

COMMUNITY INVESTMENT CORPORATION

Audited Financial Statements

For the Year Ended December 31, 2018

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Management 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, 2018, and the related statements of activities and changes in net assets, functional expenses, 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, 2018, 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.

Collings CPA Firm, PLLC

Collings CPA Firm, PLLC

Tucson, Arizona
September 15, 2020

Community Investment Corporation
Statement of Financial Position
December 31, 2018

	2018
<u>ASSETS</u>	
Current Assets	
Cash and cash equivalents	\$ 2,541,126
Cash - restricted agency funds	784,869
Investments - other	25,038
Accounts receivable	3,853
Notes receivable - direct loan program, current portion	875,810
Lines of credit - direct loan program, current portion	-
Prepaid expenses and other current assets	79,052
Total Current Assets	4,309,748
Property and Equipment, net of accumulated depreciation of \$26,709	421,185
Other Assets	
Restricted reserve funds	28,855
Pima Tucson Homebuyer's Solution advances receivable	578,194
Notes receivable - direct loan program, non-current portion, net allowance for doubtful accounts of \$74,900	2,547,727
Long-term investments	166,054
Community investment program	1,170,672
Total Other Assets	4,491,502
Total Assets	\$ 9,222,435
<u>LIABILITIES AND NET ASSETS</u>	
Current Liabilities	
Accounts payable	\$ 26,154
Accrued salaries and related expenses	40,620
Other accrued expenses	35,642
Agency funds - liabilities	2,778
Notes payable, current portion	1,054
Total Current Liabilities	106,248
Long-Term Liabilities	
Amounts due to the Industrial Development Authorities of the City of Tucson and the County of Pima	1,357,736
Notes payable, non-current portion	66,446
Notes payable, non-current portion - related party	2,500,000
Total Long-Term Liabilities	3,924,182
Total Liabilities	4,030,430
Net Assets Without Donor Restrictions	5,192,005
Total Liabilities and Net Assets	\$ 9,222,435

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, 2018

	<u>Net Assets Without Donor Restrictions</u>
Revenue and Support	
Program service revenue and interest on notes receivable	\$ 702,227
Grant revenue	1,101,250
Interest and dividend income	61,861
Donations, cash	-
Donations, in-kind	-
Other revenue	-
	1,865,338
Expenses	
Program services	1,011,894
Management and general	80,309
	1,092,203
Change in Net Assets From Operatons	773,135
Other Non-Operating Revenues (Expenses)	
Net appreciation (depreciation) of investments	(6,315)
Total Other Non-Operating Revenues (Expenses)	(6,315)
Change in Net Assets	766,820
Net Assets Without Donor Restrictions, Beginning of Year	4,425,185
Net Assets Without Donor Restrictions, End of Year	\$ 5,192,005

See accompanying notes and independent auditor's report.

Community Investment Corporation
Statement of Functional Expenses
For the Year Ended December 31, 2018

	<u>Program Services</u>	<u>Management and General</u>	<u>Total</u>
Payroll and related expenses	\$ 645,057	\$ 42,362	\$ 687,419
Legal and accounting	64,815	4,834	69,649
Professional services	60,133	3,165	63,298
Occupancy expenses	42,866	4,763	47,629
Information technology	40,433	4,493	44,926
Interest expense	29,424	-	29,424
Advertising and promotion	26,418	2,935	29,353
Office expenses	16,601	11,065	27,666
Auto expense	23,469	1,235	24,704
Donations	17,346	913	18,259
Depreciation and amortization	10,913	1,213	12,126
Travel	9,892	521	10,413
Meals and entertainment	7,692	1,923	9,615
Insurance	8,455	445	8,900
Dues and subscriptions	7,477	394	7,871
Grant expense	903	48	951
	<u>903</u>	<u>48</u>	<u>951</u>
 Total Expenses	 <u>\$ 1,011,894</u>	 <u>\$ 80,309</u>	 <u>\$ 1,092,203</u>

See accompanying notes and independent auditor's report.

Community Investment Corporation
Statement of Cash Flows
For the Year Ended December 31, 2018

Cash Flows From Operating Activities	
Cash received from grants	\$ 1,101,250
Cash received from program fees and interest	772,573
Other revenues received	-
Cash donations received	-
Cash paid to suppliers	(1,015,261)
Interest expense paid	(8,321)
Interest income received	38,693
Dividends received	23,168
Income taxes paid	-
Net Cash Provided From (Used In) Operating Activities	<u>912,102</u>
Cash Flows From Investing Activities	
Increase in reserve fund for the note payable	(26,288)
Loans and lines of credit repaid	1,082,257
Loans and lines of credit made	(1,085,506)
Pima Tucson Homebuyer Solution funds wired in	7,240,784
Pima Tucson Homebuyer Solution funds wired out	(7,350,544)
Cash received for the sale of investments	1,501,679
Cash paid for the purchase of investments	(1,628,113)
Cash paid for the purchase of property and equipment	(45,000)
Net Cash Provided From (Used In) Investing Activities	<u>(310,731)</u>
Cash Flows From Financing Activities	
Proceeds from notes payable, related parties	<u>1,046,039</u>
Net Cash Provided From (Used In) Financing Activities	<u>1,046,039</u>
Increase (Decrease) in Cash	1,647,410
Cash and cash equivalents, Beginning of Year	<u>893,716</u>
Cash and cash equivalents, End of Year	<u>\$2,541,126</u>

See accompanying notes and independent auditor's report.

Community Investment Corporation
Notes to the Financial Statements
For the Year Ended December 31, 2018

Note 1 – Nature of Activities

Community Investment Corporation (“CIC” or “the Organization”) 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

The financial statements of the CIC have been prepared in accordance with accounting principles generally accepted in the United States of America (“US GAAP”), which require CIC to report information regarding its financial position and activities according to the following net asset classifications:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of CIC. These net assets may be used at the discretion of CIC’s management and the board of directors.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of CIC or by passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Community Investment Corporation
Notes to the Financial Statements
For the Year Ended December 31, 2018

Note 2 - Summary of Significant Accounting Policies (Continued)

Basis of Presentation (Continued)

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities. For the year ended December 31, 2018, none of the assets are subject to donor-imposed restrictions. Accordingly, all net assets are accounted for as unrestricted net assets under standards for presenting financial statements of not-for-profit organizations.

Measure of Operations

The statements of activities report all changes in net assets, including changes in net assets from operating and nonoperating activities. Operating activities consist of those items attributable to CIC's program services and interest and dividends earned on investments. Nonoperating activities are limited to resources that generate return from investments and other activities considered to be of a more unusual or nonrecurring nature.

Cash and Cash Equivalents

CIC considers all cash and highly liquid financial instruments with original maturities of three months or less, which are neither held, nor restricted by donors, for long-term purposes to be cash and cash equivalents. Cash and highly liquid financial instruments restricted to projects or other long-term purposes are excluded from this definition.

Investments

Investments are reported at cost, if purchased, or at fair value, if donated. Thereafter, investments are reported at their fair values in the statements of financial position, and changes in fair value are reported as investment return in the statements of activities and changes in net assets.

Investments in marketable securities with readily determinable fair values and all investments in debt securities are stated at their fair values in the statements of financial position. Unrealized gains and losses are included in the change in net assets in the accompanying statements of activities.

Investments - Other

Investments – other consists of certificates of deposits held for investment that are not debt securities. Certificates of deposit with original maturities greater than one year with remaining maturities less than one year are classified as current. Certificates of deposit with remaining maturities greater than one year are classified as non-current. All the certificates of deposit are current as of December 31, 2018.

Community Investment Corporation
Notes to the Financial Statements
For the Year Ended December 31, 2018

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 \$74,900 for the year ended December 31, 2018. Furthermore, there are no amounts in accounts receivable that are over 90 days.

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 based on an analysis of expenditures and personnel time for related activities.

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include occupancy, depreciation, which are allocated on a square footage basis, as well as salaries and wages, benefits, payroll taxes, professional services, office expenses, information technology, interest, insurance, and other, which are allocated on the basis of estimates of time and effort.

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".

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, 2018 was \$15,970.

Community Investment Corporation
Notes to the Financial Statements
For the Year Ended December 31, 2018

Note 2 - Summary of Significant Accounting Policies (Continued)

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 net assets without donor restrictions 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 net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions.

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 and Accounting for Interest and Penalties on Taxes

CIC is a not-for-profit organization as described in section 501(c)(3) of the Internal Revenue Code and is exempt from federal and state income tax. The Organization may be subjected to income taxes on net income that is unrelated to their exempt purpose. Accordingly, there is no provision for income taxes.

CIC's policy is to disclose or recognize income tax positions based on management's estimate of whether it is reasonably possible or probable, respectively, that a liability has been incurred for unrecognized income tax positions. As of December 31, 2018, management is not aware of any uncertain tax positions that are potentially material. In addition, management is not aware of any matters which could cause CIC to lose its tax-exempt status.

CIC's 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, 2018, 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 2015).

Community Investment Corporation
Notes to the Financial Statements
For the Year Ended December 31, 2018

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.

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, 2018 was \$29,353.

Restricted Cash Reserves (Loan Loss Reserve Fund)

As of December 31, 2018, other non-current assets include restricted cash of \$28,855. As stipulated by the loan resolution with the U.S. Department of Agriculture (USDA), CIC is required to establish an interest-bearing reserve account in an amount equal to not less than five percent of the total amount owed by the microlender to pay any shortage in the RMRF caused by delinquencies or losses on microloans. This reserve will be maintained over the life of the loan, except that it may be used for emergency purposes subject to approval by the USDA.

Community Investment Corporation
Notes to the Financial Statements
For the Year Ended December 31, 2018

Note 2 - Summary of Significant Accounting Policies (Continued)

New Accounting Pronouncement

On August 18, 2016, FASB issued Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. CICI has implemented ASU 2016-14 and has adjusted the presentation of these financial statements accordingly. The ASU has been applied retrospectively to all periods presented. The adoption of the standard had no effect on previously reported net assets.

Note 3 – Availability and Liquidity

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

	2018
Cash and cash equivalents	\$ 2,541,126
Cash – restricted agency funds	784,869
Investments - other	25,038
Accounts receivable	3,853
Notes receivable, current portion	875,810
Restricted reserve funds	28,855
Investments	166,054
Total financial assets available within one year	4,425,605
Less amounts not available to be used within one year:	
Cash – restricted agency funds	(784,869)
Restricted reserve funds – require RD’s approval	(28,855)
Total financial assets unavailable within one year	(813,724)
Financial assets available to meet general expenditures over the next twelve months	\$ 3,611,881

Community Investment Corporation’s goal is to maintain financial assets to meet 90 days of operating expenses. CIC strives to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

Community Investment Corporation
Notes to the Financial Statements
For the Year Ended December 31, 2018

Note 4 – 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. 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 lines of credit total \$250,000. As of December 31, 2018, there was no outstanding balance on lines of credit.

Note 5 – Notes Receivable – Direct Loan Program

CIC's notes receivables as of December 31, 2018 consisted of the following:

	2018
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 12%. All notes receivables are collateralized.	\$ 3,498,437
Less: allowance for doubtful accounts	(74,900)
Less: amounts due in one year	<u>(875,810)</u>
	<u>\$ 2,547,727</u>

Future Minimum Payments

As of December 31, 2018, the annual maturities of notes receivables for the next five years are as follows:

Year Ended December 31, 2019	\$ 875,810
Year Ended December 31, 2020	1,440,871
Year Ended December 31, 2021	228,199
Year Ended December 31, 2022	324,688
Year Ended December 31, 2023	623,835
Thereafter	<u>5,034</u>
Total	<u>\$ 3,498,437</u>

Community Investment Corporation
Notes to the Financial Statements
For the Year Ended December 31, 2018

Note 6 – 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 \$50,500 for the year ended December 31, 2018, 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, 2018, total cumulative advances and earnings due to the IDA’s was \$1,357,736. The IDA has indicated their intention to allow advances and earnings to remain in the program until the program ends.

Note 7 – Program Service Revenue

Program service revenue for the year ended December 31, 2018 consisted of the following:

Homeownership assistance programs	\$ 123,350
Loan servicing program	313,169
Charter school loan program	<u>265,708</u>
	<u>\$ 702,227</u>

Note 8 – Property and Equipment

The following is a summary of property, building, and equipment at cost less accumulated depreciation as of December 31, 2018:

Computer and equipment	\$ 40,776
Furniture and fixtures	2,804
Office building and land	<u>404,314</u>
Less: accumulated depreciation	<u>(26,709)</u>
Net Property and Equipment	<u>\$ 421,185</u>

Note 9 – 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.

Community Investment Corporation
Notes to the Financial Statements
For the Year Ended December 31, 2018

Note 9 – Investments / Fair Value Measurements (Continued)

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.

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, 2018.

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.

Community Investment Corporation
Notes to the Financial Statements
For the Year Ended December 31, 2018

Note 9 – Investments / Fair Value Measurements (Continued)

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, 2018 were as follows:

Level 1 Inputs	
Exchange traded funds	\$ 145,764
Premier Vacation Club Timeshare Membership	<u>295</u>
Total Level 1 Investments	<u>\$ 146,059</u>
Level 3 Inputs	
Closely held investments	\$ 1,170,672
Premier Vacation Club Timeshare Membership	<u>19,995</u>
Total Level 3 Investments	<u>\$ 1,190,667</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, 2018, net depreciation of investments was \$6,315.

Changes in level 3 inputs during the year were as follows:

Level 3 Inputs Beginning of the Year	\$ 175,938
Additions during the year	<u>1,014,729</u>
Level 3 Investments End of the Year	<u>\$ 1,190,667</u>

Note 10 – 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.

Community investment program equity in the net assets of and losses of affiliates as of December 31, 2018 were as follows:

Community Investment Corporation
Notes to the Financial Statements
For the Year Ended December 31, 2018

Note 10 – Community Investment Program (Continued)

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)	100,000
GHTBN II, LLC	<u>1,014,729</u>
	<u>\$ 1,170,672</u>

No impairment losses were recognized in the year ended December 31, 2018.

Note 11 – 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, 2018, 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 12 – Risks, Uncertainties, and Concentrations

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, 2018

Note 12 – Risks, Uncertainties, and Concentrations (Continued)

Deposits held at FDIC institutions are insured up to an amount of \$250,000, per insured depository institution for each account ownership category. 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.

The Securities Investor Protection Corporation (SIPC) insures investments with registered brokers up to \$500,000 per institution. However, SIPC does not protect against losses in market value. As of December 31, 2018, CIC's investments were not in excess of the SIPC insurance amount.

Note 13 – 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 \$-0- in loan servicing fees from the IDA during the year ended December 31, 2018.

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, 2018, CIC earned \$50,500 under the program of which \$32,200 was earned from the IDA.

Community Investment Corporation hired a related party for the web design services. CIC paid \$8,648 for the year ended December 31, 2018. Furthermore, CIC purchased insurance through one of CIC's board member's offices in the amount of \$9,566 for the year ended December 31, 2018. Lastly, CIC purchases and maintains investments through one of CIC's board member's offices.

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. During 2018, CIC entered into a note payable agreement with the IDA in the amount of \$1,000,000. The loan bears an interest rate of 6.00% with the principal payment due on maturity. As of December 31, 2018, total outstanding notes payables due to the IDA was \$2,500,000.

Community Investment Corporation
Notes to the Financial Statements
For the Year Ended December 31, 2018

Note 13 – Related Party Transactions (Continued)

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, 2018.

Note 14 – Long-Term Debt

CIC's notes payables as of December 31, 2018 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
Note payable in the amount of \$1,000,000 through the IDA, which bears an interest rate of 6.00%. Interest is paid annually and the principal is due on maturity which is October 14, 2020.	1,000,000
Note payable in the amount of \$67,500 through the USDA, which bears an interest rate of 2.00%. Principal and interest are paid monthly beginning September 30, 2019 and any remaining principal is due on maturity which is June 28, 2037.	<u>67,500</u>
Total long-term debt	2,567,500
Less: long-term debt due within one year	<u>(1,054)</u>
Long-term portion	<u>\$ 2,566,446</u>

CIC is required to meet certain covenants in order to comply with the above loan agreements. As of December 31, 2018, management believes that CIC is in compliance with all of the covenants mentioned within the loan agreements.

As of December 31, 2018, the estimated annual maturities of notes payables for the next five years are as follows:

Community Investment Corporation
Notes to the Financial Statements
For the Year Ended December 31, 2018

Note 14 – Long-Term Debt (Continued)

Year Ended December 31, 2019	\$ 1,054
Year Ended December 31, 2020	1,003,204
Year Ended December 31, 2021	3,268
Year Ended December 31, 2022	503,334
Year Ended December 31, 2023	3,402
Thereafter	<u>1,053,238</u>
Total	<u>\$ 2,567,500</u>

Note 15 – 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, 2018 were \$15,190.

Note 16 – 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 17 – Subsequent Events

Subsequent to year-end, the United States and global markets experienced significant declines in value resulting from uncertainty caused by the world-wide coronavirus pandemic. CIC is closely monitoring its investment portfolio and liquidity and is actively working to minimize the impact of these declines. CIC's financial statements do not include adjustments to fair value that have resulted from these declines.

In May 2020 CIC applied for and was approved a \$137,900 loan under the Paycheck Protection Program created as part of the relief efforts related to COVID-19 and administered by the Small Business Administration. The loan accrues interest at 1%, but payments are not required to begin for six months after the funding of the loan. CIC is eligible for loan forgiveness of up to 100% of the loan, upon meeting certain requirements. The loan is uncollateralized and is fully guaranteed by the Federal government.

Subsequent events have been evaluated through September 15, 2020, which is the date the financial statements were available to be issued.