Security agreement, UCC-1 financing statements, and secured by certain business assets	0%	\$ 496	2/2021	11,530
N/R	Security agreement, UCC-1 financing statements, secured by certain business assets, and personal guarantees	10%	\$ 533	5/2020	<u>23,275</u>
					3,459,792
	Less: allowance for doubtful account				(288,399)
	Less: amounts due in one year				<u>(758,235)</u>
	Notes receivable after one year				<u>\$ 2,413,158</u>

As of December 31, 2017, the annual maturities of notes receivables for the next five years are as follows:

Community Investment Corporation
Notes to the Financial Statements
For the Year Ended December 31, 2017

Note 4 – Notes Receivable – Direct Loan Program (Continued)

Year Ended December 31, 2018	\$ 758,235
Year Ended December 31, 2019	852,782
Year Ended December 31, 2020	1,369,890
Year Ended December 31, 2021	130,406
Year Ended December 31, 2022	171,207
Thereafter	<u>177,271</u>
Total	<u>\$ 3,459,791</u>

Note 5 – Pima Tucson Homebuyer’s Solution Program

The Organization holds funds as a 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 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 totaled \$79,981 for the year ended December 31, 2017 and are included in the program service revenue. The related advances receivable has been recorded as a non-current asset as the funds will not be available for operations of the Organization when collected. For the year ended December 31, 2017, total cumulative advances and earnings due to the IDA’s were \$2,167,826. The IDA has indicated their intention to allow advances and earnings to remain in the program until the program ends.

Note 6 – Program Service Revenue

Program service revenue for the year ended December 31, 2017 consisted of the following:

Homeownership assistance programs	\$ 97,756
Loan servicing program	372,231
Charter school loan program	<u>262,192</u>
	<u>\$ 732,179</u>

Community Investment Corporation
Notes to the Financial Statements
For the Year Ended December 31, 2017

Note 7 – Property and Equipment

The following is a summary of property, building, and equipment at cost less accumulated depreciation as of December 31, 2017:

Computer and equipment	\$ 16,892
Furniture and fixtures	2,805
Office building and land	<u>383,197</u>
Less: accumulated depreciation	<u>(14,583)</u>
Net Property and Equipment	<u>\$ 388,311</u>

Note 8 – Investments / Fair Value Measurements

CIC adopted FASB codification 820-10, *Fair Value Measurements*. This standard defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles (GAAP), and expands disclosures about fair value measurements.

Fair value measurements are determined based on assumptions, referred to as inputs that market participants would use in pricing an asset. This standard establishes a fair value hierarchy that distinguishes between market participant assumptions and the Organization's own assumptions about market participant assumptions. Observable inputs are assumptions based on market data obtained from independent sources; while unobservable inputs are the Organization's own assumptions about what market participants would assume based on the best information available in the circumstances.

Level 1 Inputs: A quoted price in an active market for an identical asset or liability is considered to be the most reliable evidence of fair value. The fair value of the Organization's publicly traded securities held at brokerages are determined by reference to quoted prices in active markets for identical assets and other relevant information generated by market transactions. The Organization maintained investments that are considered to be Level 1 inputs.

Level 2 Inputs: These are observable inputs, either directly or indirectly, other than quoted prices included within Level 1. Level 2 inputs include: (a) quoted prices for similar assets or liabilities in active markets, (b) quoted prices for identical or similar assets or liabilities in markets that are not active, (c) inputs other than quoted prices that are observable for the assets or liability such as interest rates and yield curves observable at commonly quoted intervals, and (d) inputs that are derived principally from or corroborated by observable market data by correlation or other means. The Organization did not maintain investments considered to be Level 2 inputs.

Level 3 Inputs: These inputs are unobservable and are used to measure fair value only when observable inputs are not available. The Organization maintained investments that are considered to be Level 3 inputs.

Community Investment Corporation
Notes to the Financial Statements
For the Year Ended December 31, 2017

Note 8 – Investments / Fair Value Measurements (Continued)

The following is a description of the valuation methodologies used for instruments measured at fair value. There were no changes in the methodologies used as of December 31, 2017.

Stocks and Mutual Funds – The Organization’s stocks and mutual funds are valued at the net asset value (NAV) of shares held. These funds are required to publish their daily NAV and to transact at that price. The stocks and mutual funds held by the Organization are deemed to be actively traded.

Partnership Investment – The Organization’s investment in the Premier Vacation Club Timeshare Membership is valued at its current book value, which is an approximate estimate for its fair value. As the partnership cannot be sold or purchased on any market, its actual market value is undeterminable.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Investments recorded at fair value as of December 31, 2017 were as follows:

Level 1 Inputs	
Fixed income debt securities	\$ 710,125
Equity securities	317,659
Exchange traded funds	15,514
Other publicly traded assets	<u>16,194</u>
Total Level 1 Investments	<u>\$ 1,059,492</u>
Level 3 Inputs	
Closely held investments	\$ 155,943
Premier Vacation Club Timeshare Membership	<u>19,995</u>
Total Level 3 Investments	<u>\$ 175,938</u>

CIC carries investments in marketable securities with readily determinable fair values at their fair values in the Statements of Financial Position. Gains and losses are included in the change in net assets in the accompanying Statements of Activities. For the year ended December 31, 2017, net appreciation of investments was \$53,271.

Community Investment Corporation
Notes to the Financial Statements
For the Year Ended December 31, 2017

Note 9 – 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.

██████████ (40,000 shares, Preferred Series B)	\$ 50,000
██████████ (3.1153% interest)	5,943
██████████ (250,000 shares, Preferred, Series A-3)	<u>100,000</u>
	<u>\$ 155,943</u>

No impairment losses were recognized in the year ended December 31, 2017.

Note 10 – Income Taxes

Community Investment Corporation has been classified as other than private foundation and is tax exempt under Section 501(c)(3) of the Internal Revenue Code. CIC may be subject to tax on income from any unrelated business. For the year ended December 31, 2017, there were no taxes due or payable.

CIC adopted the provisions of FASB ASC 740-10 (formerly FIN 48), as amended by ASU 2009-06, with no cumulative effect adjustment required. The standard clarifies the accounting for uncertainty in income taxes recognized in CIC's financial statements. If CIC considers that a tax position is "more-likely-than-not" of being sustained upon audit, based solely on technical merits of the position, it recognizes the tax benefit.

Note 11 – Concentration of Risk

CIC's operations are concentrated in Southern Arizona; therefore, revenue may be affected by changes in economic or other conditions, which affect this locality.

CIC, like many other businesses, is exposed to risks of business interruption or adverse economic conditions which may be caused by events beyond the control of the Corporation. Such risks or events may include, but are not limited to, (1) having readily available and reasonably priced fuel, energy, and insurance, (2) changes in government regulations, particularly environmental regulations, (3) ability to store, retrieve and transmit data and records electronically, (4) availability of credit, fluctuations in the interest rate and cost of borrowing, and access to credit, (5) hostile acts, and (6) natural disasters. Events may occur which prevent CIC from conducting business operations as usual, or may significantly increase the cost of doing business, or may decrease demand for the CIC's services, with potentially adverse effects on revenue and profitability.

Community Investment Corporation
Notes to the Financial Statements
For the Year Ended December 31, 2017

Note 11 – Concentration of Risk (Continued)

Cash and cash equivalents are maintained with major financial institutions in the United States. Deposits held with these institutions may, at times, exceed the amount of insurance provided on such deposits. Community Investment Corporation, has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk to cash. Generally, these deposits may be redeemed upon demand.

Note 12 – Agency Assets and Liabilities

Community Investment Corporation maintains various bank accounts for which it has no variance power. The Organization receives funds from the PTHS program and SFMRB program for these discretionary accounts and remits the funds to the appropriate other accounts. As such, the accounts are included on the Statement of Financial Position as an asset and a corresponding liability. Community Investment Corporation does receive a small fee for performing these agency transactions on behalf of the other programs.

Note 13 – Functional Classification of Expenses

Expenses by function for the year ended December 31, 2017 were as follows:

	2017
Program services	\$ 1,125,382
Management and general	73,140
Total Expenses	\$ 1,198,522

Note 14 – Long-Term Debt

CIC's notes payables as of December 31, 2017 consisted of the following:

Note payable in the amount of \$500,000 through the IDA, which bears an interest rate of 1.00%. Interest is paid twice a year and the principal is due on maturity which is January 15, 2022.	\$ 500,000
Note payable in the amount of \$1,000,000 through the IDA, which bears an interest rate of 1.00%. Interest is paid annually and the principal is due on maturity which is April 1, 2027.	1,000,000
Total long-term debt (No current portion)	\$ 1,500,000

Community Investment Corporation
Notes to the Financial Statements
For the Year Ended December 31, 2017

Note 14 – Long-Term Debt (Continued)

As of December 31, 2017, the estimated annual maturities of notes payables for the next five years are as follows:

Year Ended December 31, 2018	\$	-0-
Year Ended December 31, 2019		-0-
Year Ended December 31, 2020		-0-
Year Ended December 31, 2021		-0-
Year Ended December 31, 2022		500,000
Thereafter		<u>1,000,000</u>
Total	\$	<u><u>1,500,000</u></u>

Note 15 – Related Party 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 the IDA. Each of the supporting organizations has two of their three voting board members in common with the IDA's board.

IDA has a direct loan program available to non-profit corporations. CIC and IDA have a Loan Administrative Agreement which provides for annual compensation of \$72,000 payable to CIC for servicing the IDA loan portfolio. CIC earned and received \$42,000 in loan servicing fees from the IDA during the year ended December 31, 2017.

IDA is a participating member of the PTHS program which CIC serves as a fiscal agent as described in Note 2. For the year ended December 31, 2017, CIC earned \$79,981 under the program of which \$32,200 was earned from the IDA.

During 2017, CIC entered into two notes payable agreements with the IDA in the amount of \$1,500,000. Both loans bear an interest rate of 1.00% with the principal payment due on maturity.

From time to time, Board members and the Executive Director will make purchases on behalf of CIC and will be reimbursed when cash is available. There were no outstanding balances due to Board members or the Executive Director for the year ended December 31, 2017. Furthermore, Community Investment Corporation hired a related party for the web design services. CIC paid \$8,648 for the year ended December 31, 2017.

Community Investment Corporation
Notes to the Financial Statements
For the Year Ended December 31, 2017

Note 16 – Retirement Plan

Community Investment Corporation sponsors a 403(b) program for all eligible employees of the Organization. Contributions made by the Organization during the year ended December 31, 2017 were \$7,770.

During 2017, CIC sponsored a Simple IRA retirement plan covering substantially all of its employees. Contributions by employees were deducted through payroll and were matched by the Organization. There were no contributions to the Simple IRA retirement plan and CIC no longer sponsors a Simple IRA retirement plan as of December 31, 2017.

Note 17 – Subsequent Events

During 2018, CIC entered into a \$1,000,000 promissory note with the Industrial Development Authority of the County of Pima, which bears an interest rate of 6.00%. Interest is paid annually and the principal is due on maturity which is October 14, 2020.

Subsequent events have been evaluated through February 15, 2019, which is the date the financial statements were available to be issued.

SUPPLEMENTAL INFORMATION

Community Investment Corporation
Supplemental Schedule I - General and Administrative Expenses
For the Year Ended December 31, 2017

General and Administrative Expenses	
Advertising	\$ 9,958
Auto Expense	17,430
Computer Expense	57,494
Bad Debts	351,760
Dues and Subscriptions	5,871
Meals & Entertainment	6,743
Insurance	11,178
Office Expense	17,008
Professional Services	138,712
Telephone	9,904
Travel	13,012
Building Expenses	30,555
Rent Expense	34,842
Other Expenses	<u>16,799</u>
Total General and Administrative Expenses	<u>\$ 721,266</u>