

**Local Initiatives Support Corporation and Affiliates
Consolidating and Consolidated Financial Statements
and Supplementary Information on Federal Awards
Programs**

**December 31, 2018
(With Comparative Financial Information as of and for
the Year Ended December 31, 2017)**

**(With Independent Auditor's Report Thereon and
Reports on Internal Control and Compliance Thereon)**

Local Initiatives Support Corporation and Affiliates

Index

| | <u>Page</u> |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|
| Independent Auditor's Report | 2 |
| Financial Statements | |
| Consolidating and Consolidated Financial Statements | |
| Consolidating and Consolidated Statement of Financial Position as of December 31, 2018 | 5 |
| Consolidating and Consolidated Statement of Activities and Changes in Net Assets for the Year Ended December 31, 2018 | 6 |
| Consolidating and Consolidated Statement of Functional Expenses for the Year Ended December 31, 2018 | 7 |
| Consolidating and Consolidated Statement of Cash Flows for the Year Ended December 31, 2018 | 10 |
| Notes to Consolidating and Consolidated Financial Statements | 12 |
| Supplementary Information | |
| Schedule of Expenditures of Federal Awards | 45 |
| Notes to Schedule of Expenditures of Federal Awards | 47 |
| Schedule of Indirect Cost Rate - LISC | 49 |
| Note to Schedule of Indirect Cost Rate - LISC | 50 |
| Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> | 51 |
| Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control over Compliance Required by the Uniform Guidance | 53 |
| Schedule of Findings and Questioned Costs | 55 |

Independent Auditor's Report

The Board of Directors
Local Initiatives Support Corporation

Report on the Financial Statements

We have audited the accompanying consolidating and consolidated financial statements of Local Initiatives Support Corporation and Affiliates (the "Organization"), which comprise the consolidating and consolidated statement of financial position as of December 31, 2018, and the related consolidating and consolidated statements of activities and changes in net assets, functional expenses and cash flows for the year then ended and the related notes to the consolidating and consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidating and consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidating and consolidated 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 consolidating and consolidated financial statements based on our audit. We did not audit the financial statements of certain consolidated partnerships, which statements reflect total assets of \$22,506,648 as of December 31, 2018, and change in net assets of \$(22,648) for the year then ended. Those statements were audited by other auditors whose reports have been furnished to us and our opinion, insofar as it relates to those amounts included for the consolidated partnerships, is based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidating and consolidated financial statements are free from material misstatement. The financial statements of certain affiliates of Local Initiatives Corporation were not audited in accordance with *Government Auditing Standards* as discussed in Note 1 to the Schedule of Expenditures of Federal Awards.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidating and consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidating and consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidating and consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidating and consolidated 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, based on our audit and the reports of the other auditors, the consolidating and consolidated financial statements referred to above present fairly, in all material respects, the financial position of Local Initiatives Support Corporation and Affiliates as of December 31, 2018, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Adoption of New Accounting Standard

As discussed in Note 1 of the consolidating and consolidated financial statements, Local Initiatives Support Corporation and Affiliates adopted the Financial Accounting Standards Board's (the "FASB") Accounting Standards Update ("ASU") No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities* ("ASU 2016-14"), an amendment to FASB Accounting Standards Codification ("ASC") Topic 958 *Not-for-Profit Entities* (the "standard"), as of and for the year ended December 31, 2018. The requirements of the ASU have been applied retrospectively to all periods presented. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited the Organization's 2017 consolidating and consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidating and consolidated financial statements in our report dated June 28, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017, is consistent, in all material respects, with the audited consolidating and consolidated financial statements from which it has been derived.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the consolidating and consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, is presented for purposes of additional analysis and is not a required part of the consolidating and consolidated financial statements. The accompanying schedule of indirect cost rate is presented for purposes of additional analysis and is not a required part of the consolidating and consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidating and consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidating and consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidating and consolidated financial statements or to the consolidating and consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidating and consolidated financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 27, 2019 on our consideration of Local Initiatives Support Corporation and Affiliates' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Local Initiatives Support Corporation and Affiliates' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Local Initiatives Support Corporation and Affiliates' internal control over financial reporting and compliance.



Bethesda, Maryland
June 27, 2019

Local Initiatives Support Corporation and Affiliates

Consolidating and Consolidated Statement of Financial Position December 31, 2018 (With Summarized Comparative Financial Information as of December 31, 2017)

| Assets | LISC Parent Only | | | | | LISC Affiliates | CDA Partnerships | Eliminations | LISC Consolidated | | | LISC Consolidated 2017 Total |
|------------------------------------------------------------------------------------|----------------------------|-------------------------|----------------------------|-------------------------|----------------|-----------------|------------------|-----------------|----------------------------|-------------------------|----------------|------------------------------|
| | Operating Funds | | Loan Fund | | Total | | | | Without Donor Restrictions | With Donor Restrictions | Total | |
| | Without Donor Restrictions | With Donor Restrictions | Without Donor Restrictions | With Donor Restrictions | | | | | | | | |
| Cash and cash equivalents (Note 3 and 14) | \$ 11,425,942 | \$ 71,995,990 | \$ 3,476,982 | \$ 28,502,508 | \$ 115,401,422 | \$ 45,014,862 | \$ 254,124 | \$ - | \$ 60,171,910 | \$ 100,498,498 | \$ 160,670,408 | \$ 177,522,976 |
| Restricted cash (Note 3 and 14) | - | - | - | - | - | 2,740,658 | 2,265,146 | - | 5,005,804 | - | 5,005,804 | 3,489,100 |
| Investments (Note 3 and 14) | 77,638,861 | - | 13,461,097 | 42,396,445 | 133,496,403 | - | - | - | 91,099,958 | 42,396,445 | 133,496,403 | 134,045,865 |
| Investments in affiliates | 79,957,417 | - | - | - | 79,957,417 | - | - | (79,957,417) | - | - | - | - |
| Accrued interest receivable | 2,750,137 | - | - | - | 2,750,137 | 26,664 | - | (28,134) | 2,748,667 | - | 2,748,667 | 2,038,585 |
| Contributions receivable, net (Note 5) | 387,564 | 41,548,646 | - | 4,700,000 | 46,636,210 | - | - | - | 387,564 | 46,248,646 | 46,636,210 | 37,412,313 |
| Government grants and contracts receivable (Note 6) | 409,773 | 17,967,162 | - | 750,238 | 19,127,173 | - | - | - | 409,773 | 18,717,400 | 19,127,173 | 27,820,758 |
| Notes and other receivables | 597,213 | - | - | - | 597,213 | 35,776,365 | 325,046 | (2,150,290) | 34,548,334 | - | 34,548,334 | 10,306,760 |
| Due from funds (Note 18) | 2,659,131 | - | - | - | 2,659,131 | 6,919,407 | - | (2,746,063) | 6,832,475 | - | 6,832,475 | 5,604,726 |
| Loan receivable (Note 7) | - | - | 425,920,919 | 6,138,862 | 432,059,781 | 1,459,990 | - | (205,715) | 427,175,194 | 6,138,862 | 433,314,056 | 351,510,090 |
| Allowance for uncollectible loans | - | - | (25,678,087) | - | (25,678,087) | (833,333) | - | - | (26,511,420) | - | (26,511,420) | (22,163,439) |
| Total loans, net | - | - | 400,242,832 | 6,138,862 | 406,381,694 | 626,657 | - | (205,715) | 400,663,774 | 6,138,862 | 406,802,636 | 329,346,651 |
| Recoverable grants to CDPs, net (Note 7) | 7,483,281 | 2,435,883 | - | 209,390 | 10,128,554 | - | - | - | 7,483,281 | 2,645,273 | 10,128,554 | 8,398,768 |
| Prepaid expenses and other assets | 1,079,252 | 620,632 | - | - | 1,699,884 | 3,888,048 | 1,328,373 | (85,025) | 6,210,648 | 620,632 | 6,831,280 | 7,507,047 |
| Temporary investment in Project Partnerships (Note 9) | - | - | - | - | - | 57,111,500 | - | - | 57,111,500 | - | 57,111,500 | 68,360,264 |
| Investment in Funds | - | - | - | - | - | 2,022,471 | - | - | 2,022,471 | - | 2,022,471 | 3,363,455 |
| Investment in Project Partnerships (Note 19) | - | - | - | - | - | 52,824 | - | - | 52,824 | - | 52,824 | 60,288 |
| Property and equipment, net (Note 11) | 1,271,025 | - | - | - | 1,271,025 | 2,203,848 | 60,280,767 | - | 63,755,640 | - | 63,755,640 | 76,815,306 |
| Intangible asset | - | - | - | - | - | 2,400,000 | - | - | 2,400,000 | - | 2,400,000 | - |
| Total assets | \$ 185,659,596 | \$ 134,568,313 | \$ 417,180,911 | \$ 82,697,443 | \$ 820,106,263 | \$ 158,783,304 | \$ 64,453,456 | \$ (85,172,644) | \$ 740,904,623 | \$ 217,265,756 | \$ 958,170,379 | \$ 892,092,862 |
| Liabilities and Net Assets (Deficits) | | | | | | | | | | | | |
| Liabilities: | | | | | | | | | | | | |
| Accounts payable and accrued expenses (Note 16) | \$ 18,398,848 | \$ 1,230,039 | \$ - | \$ - | \$ 19,628,887 | \$ 17,085,911 | \$ 12,191,707 | \$ (1,546,192) | \$ 46,130,274 | \$ 1,230,039 | \$ 47,360,313 | \$ 43,158,490 |
| Government contracts and loan-related advances | 4,657,263 | 12,516 | - | - | 4,669,779 | - | - | - | 4,657,263 | 12,516 | 4,669,779 | 6,713,668 |
| Grants payable (Note 8) | - | 34,994,660 | - | - | 34,994,660 | 2,010,000 | - | (2,010,000) | - | 34,994,660 | 34,994,660 | 48,387,660 |
| Due to affiliates | - | - | - | - | - | 3,667,614 | - | (3,667,614) | - | - | - | - |
| Capital contributions due to temporary investment in Project Partnerships (Note 9) | - | - | - | - | - | 50,217,469 | - | - | 50,217,469 | - | 50,217,469 | 57,616,465 |
| Deferred liabilities | - | - | - | - | - | 6,319,090 | 55,612 | - | 6,374,702 | - | 6,374,702 | 7,902,638 |
| CDA Partnerships - Long-Term Debt, net (Note 17) | - | - | - | - | - | - | 49,851,126 | - | 49,851,126 | - | 49,851,126 | 58,549,149 |
| CDA Partnerships - Notes Payable to Funds | - | - | - | - | - | - | 3,216,914 | - | 3,216,914 | - | 3,216,914 | 4,828,720 |
| Loans and bond payable, net (Note 12) | 4,900,000 | - | 432,858,998 | - | 437,758,998 | 438,741 | - | (438,741) | 437,758,998 | - | 437,758,998 | 372,580,049 |
| Total liabilities | 27,956,111 | 36,237,215 | 432,858,998 | - | 497,052,324 | 79,738,825 | 65,315,359 | (7,662,547) | 598,206,746 | 36,237,215 | 634,443,961 | 599,736,839 |
| Commitments and contingencies (Note 16) | | | | | | | | | | | | |
| Net assets: | | | | | | | | | | | | |
| Net assets attributable to the Organization (Note 2) | 157,703,485 | 98,331,098 | (15,678,087) | 82,697,443 | 323,053,939 | 79,044,479 | - | (79,044,479) | 142,025,398 | 181,028,541 | 323,053,939 | 287,406,415 |
| Net assets attributable to the noncontrolling in Project Partnerships | - | - | - | - | - | - | (861,903) | 1,534,382 | 672,479 | - | 672,479 | 4,949,608 |
| Total net assets (deficit) | 157,703,485 | 98,331,098 | (15,678,087) | 82,697,443 | 323,053,939 | 79,044,479 | (861,903) | (77,510,097) | 142,697,877 | 181,028,541 | 323,726,418 | 292,356,023 |
| Total liabilities and net assets | \$ 185,659,596 | \$ 134,568,313 | \$ 417,180,911 | \$ 82,697,443 | \$ 820,106,263 | \$ 158,783,304 | \$ 64,453,456 | \$ (85,172,644) | \$ 740,904,623 | \$ 217,265,756 | \$ 958,170,379 | \$ 892,092,862 |

See Notes to Consolidating and Consolidated Financial Statements.

Local Initiatives Support Corporation and Affiliates

Consolidating and Consolidated Statement of Activities and Changes in Net Assets Year Ended December 31, 2018 (With Summarized Comparative Financial Information for the Year Ended December 31, 2017)

| SUPPORT AND REVENUES | LISC Parent Only | | | | | LISC Affiliates | CDA Partnerships | Eliminations | LISC Consolidated 2018 | | | LISC Consolidated 2017 Total |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------|-------------------------|----------------------------|-------------------------|------------------|-----------------|------------------|-----------------|------------------------|----------------|----------------|------------------------------|
| | Operating Funds | | Loan Fund | | LISC Parent Only | | | | | | | |
| | Without Donor Restrictions | With Donor Restrictions | Without Donor Restrictions | With Donor Restrictions | | | | | | | | |
| Contributions (Note 5) | \$ 503,428 | \$ 90,743,808 | \$ - | \$ 6,000,000 | \$ 97,247,236 | \$ 625,000 | \$ - | \$ (625,000) | \$ 503,428 | \$ 96,743,808 | \$ 97,247,236 | \$ 68,021,953 |
| Government grants & contracts (Note 6) | 4,471,945 | 20,955,767 | - | 12,500,000 | 37,927,712 | - | - | - | 4,471,945 | 33,455,767 | 37,927,712 | 38,705,461 |
| Interest income on investments | 2,189,103 | - | - | 652,596 | 2,841,699 | 1,457,525 | 4,361 | - | 3,650,989 | 652,596 | 4,303,585 | 1,938,733 |
| Interest income on loans to CDPs (Note 7) | 23,191,831 | - | - | - | 23,191,831 | 178,740 | - | - | 23,370,571 | - | 23,370,571 | 17,877,900 |
| Fee income | - | - | - | - | - | 53,756,031 | - | (262,849) | 53,493,182 | - | 53,493,182 | 52,262,155 |
| Other income | 6,573,363 | 75,435 | - | - | 6,648,798 | 10,103,761 | 6,648,016 | (4,867,015) | 18,458,125 | 75,435 | 18,533,560 | 20,106,479 |
| Equity in earnings of affiliates | 16,449,062 | - | - | - | 16,449,062 | - | - | (16,449,062) | - | - | - | - |
| Net assets released from restrictions | 94,864,577 | (90,586,480) | - | (4,278,097) | - | - | - | - | 94,864,577 | (94,864,577) | - | - |
| Total support and revenues | 148,243,309 | 21,188,530 | - | 14,874,499 | 184,306,338 | 66,121,057 | 6,652,377 | (22,203,926) | 198,812,817 | 36,063,029 | 234,875,846 | 198,912,681 |
| EXPENSES | | | | | | | | | | | | |
| Program Services: | | | | | | | | | | | | |
| Project development and other program activities | 46,043,188 | - | - | - | 46,043,188 | 42,103,245 | 8,282,037 | (4,800,638) | 91,627,832 | - | 91,627,832 | 96,361,644 |
| Project grants (Note 8) | 48,808,630 | - | - | - | 48,808,630 | 11,123,549 | - | (11,005,000) | 48,927,179 | - | 48,927,179 | 51,483,766 |
| Project loans: | | | | | | | | | | | | |
| Interest | 14,539,226 | - | - | - | 14,539,226 | 6,514 | 2,140,371 | (164,470) | 16,521,641 | - | 16,521,641 | 9,930,920 |
| Provision for loss on receivable | - | - | - | - | - | 1,057,152 | 21,945 | (40,004) | 1,039,093 | - | 1,039,093 | 713,510 |
| Increase in provision for uncollectible loans to CDPs (Note 7) | 1,579,110 | - | 3,662,648 | - | 5,241,758 | - | - | - | 5,241,758 | - | 5,241,758 | 4,265,106 |
| Provision for uncollectible recoverable grants to CDPs (Note 7) | 2,526,383 | - | - | - | 2,526,383 | - | - | - | 2,526,383 | - | 2,526,383 | 867,558 |
| Total program services | 113,496,537 | - | 3,662,648 | - | 117,159,185 | 54,290,460 | 10,444,353 | (16,010,112) | 165,883,886 | - | 165,883,886 | 163,622,504 |
| Supporting Services: | | | | | | | | | | | | |
| Management and general | 24,481,311 | - | - | - | 24,481,311 | 9,725,918 | - | (267,926) | 33,939,303 | - | 33,939,303 | 26,352,879 |
| Fund raising | 6,297,761 | - | - | - | 6,297,761 | - | - | - | 6,297,761 | - | 6,297,761 | 5,806,004 |
| Total supporting services | 30,779,072 | - | - | - | 30,779,072 | 9,725,918 | - | (267,926) | 40,237,064 | - | 40,237,064 | 32,158,883 |
| Total expenses | 144,275,609 | - | 3,662,648 | - | 147,938,257 | 64,016,378 | 10,444,353 | (16,278,038) | 206,120,950 | - | 206,120,950 | 195,781,387 |
| Change in net assets before gains and losses on investments derivatives, equity in losses of partnership projects and other noncontrolling interest activities | 3,967,700 | 21,188,530 | (3,662,648) | 14,874,499 | 36,368,081 | 2,104,679 | (3,791,976) | (5,925,888) | (7,308,133) | 36,063,029 | 28,754,896 | 3,131,294 |
| Transfers: Board designated net assets for loan fund activities | 1,000,000 | - | (1,000,000) | - | - | - | - | - | - | - | - | - |
| Realized & unrealized loss on investments | (720,557) | - | - | - | (720,557) | - | - | - | (720,557) | - | (720,557) | (71,246) |
| Realization of unrealized gain on investment securities available for sale by the operating partnerships | - | - | - | - | - | - | 67,063 | - | 67,063 | - | 67,063 | 78,808 |
| Gain on transfer of temporary investments in project partnerships | - | - | - | - | - | - | - | - | - | - | - | 241,794 |
| Equity in losses of project partnerships | - | - | - | - | - | - | 234,275 | (206,160) | 28,115 | - | 28,115 | 359,888 |
| Capital contributions | - | - | - | - | - | 5,900,000 | - | (5,900,000) | - | - | - | - |
| Gain on disposition of interest in CDA Partnerships (Note 19) | - | - | - | - | - | - | 4,561,842 | (1,382,484) | 3,179,358 | - | 3,179,358 | 3,095,989 |
| Change in net assets before noncontrolling interest activities | 4,247,143 | 21,188,530 | (4,662,648) | 14,874,499 | 35,647,524 | 8,004,679 | 1,071,204 | (13,414,532) | (4,754,154) | 36,063,029 | 31,308,875 | 6,836,527 |
| Other noncontrolling interest activities: | | | | | | | | | | | | |
| Noncontrolling capital contributions | - | - | - | - | - | - | 370,935 | (309,415) | 61,520 | - | 61,520 | 120,325 |
| Change in net assets | 4,247,143 | 21,188,530 | (4,662,648) | 14,874,499 | 35,647,524 | 8,004,679 | 1,442,139 | (13,723,947) | (4,692,634) | 36,063,029 | 31,370,395 | 6,956,852 |
| Net assets (deficit), beginning of year | 153,456,342 | 77,142,568 | (11,015,439) | 67,822,944 | 287,406,415 | 71,039,800 | (2,304,042) | (63,786,150) | 147,390,511 | 144,965,512 | 292,356,023 | 285,399,171 |
| Net asset (deficit), end of year | \$ 157,703,485 | \$ 98,331,098 | \$ (15,678,087) | \$ 82,697,443 | \$ 323,053,939 | \$ 79,044,479 | \$ (861,903) | \$ (77,510,097) | \$ 142,697,877 | \$ 181,028,541 | \$ 323,726,418 | \$ 292,356,023 |

See Notes to Consolidating and Consolidated Financial Statements.

Local Initiatives Support Corporation and Affiliates

Consolidating and Consolidated Statement of Functional Expenses Year Ended December 31, 2018

| | LISC Parent Only | | | | LISC Affiliates | | | |
|--------------------------------------------------------|-----------------------|---------------------------|---------------------|-----------------------|----------------------|---------------------------|-------------|----------------------|
| | Program Services | Management and General | Fundraising | Total | Program Services | Management and General | Fundraising | Total |
| Salaries and fringe benefits | \$ 27,497,268 | \$ 18,554,281 | \$ 4,963,790 | \$ 51,015,339 | \$ 26,729,703 | \$ 6,996,883 | \$ - | \$ 33,726,586 |
| Staff travel and related expenses | 1,154,843 | 779,251 | 208,472 | 2,142,566 | 1,073,716 | 288,601 | - | 1,362,317 |
| Professional services, consulting and legal | 11,507,329 | 240,710 | 74,569 | 11,822,608 | 5,095,865 | 267,867 | - | 5,363,732 |
| Office and administrative | - | - | - | - | - | 105,752 | - | 105,752 |
| CDA Partnerships - property expense | - | - | - | - | - | - | - | - |
| NMSC reimbursable costs | - | - | - | - | 4,498,281 | - | - | 4,498,281 |
| Depreciation and amortization | 423,885 | 286,024 | 76,519 | 786,428 | 661,012 | 140,344 | - | 801,356 |
| Service fees | - | - | - | - | 100,000 | - | - | 100,000 |
| Rent and utilities | 2,305,222 | 1,555,490 | 416,138 | 4,276,850 | 1,332,697 | 283,711 | - | 1,616,408 |
| Office supplies, postage and messenger | 873,513 | 589,418 | 157,686 | 1,620,617 | 519,070 | 379,463 | - | 898,533 |
| Bank fees and other financial expenses | - | 518,140 | - | 518,140 | - | 182,559 | - | 182,559 |
| Accounting and auditing fees | - | 420,950 | - | 420,950 | - | 355,787 | - | 355,787 |
| Conference and meeting | 612,308 | 413,166 | 110,534 | 1,136,008 | 231,168 | 65,710 | - | 296,878 |
| Telephone | 497,544 | 335,727 | 89,816 | 923,087 | 389,101 | 91,271 | - | 480,372 |
| Insurance | 235,437 | 158,865 | 42,501 | 436,803 | 384,742 | 120,806 | - | 505,548 |
| Equipment rental | 141,832 | 95,703 | 25,603 | 263,138 | 70,771 | 16,600 | - | 87,371 |
| Board expenses | - | 39,684 | - | 39,684 | - | - | - | - |
| Printing, annual report and publications | 77,916 | 52,575 | 14,065 | 144,556 | 620,727 | 145,603 | - | 766,330 |
| Project grants | 48,808,630 | - | - | 48,808,630 | 11,123,549 | - | - | 11,123,549 |
| Interest | 14,539,226 | - | - | 14,539,226 | 6,514 | - | - | 6,514 |
| Provision for loss on receivables | - | - | - | - | 1,057,152 | - | - | 1,057,152 |
| Provision for uncollectible recoverable grants to CDCs | 2,526,383 | - | - | 2,526,383 | - | - | - | - |
| Provision for uncollectible loans to CDCs | 5,241,758 | - | - | 5,241,758 | - | - | - | - |
| Miscellaneous | 716,091 | 441,327 | 118,068 | 1,275,486 | 396,392 | 284,961 | - | 681,353 |
| Total | <u>\$ 117,159,185</u> | <u>\$ 24,481,311</u> | <u>\$ 6,297,761</u> | <u>\$ 147,938,257</u> | <u>\$ 54,290,460</u> | <u>\$ 9,725,918</u> | <u>\$ -</u> | <u>\$ 64,016,378</u> |

Local Initiatives Support Corporation and Affiliates

Consolidating and Consolidated Statement of Functional Expenses Year Ended December 31, 2018

| | CDA Partnerships | | | | Eliminations | | | |
|--------------------------------------------------------|----------------------|---------------------------|-------------|----------------------|------------------------|---------------------------|-------------|------------------------|
| | Program Services | Management and General | Fundraising | Total | Program Services | Management and General | Fundraising | Total |
| Salaries and fringe benefits | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Staff travel and related expenses | - | - | - | - | - | - | - | - |
| Professional services, consulting and legal | - | - | - | - | - | - | - | - |
| Office and administrative | - | - | - | - | (302,357) | (122,569) | - | (424,926) |
| CDA Partnerships - property expense | 5,265,940 | - | - | 5,265,940 | (40,004) | - | - | (40,004) |
| NMSC reimbursable costs | - | - | - | - | (4,498,281) | - | - | (4,498,281) |
| Depreciation and amortization | 3,016,097 | - | - | 3,016,097 | - | - | - | - |
| Service fees | - | - | - | - | - | - | - | - |
| Rent and utilities | - | - | - | - | - | (138,774) | - | (138,774) |
| Office supplies, postage and messenger | - | - | - | - | - | - | - | - |
| Bank fees and other financial expenses | - | - | - | - | - | - | - | - |
| Accounting and auditing fees | - | - | - | - | - | - | - | - |
| Conference and meeting | - | - | - | - | - | - | - | - |
| Telephone | - | - | - | - | - | - | - | - |
| Insurance | - | - | - | - | - | - | - | - |
| Equipment rental | - | - | - | - | - | - | - | - |
| Board expenses | - | - | - | - | - | - | - | - |
| Printing, annual report and publications | - | - | - | - | - | - | - | - |
| Project grants | - | - | - | - | (11,005,000) | - | - | (11,005,000) |
| Interest | 2,140,371 | - | - | 2,140,371 | (164,470) | - | - | (164,470) |
| Provision for loss on receivables | 21,945 | - | - | 21,945 | - | - | - | - |
| Provision for uncollectible recoverable grants to CDCs | - | - | - | - | - | - | - | - |
| Provision for uncollectible loans to CDCs | - | - | - | - | - | - | - | - |
| Miscellaneous | - | - | - | - | - | (6,583) | - | (6,583) |
| Total | <u>\$ 10,444,353</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 10,444,353</u> | <u>\$ (16,010,112)</u> | <u>\$ (267,926)</u> | <u>\$ -</u> | <u>\$ (16,278,038)</u> |

Local Initiatives Support Corporation and Affiliates

**Consolidating and Consolidated Statement of Functional Expenses
Year Ended December 31, 2018**

| | LISC Consolidated 2018 | | | |
|--------------------------------------------------------|-------------------------------|-----------------------------------|---------------------|-----------------------|
| | Program Services | Management and General | Fundraising | Total |
| Salaries and fringe benefits | \$ 54,226,971 | \$ 25,551,164 | \$ 4,963,790 | \$ 84,741,925 |
| Staff travel and related expenses | 2,228,559 | 1,067,852 | 208,472 | 3,504,883 |
| Professional services, consulting and legal | 16,603,194 | 508,577 | 74,569 | 17,186,340 |
| Office and administrative | (302,357) | (16,817) | - | (319,174) |
| CDA Partnerships - property expense | 5,225,936 | - | - | 5,225,936 |
| NMSC reimbursable costs | - | - | - | - |
| Depreciation and amortization | 4,100,994 | 426,368 | 76,519 | 4,603,881 |
| Service fees | 100,000 | - | - | 100,000 |
| Rent and utilities | 3,637,919 | 1,700,427 | 416,138 | 5,754,484 |
| Office supplies, postage and messenger | 1,392,583 | 968,881 | 157,686 | 2,519,150 |
| Bank fees and other financial expenses | - | 700,699 | - | 700,699 |
| Accounting and auditing fees | - | 776,737 | - | 776,737 |
| Conference and meeting | 843,476 | 478,876 | 110,534 | 1,432,886 |
| Telephone | 886,645 | 426,998 | 89,816 | 1,403,459 |
| Insurance | 620,179 | 279,671 | 42,501 | 942,351 |
| Equipment rental | 212,603 | 112,303 | 25,603 | 350,509 |
| Board expenses | - | 39,684 | - | 39,684 |
| Printing, annual report and publications | 698,643 | 198,178 | 14,065 | 910,886 |
| Project grants | 48,927,179 | - | - | 48,927,179 |
| Interest | 16,521,641 | - | - | 16,521,641 |
| Provision for loss on receivables | 1,079,097 | - | - | 1,079,097 |
| Provision for uncollectible recoverable grants to CDCs | 2,526,383 | - | - | 2,526,383 |
| Provision for uncollectible loans to CDCs | 5,241,758 | - | - | 5,241,758 |
| Miscellaneous | 1,112,483 | 719,705 | 118,068 | 1,950,256 |
| Total | <u>\$ 165,883,886</u> | <u>\$ 33,939,303</u> | <u>\$ 6,297,761</u> | <u>\$ 206,120,950</u> |

See Notes to Consolidating and Consolidated Financial Statements.

Local Initiatives Support Corporation and Affiliates

Consolidating and Consolidated Statement of Cash Flows

Year Ended December 31, 2018

(With Comparative Financial Information for the Year Ended December 31, 2017)

| | LISC Parent Only | LISC Affiliates | CDA Partnerships | Eliminations | 2018 | 2017 |
|-------------------------------------------------------------------------------------------------------|---------------------|-----------------|---------------------|-----------------|---------------|---------------|
| Cash flows from operating activities: | | | | | | |
| Change in net assets | \$ 35,647,524 | \$ 8,004,679 | \$ 1,442,139 | \$ (13,723,947) | \$ 31,370,395 | \$ 6,836,527 |
| Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities: | | | | | | |
| Equity in earnings of affiliate | (16,449,062) | - | - | 16,449,062 | - | - |
| Distributions from investment in affiliates | 4,782,106 | - | - | (4,782,106) | - | - |
| Recovery of loan losses | - | (380,376) | - | 258,602 | (121,774) | (135,270) |
| Gain on transfer of temporary investments in Project Partnerships | - | - | - | - | - | (241,794) |
| Gain on sale of investment in real estate company | - | (2,645) | - | 2,645 | - | - |
| Gain on forgiveness of debt | - | - | (234,275) | 206,162 | (28,113) | (359,888) |
| Gain on sale of limited partnership interest in Fund | - | (18,642) | - | - | (18,642) | - |
| Loss on transfer of interest in CDA partnerships | - | - | - | (3,179,358) | (3,179,358) | (3,095,989) |
| Amortization of discounts and issuance costs | 63,247 | - | 36,566 | - | 99,813 | 731,516 |
| Depreciation and amortization | 786,428 | 801,356 | 3,016,097 | - | 4,603,881 | 4,984,732 |
| Realized and unrealized loss (gain) on investments | 720,557 | - | - | - | 720,557 | 71,246 |
| Unrealized gain on interest rate swaps held by Project Partnerships | - | - | (67,063) | - | (67,063) | (78,808) |
| Equity in income | - | (65,384) | - | - | (65,384) | (11,341) |
| (Decrease) increase in allowance for loans to CDPs, net | 5,241,758 | 685,333 | - | (685,333) | 5,241,758 | 4,265,106 |
| Provision for loss on receivables | - | 1,057,152 | 21,945 | - | 1,079,097 | 713,510 |
| Provision for uncollectible recoverable grants | 2,526,383 | - | - | - | 2,526,383 | 867,558 |
| Change in operating assets and liabilities | | | | | | |
| Accrued interest receivable | (673,026) | (5,367) | - | (31,689) | (710,082) | (433,742) |
| Contributions receivable | (8,647,299) | - | - | - | (8,647,299) | (15,573,650) |
| Government contracts receivable | 8,693,585 | - | - | - | 8,693,585 | 10,087,659 |
| Notes and other receivables | - | (7,872,132) | 63,656 | (379,823) | (8,188,299) | 306,954 |
| Prepaid expenses and other assets | (224,384) | (536,039) | 40,821 | - | (719,602) | 164,123 |
| Accounts payable and accrued expenses | 2,432,300 | (407,368) | 856,628 | 72,850 | 2,954,410 | 11,183,326 |
| Government contracts and loan-related advances | 669,939 | - | - | - | 669,939 | (19,010,289) |
| Due from affiliate | 1,468,955 | (1,361,684) | - | (107,271) | - | - |
| Due from funds | - | (1,264,836) | - | - | (1,264,836) | 3,183,655 |
| Grants payable | (13,393,000) | (350,000) | - | 350,000 | (13,393,000) | (27,621,020) |
| Deferred liabilities | - | (1,364,939) | (150,247) | 2,645 | (1,512,541) | 2,078,712 |
| Net cash provided by (used in) operating activities | 23,646,011 | (3,080,892) | 5,026,267 | (5,547,561) | 20,043,825 | (21,087,167) |
| Cash flows from investing activities: | | | | | | |
| Purchase of investments | (3,075,831) | - | - | - | (3,075,831) | (3,870,134) |
| Proceeds from sale and maturities of investments | 2,904,737 | - | - | - | 2,904,737 | 1,370,046 |
| Recoverable grants to CDPs | (6,646,031) | - | - | (770,359) | (7,416,390) | (2,798,574) |
| Repayments received on recoverable grants to CDPs | 3,160,220 | - | - | - | 3,160,220 | 3,244,184 |
| Loans to CDPs | (197,329,453) | - | - | 233,968 | (197,095,485) | (209,271,163) |
| Repayments of loans to CDPs | 114,380,502 | 17,240 | - | - | 114,397,742 | 136,363,800 |
| (Increase) in note receivable | - | (16,580,604) | - | (56,000) | (16,636,604) | 43,228 |
| Contributions to temporary investments in Project Partnerships and Funds | - | (58,010,558) | - | - | (58,010,558) | (49,291,830) |
| Distributions from investments in Funds | - | 3,460,921 | - | - | 3,460,921 | 972,482 |
| Proceeds from sale of temporary investment in Project Partnerships and Funds | - | 61,860,326 | - | - | 61,860,326 | 62,418,044 |
| Contributions to investments in Funds | - | (1,980,947) | - | - | (1,980,947) | (2,705,820) |
| Investment in Project Partnerships | - | 7,464 | - | - | 7,464 | (1,851) |
| Transfer of interest in CDA partnerships | - | - | (5,533,625) | 5,169,916 | (363,709) | (90,217) |
| Net proceeds from sale of real estate property | - | 2,645 | - | (2,645) | - | - |
| Restricted cash escrow | - | 78,790 | 267,375 | - | 346,165 | (610,721) |
| Sale of computer software | - | 103,899 | - | - | 103,899 | - |
| Purchase of property and equipment | (198,419) | (200,792) | (816,710) | - | (1,215,921) | (2,596,279) |
| Net cash used in investing activities | (86,804,275) | (11,241,616) | (6,082,960) | 4,574,880 | (99,553,971) | (66,824,805) |

Local Initiatives Support Corporation and Affiliates

Consolidating and Consolidated Statement of Cash Flows Year Ended December 31, 2018

(With Comparative Financial Information for the Year Ended December 31, 2017)

| | LISC Parent Only | LISC Affiliates | CDA Partnerships | Eliminations | 2018 | 2017 |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------|-----------------------|------------------------|-----------------------|------------------------|-----------------------|
| Cash flows from financing activities: | | | | | | |
| Debt issuance costs paid | - | - | - | - | - | (304,814) |
| Proceeds from loans payable | 99,919,612 | 16,944,551 | 157,000 | (157,000) | 116,864,163 | 278,545,108 |
| Repayment of loans payable | (34,803,910) | (16,944,551) | - | - | (51,748,461) | (223,198,779) |
| Proceeds from long-term debt | - | - | - | - | - | 29,240,350 |
| Repayment of long-term debt | - | - | (270,078) | - | (270,078) | (31,631,280) |
| Proceeds from notes payable - NEF Funds | - | - | 211,954 | - | 211,954 | 1,016,150 |
| Due to affiliate | - | (1,129,681) | - | 1,129,681 | - | - |
| CDA capital contribution | - | - | - | - | - | 120,325 |
| Capital contribution | - | (2,400,000) | - | 2,400,000 | - | - |
| Intangible asset | - | - | - | (2,400,000) | (2,400,000) | - |
| Distribution to noncontrolling interests | - | - | - | - | - | - |
| Net cash provided by (used in) financing activities | <u>65,115,702</u> | <u>(3,529,681)</u> | <u>98,876</u> | <u>972,681</u> | <u>62,657,578</u> | <u>53,787,060</u> |
| Net increase (decrease) in cash and cash equivalents | 1,957,438 | (17,852,189) | (957,817) | - | (16,852,568) | (34,124,912) |
| Cash and cash equivalents, beginning of year | <u>113,443,984</u> | <u>62,867,051</u> | <u>1,211,941</u> | <u>-</u> | <u>177,522,976</u> | <u>211,647,888</u> |
| Cash and cash equivalents, end of year | <u>\$ 115,401,422</u> | <u>\$ 45,014,862</u> | <u>\$ 254,124</u> | <u>\$ -</u> | <u>\$ 160,670,408</u> | <u>\$ 177,522,976</u> |
| Cash paid during the year for: | | | | | | |
| Interest on indebtedness | <u>\$ 12,227,702</u> | <u>\$ 96,520</u> | <u>\$ 1,315,915</u> | <u>\$ -</u> | <u>\$ 13,640,137</u> | <u>\$ 9,813,713</u> |
| Supplemental disclosures of noncash investing activities: | | | | | | |
| Disposal of fully appreciated fixed assets | <u>\$ 18,010</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 18,010</u> | <u>\$ 188,851</u> |
| Fixed assets included in accounts payable and accrued expenses | <u>\$ 30,355</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 30,355</u> | <u>\$ -</u> |
| Capital contributions via assignment of SBA's 7(a) lender license | <u>\$ -</u> | <u>\$ 2,400,000</u> | <u>\$ -</u> | <u>\$ (2,400,000)</u> | <u>\$ -</u> | <u>\$ -</u> |
| Increase in temporary investments in Project Partnerships: and capital contributions due to temporary investments in Project Partnerships for the acquisition of Project Partnerships | <u>\$ -</u> | <u>\$ 440,875,071</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 440,875,071</u> | <u>\$ 303,636,518</u> |
| Decrease in temporary investments in Project Partnerships and capital contributions due to temporary investments in Project Partnerships for the assignment of Project Partnerships to limited partnerships | <u>\$ -</u> | <u>\$ 390,263,509</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 390,263,509</u> | <u>\$ 336,632,021</u> |
| Supplemental disclosure of cash and noncash investing activities related to deconsolidation of CDA Partnerships: | | | | | | |
| Assets transferred | <u>\$ -</u> | <u>\$ -</u> | <u>\$ (10,074,836)</u> | <u>\$ -</u> | <u>\$ (10,074,836)</u> | <u>\$ (3,740,836)</u> |
| Liabilities transferred | <u>-</u> | <u>-</u> | <u>13,467,555</u> | <u>-</u> | <u>13,467,555</u> | <u>6,473,412</u> |
| Noncontrolling interest | <u>-</u> | <u>-</u> | <u>(3,029,010)</u> | <u>-</u> | <u>(3,029,010)</u> | <u>(2,642,359)</u> |
| Cash paid | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 363,709</u> | <u>\$ -</u> | <u>\$ 363,709</u> | <u>\$ 90,217</u> |

See Notes to Consolidating and Consolidated Financial Statements.

Local Initiatives Support Corporation and Affiliates

Notes to Consolidating and Consolidated Financial Statements December 31, 2018

Note 1 - Description of organization and summary of significant accounting policies

Description of organization

Local Initiatives Support Corporation ("LISC"), a New York not-for-profit corporation, was incorporated in 1979 to assist community development organizations throughout the United States in their efforts to transform distressed neighborhoods into healthy communities by marshaling private and public sector resources and extending financial assistance in the form of loans, lines of credit, grants, and loan guarantees and providing technical support.

National Equity Fund, Inc. ("NEF") was organized as an Illinois not-for-profit corporation to create a national investment pool to aggregate and channel corporate equity investments into affordable housing developments. Since 1987, NEF has sponsored over 210 separate limited partnerships and limited liability companies (the "Funds") in which investments are made in affordable housing projects (the "Project Partnerships"). Generally, NEF's activities include obtaining commitments from investors, identifying and investing in affordable housing properties to be constructed or rehabilitated through partnerships with nonprofit organizations and private developers, and then monitoring the performance of such properties after completion. Benefits to fund investors are derived principally from Low-Income Housing Tax Credits ("LIHTC").

NEF is governed and its investment decisions are made by a board of directors appointed by LISC, the sole voting member of NEF. LISC has rights and duties in accordance with the Illinois General Not-For-Profit Corporation Act, as amended, with voting rights pursuant to NEF's bylaws and the Illinois Act.

NEF Community Investments, Inc. ("NEFCI"), a wholly-owned subsidiary of NEF, is responsible as the general partner, replacement general partner, managing member, or manager, for the operation and management of certain Funds. NEFCI is organized as an Illinois not-for-profit corporation and is tax-exempt. From time to time, NEF forms special-purpose entities to act as the manager of its Funds. NEFCI is also the sole member of these manager entities. The unaudited assets and liabilities of certain special-purpose entity managers for the multi investor Funds are presented below:

| | 2018 | | 2017 | |
|---------------------------------|--------------|--------------|--------------|--------------|
| | Unaudited | | Unaudited | |
| | Assets | Liabilities | Assets | Liabilities |
| Special-purpose entity manager: | | | | |
| NEF 2009 LLC | \$ 3,948,907 | \$ 2,698,908 | \$ 3,830,975 | \$ 2,603,206 |
| National Equity Fund 2011 LLC | 9,207,965 | 4,361,627 | 9,027,810 | 4,203,802 |
| NEF 2011 Fund Manager LLC | 4,181,720 | 3,010,595 | 4,047,635 | 2,898,435 |
| NEF 2012 Fund Manager LLC | 5,358,091 | 4,516,008 | 5,204,705 | 4,379,664 |
| NEF 2013 Fund Manager LLC | 4,537,760 | 4,228,694 | 4,031,317 | 4,127,793 |
| NEF 2014 Fund Manager LLC* | 4,977,950 | 6,274,400 | 4,603,569 | 6,118,388 |

* It is expected that assets will exceed liabilities once all syndication revenues and asset management fees have been earned.

The special-purpose entity managers are separate legal entities whose assets and credit are not available to satisfy the debts of any other entities or persons.

In 2018 and 2017, NEFCI managed and invested in the NEF Preservation Fund I LP, NEF Preservation Fund II LP, and NEF Mortgage Loan Fund I LP (collectively "NEF Preservation Funds"). The NEF Preservation Funds' purpose is to provide debt and/or equity financing to develop and preserve investments that meet the community development needs of low-income communities, including (but not limited to), affordable housing projects at or near the end of the low-income housing tax credit compliance period under Section 42 of the federal code. During 2018, NEFCI sold its limited partnership interest in NEF Preservation Mortgage Loan Fund I LP to an

Local Initiatives Support Corporation and Affiliates

Notes to Consolidating and Consolidated Financial Statements December 31, 2018

unrelated third party at a gain of \$18,642, which is included in Other Income in the accompanying consolidating and consolidated statements of activities and changes in net assets.

NEFCI also manages and invests in the NYC Distressed Multifamily Housing Fund I LP and NYC Distressed Multifamily Housing Fund II LP (collectively "NYC Distressed Funds"), whose purpose is to provide financing to develop and preserve distressed multifamily rental housing for low and moderate-income households and for other related community development projects.

Community Development Advocates, Inc. or its sister companies (collectively referred to as "CDA"), subsidiaries of NEF, acts as general partners in certain Project Partnerships to facilitate the promotion or rehabilitation of low-income housing. As of December 31, 2018 and 2017, CDA was the general partner of eight and twelve Project Partnerships, respectively. The Project Partnerships where CDA acts as the general partner are collectively referred to as the "CDA Partnerships." The Funds are the limited partners of the CDA Partnerships.

All references to "NEF Funds" contained in these consolidating and consolidated financial statements refer to the Limited Partnerships or LLCs in this report refer to the Limited Partnerships or LLCs in which NEF has an interest.

New Markets Support Company, LLC ("NMSC") is a Delaware limited liability company formed in 2003 to manage the New Markets Tax Credit ("NMTC") activities of LISC. As of December 31, 2018 and 2017, LISC, the sole member of NMSC, has received \$993 million of NMTC investment authority from the Community Development Financial Institutions Fund of the U.S. Department of the Treasury ("CDFI Fund").

The NMTC program provides investors with credits against federal income taxes they incur. NMTCs are passed through to an investor for each Qualified Equity Investment ("QEI") made in a Community Development Entity ("CDE") certified as such by the CDFI Fund. The investor receives credits over a seven-year period for each QEI, equal to 39% of the QEI amount (5% during each of years one through three and 6% during each of years four through seven). The CDE uses the QEI proceeds to make Qualified Low-Income Community Investments ("QLICs") to Qualified Active Low-Income Community Businesses ("QALICBs"). QLICs include loans to or equity investments in QALICBs or other CDEs. CDEs must comply with various federal requirements or investors risk recapture of tax credits plus penalties and interest thereon.

NMSC is governed by a board of managers, which is elected by LISC. As a not-for-profit corporation exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code (the "Code"), and therefore, without tax liability, LISC cannot itself use NMTCs. In order to utilize the allocation received by LISC from the CDFI Fund, the board of managers of NMSC suballocates NMTC investment authority to various Limited Liability Companies ("LLCs") organized and managed by NMSC (generally 0.01% ownership). These CDEs make investments in projects that accomplish goals consistent with the mission of LISC and in accordance with certain terms agreed to in the allocation agreements with the CDFI Fund.

NMSC also provides NMTC transaction related consulting, administration, accounting, reporting, loan servicing, compliance and software services to unrelated third parties. These services are generally provided to organizations with similar community development missions and investing objectives as LISC. NMSC also provided management services to LISC for set-up and administration of its Small Business Lender programs. NMSC has discontinued providing services specific to LISC's Small Business Lending programs and as of December 31, 2018, NMSC has no further obligations with regard to these programs.

Local Initiatives Support Corporation and Affiliates

Notes to Consolidating and Consolidated Financial Statements December 31, 2018

In January 2018, LISC entered into an agreement to purchase a Small Business Lending Company ("SBLC") license for \$2.4 million. The purchase of the SBLC license was approved by the U.S. Small Business Administration ("SBA"). LISC formed the wholly owned subsidiary, immito, LLC, to make SBA-guaranteed small business loans pursuant to section 7(a) of the Small Business Act ("7(a) loan program"). Generally, SBA will guarantee seventy-five to ninety percent (75% to 90%) of the principal and accrued interest on such loan. As a non-depository lending institution, immito, LLC generally will utilize the ability to sell on the secondary market the guaranteed portion of loans to provide liquidity.

Generally, SBA does not deny liability on a 7(a) loan guaranty unless an organization's actions or omissions caused, or would cause, a material loss on the loan. In addition, a loan that experiences early default within the eighteen-month threshold established by the SBA may be subject to elevated levels of scrutiny by the SBA.

At December 31, 2018, immito LLC has not closed any loan transactions, which is considered as its main business operating activity.

Resilience and Recovery Network, LLC ("RRN"), a wholly-owned Texas limited liability company, was formed in March 2018 to implement and operate a program to repair homes occupied by low and moderate-income households that were affected by Hurricane Harvey.

LISC is also the sole member of Local Initiatives Managed Assets Corporation ("LIMAC"), The Retail Initiative Inc. ("TRI"), LISC Louisiana Loan Fund LLC ("LLLF"), and Neighborhood Properties, LLC ("NP"). LIMAC, TRI, LLLF, and NP have limited activity. LIMAC was originally established in 1986 to create a national secondary market for affordable housing and community development loans. TRI was formed to attract, invest, and manage pools of equity and debt capital, which are to be invested in neighborhood retail centers and other related commercial projects in low- and moderate-income communities. LLLF was formed to serve as the vehicle through which LISC provides acquisition and predevelopment financings to support development of affordable and mixed-income housing in hurricane impacted parishes of Louisiana. NP was formed to take title on collateral property foreclosed by LISC where LISC is the highest bidder at public auction.

Summary of significant accounting policies

Consolidation

The accompanying consolidating and consolidated financial statements include the assets, liabilities, net assets, and financial activities of LISC, NEF and its affiliates, NMSC, immito LLC, RRN, LIMAC, TRI, LLLF and NP (collectively, the "Organization"). All significant inter-organization balances and transactions have been eliminated in consolidation.

Financial statement presentation

The accompanying consolidating and consolidated financial statements are prepared on the accrual basis of accounting. The Organization reports its financial information in the following categories:

Without Donor Restrictions

The "Operating Funds - Without Donor Restrictions" is used to record activities supported by resources that are not subject to donor-imposed restrictions and over which management and the board of directors have discretionary control.

The "Loan Funds - Without Donor Restrictions" is used to record loans and bonds payable proceeds mainly provided to the Organization by financial institutions, insurance companies, foundations, government agencies, and other nonprofits with lender-imposed restrictions that

Local Initiatives Support Corporation and Affiliates

Notes to Consolidating and Consolidated Financial Statements December 31, 2018

may include making loans to Community Development Projects ("CDPs") in certain geographic areas. In some instances, loans payable proceeds are provided to fund recoverable grants to CDPs. These funds as well as the related recoverable grant activities are recorded in the "Operating Funds Without Donor Restrictions."

As of December 31, 2018 and 2017, Loan Funds - Without Donor Restrictions consist of \$10 million and \$11 million of board-designated net assets, respectively.

Principal repayments received on loans provided to CDPs funded from loan funds, as well as the provision for loan losses, are recorded in the "Loan Funds - Without Donor Restrictions." Impairment losses are charged to the "Operating Funds Without Donor Restrictions."

With Donor Restrictions

These funds are used to record contributions received with donor-imposed restrictions. Contributions are recorded as restricted support if they are received with donor stipulations that limit their use. When a donor's restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidating and consolidated statement of activities and changes in net assets as net assets released from restrictions.

Specifically, the "Loan Funds with Donor Restrictions" ("donor-restricted loan funds") is used to record contributions received with donor-imposed restrictions for lending and/or credit enhancement activities. "Operating Funds - With Donor Restriction" (donor-restricted operating funds") is used to record net assets received with donor-imposed restrictions for all other activities, excluding lending and/or credit enhancement activities.

Estimates

The preparation of consolidating and consolidated financial statements in conformity with U.S. 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 consolidating and consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. The significant estimates made in the preparation of these consolidating and consolidated financial statements include the fair value of alternative investments, the allowance for uncollectible loans, the allowance for uncollectible recoverable grants, and the allowance for uncollectible receivables. Actual results could differ from those estimates.

Fair value

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that a reporting entity has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly and certain alternative investments that can be redeemed at or near balance sheet date (within 90 days).

Local Initiatives Support Corporation and Affiliates

Notes to Consolidating and Consolidated Financial Statements December 31, 2018

- Level 3 inputs are unobservable inputs for the asset or liability and certain alternative investments that are not redeemable at or near balance sheet date (within 90 days).

Revenue recognition

NEF (or its subsidiaries) earns its revenues by providing syndication services, including organization, acquisition, construction monitoring services, asset management, disposition and other services to the Funds. The deferred revenue balance in the accompanying consolidating and consolidated financial statement represents fees contractually due from or prepaid by the Funds in accordance with terms of the Funds' agreements in excess of revenue recognized during 2018 and 2017.

Pursuant to NEF's policy, 25% of the syndication fee is recognized as a reimbursement of Fund offering and organization costs incurred by NEF, 45% is recognized as an acquisition fee upon closings of Funds' Project Partnerships, and the last 30% is recognized as a construction management fee during the construction period of those Project Partnerships. An annual project asset management fee is assessed for each project partnership in a particular fund. Annual project asset management fees are recognized as services are provided over the 15-year compliance period, after the project has reached qualified occupancy. In addition, NEF is reimbursed for legal closing costs associated with the acquisition of the Project Partnerships.

In addition, NEF may earn additional contingent fees on certain Funds based upon certain events, as defined. Contingent fees are recognized after the related contingencies have been satisfied and were \$232,428 and \$3,045,141 in 2018 and 2017, respectively. The contingent fees are included in fee income in the accompanying consolidating and consolidated statement of activities and changes in net assets.

NEF recognizes rental income as rentals become due. Rental payments received in advance are deferred until earned. All leases between the partnership and the tenants of the property are operating leases.

NMSC earns revenue by providing organization, underwriting, accounting, asset management, dissolution, and other services to the LLCs, which are governed by the related operating and fee agreements. Sub-allocation fees are recognized when QEIs are funded. Asset management fees are recognized as income as NMSC renders the service (generally over a seven-year period). From these asset management fees, NMSC pays audit, tax, registration and filing fees and other expenses on behalf of certain LLCs. NMSC accounts for the expenses it pays on behalf of these LLCs as a reduction to total asset management fee revenue. Exit fees are recognized at the end of the NMTC compliance period, generally when the CDE exits the NMTC transaction.

NMSC also earns revenue by contracting with unrelated third parties to provide consulting, administration and compliance services on NMTC transactions. Fees for such services are recognized as income as NMSC renders the service. Additionally, NMSC earns revenue from software licensing and related services that includes all fees earned from granting customers the right to use the software. NMSC also earns interest income on loans made to various borrowers that is accrued as earned in accordance with the contractual terms of the loan agreements.

Cash and cash equivalents

Cash and cash equivalents include cash in banks and on hand and highly-liquid debt instruments that have maturities of three months or less from the date of purchase by the Organization, except for those amounts held by the Organization's investment managers.

Local Initiatives Support Corporation and Affiliates

Notes to Consolidating and Consolidated Financial Statements December 31, 2018

Restricted cash

As of December 31, 2018 and 2017, NEF had total restricted cash of \$2,466,153 and \$0, respectively, which is included within Net Assets Without Donor Restrictions in the accompanying consolidating and consolidated statements of financial position and has been designated for distributions to investors for Funds.

As of December 31, 2018 and 2017, NEF has restricted cash of \$67,101 and \$249,258, respectively, associated with NEF Preservation Fund I LP. Pursuant to the terms of the limited partnership agreement, this money is to be used to provide support services at the project partnership level. In addition, as of December 31, 2018 and 2017, NEF also has restricted cash of \$2,416,199 and \$3,089,831, respectively, pursuant to terms of certain agreements.

As of December 31, 2018 and 2017, NEF had restricted cash of \$0 and \$14,870, respectively, associated with the sale of one Project Partnership during 2017.

NMSC acts as a fiduciary agent and collects debt service payments from borrowers on behalf of related or third party lenders. Debt service payments received are deposited into restricted cash accounts and are disbursed monthly to the related or third party lenders. As the agent, NMSC recognizes a liability to the related or third party lenders concurrent with its receipt of the debt service payments. As of December 31, 2018 and 2017, restricted cash includes debt service payments of \$47,810 and \$135,141, respectively, and certain CDE distributions of \$2,234 and \$0, respectively, held by NMSC on behalf of certain Investment Funds.

Immito's LLC's restricted cash includes cash amounts held in separate accounts and restricted for use. Restricted cash at December 31, 2018 was \$6,307.

Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at fair value in the consolidating and consolidated statement of financial position. Fair value of equity securities is based on quoted market prices. Fair values of fixed maturity securities, other than those based on quoted market prices, are based on prices provided by the Organization's custodian bank. The custodian bank uses a variety of pricing sources to determine market valuations. Each designates specific pricing services or indexes for each sector of the market upon the provider's expertise. The fair values of alternative investments are based on the net asset value, a practical expedient provided by the investment managers or general partners. Those estimated net asset values may differ significantly from the values that would have been used had a ready market for these securities existed.

Investment in funds

NEF and its subsidiaries accounts for its partner and member interests in the Funds, NYC Distressed Funds, and the NEF Preservation Funds (collectively "Partner and Member Interests") using the equity method of accounting. Under the equity method, these investments are carried at cost, adjusted for NEF's share of net income, loss, and for cash distributions received. Under the equity method of accounting, the Partner and Member Interests will not be carried below zero unless NEF has continuing involvement in the entity. To the extent that the Partner and Member Interests with a carrying value of zero distribute cash to NEF or its subsidiaries, the distribution is recorded as miscellaneous income in the Organization's consolidating and consolidated statement of activities and changes in net assets.

NEF assesses other-than-temporary declines in values of its investments in its Partner and Member Interests. Annually, the carrying value of each investment is compared to its respective fair values.

Local Initiatives Support Corporation and Affiliates

Notes to Consolidating and Consolidated Financial Statements December 31, 2018

If another-than-temporary decline in carrying value exists, an impairment loss is recorded in the Organization's consolidating and consolidated statement of activities and changes in net assets to reduce the investment to fair value.

Risks and uncertainties

The Organization invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investments securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the consolidating and consolidated statement of financial position.

Contributions and government grants and contracts

Contributions, including unconditional promises to give (pledges), are recorded as revenue at fair value on the date received or pledged. Contributions are recorded as net assets with donor restrictions if they are received with donor stipulations that limit their use as to purpose or time. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Fair value is estimated giving consideration to anticipated future cash receipts (after allowance is made for uncollectible contributions) and discounting such amounts at a risk-adjusted rate commensurate with the duration of the donor's payment plan. These inputs to the fair value estimate are considered Level 3 in the fair value hierarchy. Amortization of the discount is recorded as additional contribution revenue in accordance with the donor-imposed restrictions, if any, on the contributions.

Contributed goods are recognized initially as revenue at their estimated fair value at date of receipt and expensed when used. Contributed services are recognized as revenue if the services create or enhance nonfinancial assets or require a specialized skill, are provided by individuals possessing those skills, and typically need to be purchased if not provided by donation. Contributed services that do not meet the above criteria are not recognized as revenue and are not reported in the accompanying consolidating and consolidated financial statements.

The Organization also receives government grants and contracts from a number of sources including federal, state, and local governments. These agreements are evaluated as to whether they qualify as contributions or exchange transactions as defined by U.S. generally accepted accounting principles. Government grants and contracts that are considered contributions are recognized as revenue when it is probable that the conditions surrounding the terms of the grant commitments are met. Government grants and contracts that are considered exchange transactions are recognized as revenue when services have been provided in accordance with the terms of the agreements and are reported in other income in the accompanying consolidating and consolidated statement of activities and changes in net assets.

Allowance for uncollectible loans/provision for loss on receivables

LISC's allowance for uncollectible loans is maintained at a level that, in management's judgment, is adequate to provide for potential losses. The amount of the allowance is based on management's evaluation of the collectability of the loans. Large loans are evaluated individually for impairment and an allowance for impairment is established using the methodology under the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 310, *Accounting by Creditors for Impairment of a Loan*. An allowance is established when the discounted cash flows of an impaired loan are lower than the carrying value of the loan. For the remainder of the portfolio, an allowance is established based on historical loan loss experience and management's evaluation of the collectability of the loans, taking into consideration project characteristics and trends.

Local Initiatives Support Corporation and Affiliates

Notes to Consolidating and Consolidated Financial Statements December 31, 2018

NEF's provision for loss on receivables is NEF's best estimate of the amount of credit losses in NEF's existing receivables. The amount of the allowance is based on management's evaluation of the collectability of the loans, taking into account general economic conditions, specific project characteristics (including the level of impairment), and trends in historical loss experience. The allowance for loss on receivables is maintained at a level which, in management's judgment, is adequate to absorb potential losses. A receivable is impaired if it is probable that NEF will not collect all principal and interest contractually due. The allowance is increased by a provision for loss on receivables, which is charged to expense and reduced by write-offs or recoveries. Receivables are written off against the allowance when the potential for recovery is considered remote. Changes in the allowance relating to impaired loans are charged or credited to the provision for loss on receivables. Because of uncertainties inherent in the estimation process, management's estimate of credit losses and the related allowance may change in the near term. However, the amount of the change that is reasonably possible cannot be estimated. Interest income on impaired loans is recognized on the cash basis of accounting.

Recoverable grants

Recoverable grants are early project investments provided to CDPs that contractually require repayment generally without interest. Recoverable grants receivable are recorded when these amounts are disbursed and an allowance has been established based on historical recoverability experience that, in management's judgment, is adequate to cover potential losses.

Government contracts and loan related advances

Government contracts and loan related advances consists of amounts received in advance from government agencies and other organizations for the purpose of providing loans, recoverable grants and project grants to CDPs in accordance with the terms of respective contractual agreements.

Capitalized interest

NEF borrows monies in order to provide short-term secured loans to facilitate the acquisition of project partnership investments. It is NEF's policy to capitalize interest paid on these borrowings during the construction period of the Project Partnerships. Upon assignment of the beneficial interests of the project investments, NEF may be reimbursed for these interest costs by the Fund. Any unreimbursed costs are recorded as a reduction to fee income.

Discounts and issuance costs on debt issuance

Discounts and issuance costs, net of accumulated amortization, are reported as a direct deduction from the face amount of the long-term debt to which such costs relate. Amortization of debt discount issuance costs is reported as a component of interest expense and is computed using an imputed interest rate on the related loan.

Deferred costs

Financing costs incurred are amortized over the term of the loan on a straight-line basis, which approximates the effective interest-rate method.

Property and equipment

Property and equipment are stated at cost less accumulated depreciation or amortization, computed using the straight-line method. Furniture, equipment, and software are depreciated over their estimated useful lives of three to seven years. Computer software development costs for internal use are capitalized and amortized on the straight-line basis over an estimated useful life of three years. Leasehold improvements are amortized over the lesser of the estimated useful lives of the assets or the remainder of the lease term, whichever is shorter. Buildings and improvements

Local Initiatives Support Corporation and Affiliates

Notes to Consolidating and Consolidated Financial Statements December 31, 2018

are depreciated over 27.5 to 40 years. Maintenance and repairs are charged to operations when incurred. Betterments and renewals are capitalized.

Intangible assets

Immito LLC's SBA license is recorded as an indefinite lived intangible asset and is not amortized as the license is valid for an indefinite period of time. The license is valued at approximately \$2,400,000. The license is subject to annual impairment testing, impairment being a material adverse change that would prevent immito from conducting its 7(a) business as planned. Unless there is an indicator of impairment, which would require an interim impairment analysis, immito has elected to perform its annual evaluation for impairment on January 1 of each fiscal year.

Engagement deposits

NMSC receives deposits from projects requesting NMTC financing. The deposits are held by NMSC in bank accounts until the projects are closed, at which point the deposits may be used to reimburse for legal and other NMTC closing costs. Any excess of the deposits over legal and other NMTC closing costs is returned to the project.

Accounting for the impairment of real estate assets

The Organization records an impairment loss on its real estate assets (land, building, and improvements) whenever their carrying value cannot be fully recovered through estimated undiscounted future cash flows from their operations, sale, and low income housing tax credits. The amount of the impairment loss to be recognized would be the difference between the Organization's carrying value and the estimated fair value. Adjustments for impairment loss for such real estate assets are made in each period as necessary to report these investments at the lower of carrying value or fair market value less cost to sell. However, there can be no assurance that any estimated fair value of these real estate assets would ultimately be realized by the Organization in any future sale or disposition transaction. Impairment losses have no impact on the cash flow of the Organization. No impairment loss on real estate assets was recorded in 2018 and 2017.

Functional expenses

The costs of providing program services and other activities have been summarized on a functional basis in the consolidated statement of functional expenses. Accordingly, certain costs have been allocated among program services, management and general and fundraising expenses. Such allocations are determined by management on an equitable basis.

Local Initiatives Support Corporation and Affiliates

Notes to Consolidating and Consolidated Financial Statements December 31, 2018

The expenses that are allocated and the method of allocation include the following:

| Expenses | Method of allocation |
|--------------------------------------------------------|-----------------------------------------------------|
| Salaries and fringe benefits | Time and effort |
| Professional services, consultant and legal | Direct allocation based on services/time and effort |
| Office and administrative | Direct allocation based on invoices/time and effort |
| Rent and utilities | Time and effort |
| CDA Partnerships - property expense | Direct allocation |
| Project grants | Direct allocation |
| Service fees | Direct allocation based on services |
| Interest | Direct allocation |
| Provision for uncollectible recoverable grants to CDCs | Direct allocation |
| Provision for uncollectible loans to CDCs | Direct allocation |
| Bank fees and other financial expenses | Direct allocation |
| Accounting and auditing fees | Direct allocation |
| Board expenses | Direct allocation |
| All other expenses | Time and effort |

Income taxes

The Organization recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Income generated from activities unrelated to the Organization's exempt purpose is subject to tax under the Code, Section 511. As a result of the Tax Cuts and Jobs Act, qualified transportation fringe benefits provided to employees are now treated as unrelated business income. Unrelated business income tax liabilities for the years ended December 31, 2018 and 2017 was immaterial.

Income tax returns filed by the Organization are subject to examination by the Internal Revenue Service for a period of three years. While no income tax returns are currently being examined by the Internal Revenue Service, tax years since 2015 remain open.

LISC is exempt from federal income taxes under Section 501(c)(3) of the Code. It has been classified as an organization that is not a private foundation and has been designated a "publicly supported" organization of the type described in Sections 170(b)(1)(A)(vi) and 509(a)(1) of the Code.

NEF is exempt from federal income taxes under Section 501(c)(4) of the Code. As a 501(c)(4) corporation, contributions to NEF are not tax deductible.

LIMAC is a exempt from federal income taxes under Section 501(c)(3) of the Code. It has been determined that LIMAC is not a private foundation within the meaning of Section 509(a) of the Code because it is an organization of the type described in Section 509(a)(2) of the Code.

NMSC, LLLF, NP, immito, LLC and RRN are LLCs and are considered disregarded entities for income tax purposes.

Income or losses of the NEF Funds, and the NMTC CDEs are required to be reported by the respective members/partners on their individual tax returns. Therefore, no provision has been made for federal or state income taxes. Additionally, the low-income housing tax credits generated by the Project Partnerships are passed through the NEF Funds to their members. NMTCs are passed through to an investor for each new QEI made by an investor in a CDE.

Local Initiatives Support Corporation and Affiliates

Notes to Consolidating and Consolidated Financial Statements December 31, 2018

Consolidation

The Corporation consolidates limited partnerships or similar entities over which it has a controlling financial interest in accordance with FASB ASC 958-810-20, "Consolidation – Control of Partnerships and Similar Entities" ("FASB ASC 958-810-20"). Generally, FASB ASC 958-810-20 requires consolidation of limited partnerships or similar entities by the general partner of that entity under the presumption that the general partner controls the limited partnership entity. The presumption of control by a general partner can be overcome if the limited partners are able to exercise substantive kick-out or participating rights. The Corporation does not consolidate limited partnerships or similar entities in which it owns a general partnership interest as the presumption of control by the general partner is able to be overcome. The Corporation reassesses whether it holds a controlling financial interest in limited partnerships or similar entities on an annual basis.

The Organization consolidates the CDA Partnerships as the presumption of control was not overcome under guidance of FASB 958-810.

Reclassification

Reclassifications have been made to the prior year balances to conform to the current year presentations. Such reclassifications were made for comparative purposes only, and do not restate the prior year consolidating and consolidated financial statements.

Recent accounting pronouncements

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers* (Topic 606) ("ASU 2014-09"), which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. ASU 2014-09 replaces most existing revenue recognition guidance in U.S. GAAP when it becomes effective. Additionally, ASU No. 2015-14, *Revenue from Contracts with Customers, Deferral of the Effective Date* ("ASU 2015-14"), was issued by the FASB in August 2015. ASU 2015-14 amended the effective date of ASU 2014-09. Early adoption is permitted, but not before the original effective date for private business entities (i.e. January 2018). The provisions of ASU 2014-09 were effective for the Organization on January 1, 2018 and did not have a significant impact on its consolidating and consolidated financial statements. ASU 2014-09 has been applied retrospectively.

In February 2016, the FASB issued ASU No. 2016-02, *Leases* (Topic 842) ("ASU 2016-02"), which requires lessees to recognize on the balance sheet the assets and liabilities for the rights and obligations created by leases with lease terms of more than 12 months. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee will continue to primarily depend on its classification as a finance or operating lease. However, unlike current U.S. GAAP, which requires only capital leases to be recognized on the balance sheet, ASU 2016-02 will require both types of leases to be recognized on the balance sheet. ASU 2016-02 also requires disclosures about the amount, timing, and uncertainty of cash flows arising from leases. These disclosures include qualitative and quantitative requirements, providing additional information about the amounts recorded in the financial statements. ASU 2016-02 is effective for fiscal years beginning after December 15, 2019 with early adoption permitted. The Organization is currently evaluating the effect that ASU 2016-02 will have on its consolidating and consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities* (Topic 958) ("ASU 2016-14"), which improves the presentation of financial statements of not-for-profit entities. The change is intended to provide more useful information to donors, grantors and other users. The ASU impacts all not-for-profit entities within the scope of Topic 958. The ASU addresses the following key

Local Initiatives Support Corporation and Affiliates

Notes to Consolidating and Consolidated Financial Statements December 31, 2018

qualitative and quantitative matters: 1) net asset classes, 2) investment return, 3) expenses, 4) liquidity and 5) availability of resources and presentation of operating cash flows. ASU 2016-14 is effective for fiscal years beginning after December 15, 2017, with early adoption permitted. The Organization has adjusted the presentation of its consolidating and consolidated financial statements. ASU 2016-14 has been applied retrospectively to all periods.

Note 2 - Net assets with donor restrictions

Net assets with donor restrictions are restricted for the Organization's thirty-three local/regional offices, rural programs, and several other national programs, are to be used in future years for program services, such as project grants, recoverable grants, lending-related activity, technical support, and operating support to community development organizations.

As of December 31, 2018, net assets with donor restrictions were \$181,028,541 (\$98,331,098 donor restricted operating funds and \$82,697,443 donor restricted loan funds and included the following components: (1) *Charter School Financing* - approximately \$46 million of donor-restricted funds are available to support quality public charter and alternative schools in low-income neighborhoods. Included in this amount is \$45 million related to grants awarded by the U.S. Department of Education to LISC to provide credit enhancement on loans made by financial institutions to stimulate the financing of charter schools (2) *Specific Project Funds* - approximately \$120 million of donor-restricted funds available to support a multitude of specifically defined projects in the local/regional offices and national programs (of which \$38 million is specifically for lending activities), and (3) *General operating and programmatic support* - approximately \$15 million of donor-restricted funds that are for use by specific local/regional offices and national programs for both general operating and programmatic support.

Local Initiatives Support Corporation and Affiliates

Notes to Consolidating and Consolidated Financial Statements December 31, 2018

Note 3 - Availability and liquidity

The table below represents financial assets available for general expenditures within one year at December 31, 2018. Financial assets in the "Loan Funds - Without Donor Restrictions" and "Loan Funds-With Donor Restrictions" are not included in the table below. As explained further in Note 1, these loan funds are for lending and/or credit enhancement activities and are not available for general expenditures. LISC also has undrawn lines of credit as further described in Note 12. These lines of credit are for lending activities and are not available for general expenditures.

| | |
|----------------------------------------------------------------------------------------|----------------------|
| Financial assets at period end | |
| Cash and cash equivalents | \$ 128,690,918 |
| Restricted cash | 5,005,804 |
| Investments | 77,638,861 |
| Accrued interest receivable | 2,748,667 |
| Contributions receivables, gross | 42,683,407 |
| Government grants and contracts receivable | 18,376,935 |
| Notes and other receivables | 33,951,121 |
| Due from funds | 6,832,475 |
| Temporary investments in project partnerships | 6,894,031 |
| Total financial assets | <u>322,822,219</u> |
| Less amounts not available to be used within one year | |
| Cash and cash equivalents | (11,304,208) |
| Restricted cash | (56,351) |
| Investments | (4,828,311) |
| Contributions receivables, gross | (11,350,334) |
| Notes and other receivables | (11,074,096) |
| Government grants and contracts receivable | (17,172,021) |
| Financial assets not available to be used within one year | <u>(55,785,321)</u> |
| Financial assets available to meet operating fund expenditures over the next 12 months | <u>\$267,036,898</u> |

Also, LISC has financial covenants with certain detain LISC lenders, some of which address adequate liquidity to cover operating costs and debt service requirements. Specifically, at the end of each quarter, unrestricted operating cash, cash equivalents, and investments must be able to cover at least six months of months of unrestricted operating expense as defined in the terms of the loan agreements with certain LISC lenders. With regard to debt service, liquid assets must exceed six months of interest and notes payable (as defined in the terms of the loan agreements with certain LISC lenders). At December 31, 2018 and 2017, LISC was in compliance with its financial covenants.

Local Initiatives Support Corporation and Affiliates

Notes to Consolidating and Consolidated Financial Statements December 31, 2018

Note 4 - Cash, cash equivalents, restricted cash, and investments

At December 31, 2018 and 2017, the Organization's total portfolio of cash, cash equivalents, restricted cash, and investments consisted of the following:

| | Fair value 2018 | Fair value 2017 |
|----------------------------------------------------------------|-----------------------|-----------------------|
| Cash, cash equivalents, and restricted cash | <u>\$ 165,676,212</u> | <u>\$ 181,012,076</u> |
| Investments: | | |
| Cash held for investment | 35,362,595 | 37,383,193 |
| Corporate bonds and fixed income funds | 37,936,096 | 37,737,817 |
| U.S. government agencies | 36,624,418 | 36,158,343 |
| Certificates of deposit | 5,232,689 | 5,192,116 |
| Alternative investments: | | |
| Real estate investment trust | 3,114,764 | 2,619,071 |
| Hedge funds | 13,622,255 | 13,955,325 |
| Private equity funds | 1,603,586 | 1,000,000 |
| | <u>133,496,403</u> | <u>134,045,865</u> |
| Total cash, cash equivalents, restricted cash, and investments | <u>\$ 299,172,615</u> | <u>\$ 315,057,941</u> |

The Organization invests in certain alternative investments, through "funds of funds" investments, which employ multiple investment strategies via a variety of investment managers to provide diversification and control risk. These investments create indirect exposure to the Organization through short sales of securities, trading in future and forward contracts, and other derivative products. Derivatives are tools used to maintain asset mix or manage portfolio risk exposure. While these financial instruments may contain varying degrees of risk, the Organization's risk with respect to such transactions is limited to its capital balance in each investment.

At December 31, 2018, cash and cash equivalents include approximately \$4.6 million held in escrow-like arrangements with loan participants and \$6.7 million in loss reserves required by specific programs.

At December 31, 2017, cash and cash equivalents included approximately \$2.6 million held in escrow-like arrangements with loan participants and \$254,780 in loss reserves required by specific programs.

The limitations and restrictions on the Organization's ability to redeem or sell its alternative investments vary by investment. As of December 31, 2018, the following table summarizes the composition of such investments by the various redemption provisions:

| <u>Alternative investments</u> | <u>Fair value</u> | <u>Redemption frequency</u> | <u>Redemption notice period</u> |
|----------------------------------|----------------------|-----------------------------|---------------------------------|
| Real estate investment trust (A) | \$ 3,114,764 | Lock-up | Not applicable |
| Multi-strategy hedge funds (B) | 13,512,294 | Quarterly | 61 calendar days |
| Credit-focused hedge fund (C) | 109,961 | Lock-up | Not applicable |
| Private equity funds (D) | 1,603,586 | Lock-up | Not applicable |
| | <u>\$ 18,340,605</u> | | |

As of December 31, 2018 and 2017, the Organization had \$4,396,414 and \$0 unfunded commitments on its alternative investments.

Local Initiatives Support Corporation and Affiliates

Notes to Consolidating and Consolidated Financial Statements December 31, 2018

Information with respect to the strategies of those investment funds that are reported at estimated fair value based upon net asset value per share (or its equivalent) is as follows:

- (A) *Real estate investment trust* - of which the Organization is a minority shareholder, principal business activities are to invest in affordable multifamily residential mortgage loans, which are subsequently syndicated to institutional investors, and to acquire equity interests in affordable multifamily residential real estate assets.
- (B) *Multi-strategy hedge funds* - includes investments in fund of funds that invest across multiple hedge fund strategies and styles, including equity long/short, event driven, relative value, tactical trading, and multi strategy hedge funds styles.
- (C) *Credit-focused hedge fund* - comprised of an investment in a hedge fund that seeks to achieve attractive total returns through both capital appreciation and current income. The fund seeks to achieve its investment objective through a portfolio of investments in publicly traded and privately held securities, loans, derivatives and other instruments, primarily in the corporate credit sector of the fixed income and related markets.
- (D) *Private equity funds* - includes investment in funds licensed by the United States Small Business Administration as small business investment companies. The primary purpose of the fund is to operate as a venture fund and invest in equities, debt securities with the equity participation, secured short-term and long-term loans, and as participants with other funds.

Note 5 - Contributions receivable

At December 31, 2018 and 2017, the Organization had contributions receivable with expected receipts as follows:

| | 2018 | 2017 |
|-----------------------------------------------------------|----------------------|----------------------|
| Due within one year | \$ 36,324,496 | \$ 30,588,984 |
| Due in one to five years | 11,350,334 | 7,614,119 |
| | 47,674,830 | 38,203,103 |
| Less discount (0.12%–5.00%) | (389,620) | (141,790) |
| Less allowance for uncollectible contributions receivable | (649,000) | (649,000) |
| Total contributions receivable, net | <u>\$ 46,636,210</u> | <u>\$ 37,412,313</u> |

At December 31, 2018 and 2017, approximately 17.8% and 13%, respectively, of the Organization's contribution receivable was from one donor.

At December 31, 2018 and 2017, approximately 55% and 29%, respectively, of the Organization's contribution revenue were from five donors.

Note 6 - Government grants and contracts

At December 31, 2018 and 2017, the Organization had grant commitments from various government agencies of approximately \$29.3 million and \$43.6 million, respectively, with expiring term dates ranging from 2019 to 2022. These grant commitments will be recognized in the accompanying consolidating and consolidated financial statements when it is probable that the conditions surrounding the terms of the grants will be met.

Local Initiatives Support Corporation and Affiliates

Notes to Consolidating and Consolidated Financial Statements December 31, 2018

At December 31, 2018 and 2017, government grants and contracts receivable were \$19,127,173 and \$27,820,758, respectively. Approximately \$8.4 million and \$13.5 million of government grants receivable at December 31, 2018 and 2017, and approximately \$13.4 million and \$15.4 million of government grants and contracts revenue for the year ended December 31, 2018 and 2017, respectively, were from one government agency.

Note 7 - Program loans, recoverable grants to community development projects and notes and other receivable

Program loans

In furtherance of its charitable purposes, LISC makes loans directly to CDPs and also to its affiliates, to benefit affiliate projects. In general, interest rates on loans to CDPs range from 0% to 9% and repayment terms range from six months to 29.1 years. Delinquent loans, measured as those loans whose payment is 90 days past due, totaled \$1,249,990 and \$5,520,772, respectively, at December 31, 2018 and 2017. The portion of the allowance dedicated to the delinquent loans totaled \$221,827 and \$924,526 at December 31, 2018 and 2017, respectively. At December 31, 2018, loan principal of \$116,487,929 is due to LISC within one year.

Loans to CDPs and affiliates' projects as of December 31, 2018 and 2017 comprised the following:

| Loan type: | 2018 | 2017 |
|--------------------------|-----------------------|-----------------------|
| Acquisition loans (1) | \$ 123,846,031 | \$ 108,476,637 |
| Predevelopment loans (2) | 24,117,316 | 19,844,127 |
| Construction loans (3) | 123,651,956 | 101,331,454 |
| Other (4) | 161,698,753 | 121,857,872 |
| Total | <u>\$ 433,314,056</u> | <u>\$ 351,510,090</u> |

LISC disaggregates loan receivables by loan type when assessing and monitoring risk and performance of the entire population. The major loan types are:

1. Acquisition loans - to pay purchase and closing costs of a property
2. Predevelopment loans - to pay project predevelopment expenses
3. Construction loans - to pay hard and soft costs of new or rehabilitation projects
4. Other - includes mainly semi-permanent and permanent financing for projects, bridge loans (financing the remaining gap between projects or program costs and cash from committed or anticipated sources not yet available), and working capital line of credits to provide flexible capital to meet organizational cash flow needs.

Local Initiatives Support Corporation and Affiliates

Notes to Consolidating and Consolidated Financial Statements December 31, 2018

The following tables provide an analysis of the aging of loan receivables as of December 31, 2018 and 2017:

| 2018 | 31–60 days past due | 61–90 days past due | Greater than 90 days | Total past due | Current | Total gross loans receivable |
|----------------|------------------------|------------------------|-------------------------|---------------------|-----------------------|------------------------------------|
| Acquisition | \$ 500,000 | \$ - | \$ 820,892 | \$ 1,320,892 | \$ 122,525,139 | \$ 123,846,031 |
| Predevelopment | - | - | 233,249 | 233,249 | 23,884,067 | 24,117,316 |
| Construction | 1,069,206 | - | 195,849 | 1,265,055 | 122,386,901 | 123,651,956 |
| Other | 3,086,074 | - | - | 3,086,074 | 158,612,679 | 161,698,753 |
| Total | <u>\$ 4,655,280</u> | <u>\$ -</u> | <u>\$ 1,249,990</u> | <u>\$ 5,905,270</u> | <u>\$ 427,408,786</u> | <u>\$ 433,314,056</u> |

| 2017 | 31–60 days past due | 61–90 days past due | Greater than 90 days | Total past due | Current | Total gross loans receivable |
|----------------|------------------------|------------------------|-------------------------|---------------------|-----------------------|------------------------------------|
| Acquisition | \$ 422,365 | \$ - | \$ 845,213 | \$ 1,267,578 | \$ 107,209,059 | \$ 108,476,637 |
| Predevelopment | 2,401,354 | - | 3,471,704 | 5,873,058 | 95,458,396 | 101,331,454 |
| Construction | 265,249 | - | 217,579 | 482,828 | 19,361,299 | 19,844,127 |
| Other | - | - | 986,276 | 986,276 | 120,871,596 | 121,857,872 |
| Total | <u>\$ 3,088,968</u> | <u>\$ -</u> | <u>\$ 5,520,772</u> | <u>\$ 8,609,740</u> | <u>\$ 342,900,350</u> | <u>\$ 351,510,090</u> |

The activity in the allowance for uncollectible loans for the year ended December 31, 2018 and 2017 is as follows:

| 2018 | Acquisition | Predevelopment | Construction | Other | Total |
|----------------------------------------------------------|------------------------|-----------------------|-----------------------|-----------------------|------------------------|
| Allowance for uncollectible loans, beginning of the year | \$ (10,455,006) | \$ (2,881,055) | \$ (5,932,421) | \$ (2,894,957) | \$ (22,163,439) |
| Write-offs | - | - | 1,117,370 | 560,258 | 1,677,628 |
| Recoveries | (23,256) | - | (36,971) | (61,547) | (121,774) |
| Provision | (3,364,810) | (686,168) | (851,649) | (1,001,208) | (5,903,835) |
| Allowance for uncollectible loans, end of the year | <u>\$ (13,843,072)</u> | <u>\$ (3,567,223)</u> | <u>\$ (5,703,671)</u> | <u>\$ (3,397,454)</u> | <u>\$ (26,511,420)</u> |

| 2017 | Acquisition | Predevelopment | Construction | Other | Total |
|----------------------------------------------------------|------------------------|-----------------------|-----------------------|-----------------------|------------------------|
| Allowance for uncollectible loans, beginning of the year | \$ (8,477,822) | \$ (2,581,053) | \$ (4,711,793) | \$ (2,989,212) | \$ (18,759,880) |
| Write-offs | - | - | - | 996,817 | 996,817 |
| Recoveries | (109,107) | (21,952) | (4,211) | - | (135,270) |
| Provision | (1,868,077) | (278,050) | (1,216,417) | (902,562) | (4,265,106) |
| Allowance for uncollectible loans, end of the year | <u>\$ (10,455,006)</u> | <u>\$ (2,881,055)</u> | <u>\$ (5,932,421)</u> | <u>\$ (2,894,957)</u> | <u>\$ (22,163,439)</u> |

Local Initiatives Support Corporation and Affiliates

Notes to Consolidating and Consolidated Financial Statements December 31, 2018

Recoverable grants to CDPs-sponsored projects

In furtherance of its charitable purposes, the Organization makes recoverable grants directly to CDPs. Recoverable grant activity for 2018 and 2017 is summarized as follows:

| | 2018 | 2017 |
|-------------------------------------------------------------|----------------------|---------------------|
| Gross recoverable grants beginning of year | \$ 17,235,089 | \$ 18,225,849 |
| New recoverable grants made | 7,416,390 | 2,798,574 |
| Write-offs | (1) | (545,150) |
| Repayments | (3,160,220) | (3,244,184) |
| Gross recoverable grants end of year | 21,491,258 | 17,235,089 |
| Allowance for uncollectible recoverable grants, end of year | (11,362,704) | (8,836,321) |
| Recoverable grants receivable, net, end of year | <u>\$ 10,128,554</u> | <u>\$ 8,398,768</u> |

Notes and other receivables

December 31, 2018 and 2017, the following notes and other receivables were due to NEF and NMSC:

| | 2018 | 2017 |
|-------------------------------------------|----------------------|----------------------|
| Pre-development and pre-credit loans, net | \$ 3,869,473 | \$ 2,038,902 |
| Construction loans, net | 1,483,391 | 1,471,571 |
| Enclave at Firewheel loan | 5,967,327 | 2,914,108 |
| Short-term unsecured loans to Funds | 10,029,696 | 256,250 |
| Project workout loans and advances, net | 144,485 | 274,735 |
| Bridge loans to Funds and projects | 8,073,203 | - |
| Grow Indianapolis Fund, LLC (GIF) | - | 920,417 |
| Opportunity Zone loan | 2,242,367 | - |
| Good Jobs Investment Funds, LLC | 160,918 | - |
| Other receivables | 2,577,474 | 2,430,777 |
| Total | <u>\$ 34,548,334</u> | <u>\$ 10,306,760</u> |

Pre-development, pre-credit, and construction loans

From time to time, NEF funds developers with "pre-development" or "pre-credit" loans as bridge financing to primarily allow for the developers to pay for the costs of meeting the 10% carryover requirements of the tax credit program, acquiring land, or other pre-development costs. These loans are secured by one or more of the following: assignment of the developer's general partnership interest, assignment of the low-income housing tax credits reserved for the developer in conjunction with the project, a mortgage and assignment of rents and leases on the property, a lien and encumbrance upon the property and improvements, and/or a guarantee from the borrower and its principals. NEF reserves for these loans at the time of the advance based upon an analysis of the borrower's creditworthiness. NEF had \$3,719,012, and \$2,265,622 of loans before allowance for loan losses of \$262,559 and \$274,704 as of December 31, 2018 and 2017, respectively. The loans outstanding at December 31, 2018 have stated interest rates ranging from 0% to 12.0% and maturity dates ranging from April 1, 2019 to June 30, 2021. As of and for the years ended December 31, 2018 and 2017, NEF recognized interest income in the amount of \$198,294, and \$88,511 and received interest payments of \$84,211 and \$40,723 in 2018 and 2017, respectively. Accrued interest outstanding as of December 31, 2018 and 2017 was \$162,067 and \$47,984, respectively.

During 2018, LISC provided a pre-credit loan to a limited liability company in the principal amount of \$750,000, an interest rate of 6.25% per annum, and a maturity date of September 1, 2020 to

Local Initiatives Support Corporation and Affiliates

Notes to Consolidating and Consolidated Financial Statements December 31, 2018

finance the costs of developing affordable housing and other community development projects in the New York metropolitan area. On August 15, 2018, LISC sold to NEF an undivided, unfunded 50% participation interest in the loan, collateral, and any rights existing under the loan documents. Pursuant to the terms of the participation agreement, NEF's obligations to participate in the loan shall not exceed \$375,000. As of December 31, 2018, NEF had funded \$257,333 and recorded an allowance for loan loss in the amount of \$7,720 in 2018. Additionally, as of and for the year ended December 31, 2018, NEF recognized interest income in the amount of \$3,971 and received interest payments of \$2,631. Accrued interest outstanding as of December 31, 2018 was \$1,340.

Construction loans, net

During 2015, LISC provided a recourse construction loan to a limited partnership in the principal amount of \$6,625,976, an interest rate of 6% per annum, and a maturity date of August 5, 2019 to finance the costs of construction of the real property and improvement located in New York, New York. On February 6, 2015, LISC sold to NEF an undivided, unfunded 25% participation interest in the loan, collateral, and any rights existing under the loan documents. Pursuant to the terms of the participation agreement, NEF's obligations to participate in the loan shall not exceed \$1,625,976. As of December 31, 2018 and 2017, NEF had funded \$1,541,665 and recorded an allowance for loan loss in the amount of \$70,094 in 2018 and 2017. Additionally, as of and for the years ended December 31, 2018 and 2017, NEF recognized interest income in the amount of \$99,962 and \$76,180, respectively, and received interest payments of \$88,142 and \$0 in 2018 and 2017, respectively. Accrued interest outstanding as of December 31, 2018 was \$11,820. The 2017 interest income was capitalized and included in the loan balance.

Enclave at Firewheel Loan and Enclave at Park Loans

During 2018, NEF Development Corporation, a subsidiary of NEF, entered into a loan agreement with Enclave Park, LP to provide construction financing to a mixed-income non-LIHTC workforce housing project partnership located in Fort Worth, Texas. NEF Development Corporation committed a maximum of \$3,000,000 in debt financing, which was outstanding as of December 31, 2018. The loan has an interest rate of 6% and matures in June 2023. For the year ended December 31, 2018, NEF Development Corporation accrued interest income in the amount of \$76,650 and received interest payments of \$22,103.

During 2017, NEF Development Corporation, a subsidiary of NEF, entered into loan agreements with Enclave Firewheel MKT, LP, Enclave Firewheel, WF-I, LP, and Enclave Firewheel WF-II, LP (collectively "Enclave at Firewheel") to provide construction financing to a non-LIHTC workforce housing project partnership located in Garland, Texas. NEF Development Corporation committed a maximum of \$3,500,000 in debt financing. As of December 31, 2018 and 2017, the outstanding principal balance on the loan was \$2,871,148. The loan has an interest rate of 6% and matures in May 2022. For the year ended December 31, 2018 and 2017, NEF Development Corporation accrued interest income in the amount of \$172,269 and \$42,960, respectively, and received interest payments of \$173,597 and \$0 in 2018 and 2017, respectively. Accrued interest outstanding as of December 31, 2018 and 2017 was \$41,632 and \$42,960, respectively.

Short-term unsecured loans to Funds

Notes and other receivables, also includes short-term unsecured loans provided to certain Funds in which NEF is a general partner or manager. As of December 31, 2018 and 2017, the outstanding loan balance was \$10,029,696 and \$256,250, respectively. The outstanding loans are due in 2019 and have an interest rate of 0%; \$7,353,464 of the outstanding balance was repaid in the first quarter of 2019.

Local Initiatives Support Corporation and Affiliates

Notes to Consolidating and Consolidated Financial Statements December 31, 2018

Project workout loans and advances, net

During 2018 and 2017, NEF made a new unsecured project workout loans and advances in the amount of \$1,048,313 and \$372,053, respectively, to Project Partnerships in which the Funds invest. As of December 31, 2018 and 2017, NEF had reserved \$3,770,869 against \$3,915,354 and \$3,390,905 against \$3,665,640 of loans, respectively. The Corporation recovered \$371,677 and \$0 in 2018 and 2017. Interest income related to the recovery of project workout loans is \$17,139 for the year ended December 31, 2018 and is recognized on a cash basis.

Bridge loans to projects and Funds

During 2018, NEF entered into loan agreements with four Project Partnerships to bridge equity payments and satisfy the immediate cash needs of the Project Partnerships. These loans are secured by the following: assignment of developer fees and a guarantee from the borrower and its principals. Additionally, one of these loans is secured by a pledge of a Project Partnership's rights to recover under a surety bond in accordance with the underlying loan documents. The interest rates on these loans ranges from 0% to 6%. As of December 31, 2018, the outstanding balance was \$4,091,445. No provision for loss was recorded on the receivable as amounts are expected to be fully recoverable. For the year ended December 31, 2018, NEF accrued interest income in the amount of \$47,908.

During 2017, NEF entered into a loan agreement with a Project Partnership to bridge equity payments during construction at a 0% interest rate. During 2017, draws on the loan totaled \$297,000, and the loan was repaid in full in 2017.

On May 17, 2018, NEF closed on a revolving line of credit to provide loans to a Fund. NEF committed a maximum of \$6,901,491 with a stated interest rate of 0% and a maturity date of July 31, 2019. The funds are to bridge the limited partners' capital contributions to the Fund. The outstanding balance of the line is \$3,933,850 as of December 31, 2018. This loan was subsequently repaid in January 2019.

Opportunity Zone Loan

During 2018, the Corporation entered into a loan agreement with a project partnership to finance acquisition related costs and acquire land in an area designated as an "Opportunity Zone," as defined by the Tax Cuts and Jobs Act, in Redmond, Oregon. This loan is secured by the following: assignment of the borrower's general partnership and limited partnership interests, assignment of project related documents as appropriate, first mortgage lien on the land, and a guarantee from the borrower and its principals. The Corporation committed a maximum of \$2,400,000 in debt financing. As of December 31, 2018, the outstanding principal balance on the loan was \$2,242,367. The loan has a floating interest rate equal to the prime rate plus 0.50% and matures in October 2019. For the year ended December 31, 2018, the Corporation accrued interest income in the amount of \$24,913, all of which was paid in 2018.

Grow Indianapolis Fund, LLC ("GIF")

NMSC has a \$3,100,000 promissory note with Grow Indianapolis Fund, LLC ("GIF"), an affiliate, dated November 9, 2017. The original maturity date of the note was November 9, 2027 and the note accrued interest at a floating rate per annum equal to the prime rate plus 2%. Commencing December 15, 2017 and monthly thereafter, interest-only payments were receivable through November 15, 2024. The loan was secured by a Credit Agreement. The note was fully repaid and cancelled as of July 31, 2018. As of December 31, 2018 and 2017, the total amount outstanding was \$0 and \$842,417, respectively.

Local Initiatives Support Corporation and Affiliates

Notes to Consolidating and Consolidated Financial Statements December 31, 2018

NMSC also has a promissory note with GIF dated December 15, 2017. The note matures March 31, 2019 and accrues interest at an annual rate equal to prime rate. At maturity, the remaining unpaid principal and any unpaid accrued interest thereon are due and payable in full to NMSC. As of December 31, 2018 and 2017, the total amount outstanding was \$0 and \$78,000, respectively.

Good Jobs Investment Fund, LLC ("Good Jobs Fund")

NMSC has a \$1,286,000 promissory note with Good Jobs Investment Fund, LLC ("Good Jobs Fund"), an affiliate, dated April 24, 2018. The note matures on the date that is seven months after the seventh anniversary of the date of the last advance of funds made under this note. The note accrues interest at a rate of 8.0% per annum. Interest-only payments are made on the tenth calendar day of each month, commencing on the tenth of the month following the first advance, through the maturity date. At maturity, the remaining unpaid principal and unpaid accrued interest thereon are due and payable in full to NMSC. The note is secured by a Security Agreement. As of December 31, 2018, the total amount outstanding was \$160,918.

For the year ended December 31, 2018, NMSC earned \$38,911 and \$7,962, respectively, of interest income on the related party loans. As of December 31, 2018 and 2017, interest receivable was \$1,109 and \$2,691, respectively.

Note 8 - Grants payable

In furtherance of its charitable purposes, the Organization makes grants to CDPs. The Organization's grant activity for the years ended December 31, 2018 and 2017 is summarized below:

| | 2018 | 2017 |
|-----------------------------------|----------------------|----------------------|
| Grants payable, beginning of year | \$ 48,387,660 | \$ 76,008,680 |
| New project grants made | 48,808,630 | 51,476,266 |
| Disbursements on commitments | (62,201,630) | (79,097,286) |
| Grants payable, end of year | <u>\$ 34,994,660</u> | <u>\$ 48,387,660</u> |

Note 9 - Temporary investments in project partnerships

NEF Support Corporation, a subsidiary of NEF, may temporarily hold and currently is holding beneficial interests of Project Partnerships in the interim until the beneficial interests are assigned to a Fund. Upon assignment of the Project Partnerships to a Fund, NEF's investment is typically repaid in whole by the Fund.

As of December 31, 2018, and 2017, NEF was holding temporary investments in Project Partnerships of \$48,998,629 and \$68,360,264, in which NEF contributed \$6,039,954 and \$10,085,448 to the Project Partnerships and entered into promissory notes for future contributions of \$42,348,041 and \$57,616,465, respectively, in temporary investments in Project Partnerships. Also in 2017, NEF recorded a \$241,794 gain on transfer of temporary investments in four Project Partnerships. In 2018 and 2017, NEF recorded equity in losses of \$0 related to temporary investments. As of December 31, 2018, and 2017, NEF also includes preacquisition costs of \$610,634 and \$658,351, respectively, in Temporary Investments in Project Partnerships. In 2018 and 2017, NEF recorded equity in losses of \$0 related to temporary investments.

As of December 31, 2018, NEFCI was holding temporary investments in two Funds of \$8,112,871. NEF contributed \$243,443 to the Funds and entered into a commitment for future contributions of \$7,869,428. NEFCI's interest in both Funds was assigned to investors at book value in 2019.

Local Initiatives Support Corporation and Affiliates

Notes to Consolidating and Consolidated Financial Statements December 31, 2018

Note 10 - Acquisitions

Acquisitions are accounted for in accordance with the FASB ASC Topic 958-805, Not-for-Profit Entities - Business Combinations. On September 27, 2010, NEF acquired Homestead Capital for the purpose of expanding NEF's presence in the northwest region of the United States. Upon acquisition, NEF allocated the purchase price based on the fair value of the acquired assets, including other identifiable intangible assets such as acquired in-place contracts and customer relationship value, and assumed liabilities. NEF estimated fair value based on discounted cash flow analyses and other valuation techniques. As a result, determining the fair value involved assumptions and estimates, including discount rates, expense growth rates and collectability. NEF allocated \$644,012 of the purchase price to certain other intangibles including acquired in-place contract value and customer relationship value. The portions of the purchase price allocated to in-place contracts and customer relationship value are amortized on a straight-line basis over periods ranging from 6 to 18 years. NEF recorded accumulated amortization of \$395,938 and \$346,079 as of December 31, 2018 and 2017, respectively. Such amounts are included in other assets in the accompanying consolidating and consolidated statements of financial position. NEF incurred amortization expense pertaining to acquired in-place intangibles of \$49,859 and \$56,291 for the years ended December 31, 2018 and 2017, respectively.

The following table presents the amortization during the next five years and thereafter related to the acquired in-place intangibles for NEF as of December 31, 2018:

| Year: | In-place contracts | Customer relationship | Total |
|------------|-----------------------|--------------------------|-------------------|
| 2019 | \$ 45,771 | \$ 2,646 | \$ 48,417 |
| 2020 | 42,967 | 2,646 | 45,613 |
| 2021 | 38,020 | 2,646 | 40,666 |
| 2022 | 30,574 | 2,646 | 33,220 |
| 2023 | 24,044 | 2,646 | 26,690 |
| Thereafter | 45,530 | 7,938 | 53,468 |
| | <u>\$ 226,906</u> | <u>\$ 21,168</u> | <u>\$ 248,074</u> |

Note 11 - Property and equipment

Property and equipment consist of the following at December 31, 2018 and 2017:

| | 2018 | 2017 |
|---------------------------------------------------------------------|----------------------|----------------------|
| Furniture, equipment, computer software, and leasehold improvements | \$ 16,369,291 | \$ 16,673,479 |
| Land, buildings, and improvements | 92,782,489 | 107,221,125 |
| Gross property and equipment | 109,151,780 | 123,894,604 |
| Less accumulated depreciation and amortization | (45,396,140) | (47,079,298) |
| Total property and equipment, net | <u>\$ 63,755,640</u> | <u>\$ 76,815,306</u> |

Related to the CDA entities, as of December 31, 2018 and 2017, the consolidating and consolidated financial statements include \$92,782,489 and \$107,221,125 in Land, Buildings and Improvements and \$2,744,062 and \$3,346,908 in Furniture, Equipment, and Leasehold Improvements. Accumulated depreciation was \$35,345,784 and \$38,439,859 as of December 31, 2018 and 2017.

Local Initiatives Support Corporation and Affiliates

Notes to Consolidating and Consolidated Financial Statements December 31, 2018

Note 12 - Loans and bond payable

At December 31, 2018 and 2017, loans and bond payable consisted of the following:

| | Maturities | Interest rates | 2018 | 2017 |
|---------------------------------------------------|------------|----------------|----------------------|----------------------|
| Financial institutions and insurance companies | 2017–2037 | 0.00%–5.00% | \$330,998,790 | \$289,679,069 |
| Foundations | 2017–2025 | 0.00%–4.50% | 47,760,313 | 32,001,711 |
| Public agencies/entities and retirement funds | 2017–2043 | 0.00%–4.00% | 55,139,348 | 46,094,047 |
| Nonprofit and other institutions | 2017–2026 | 0.00%–2.50% | 4,613,425 | 5,621,347 |
| Total | | | <u>438,511,876</u> | <u>373,396,174</u> |
| Less: Unamortized Discount and deferred costs (*) | | | <u>(752,878)</u> | <u>(816,125)</u> |
| Loans and Bonds Payable, net | | | <u>\$437,758,998</u> | <u>\$372,580,049</u> |

Loans and bond payable maturities

Loans payable are scheduled to be repaid as of December 31, 2018 as follows:

| | Principal |
|------------|-----------------------|
| 2019 | \$ 52,763,871 |
| 2020 | 19,783,117 |
| 2021 | 58,641,644 |
| 2022 | 55,805,350 |
| 2023 | 43,218,850 |
| Thereafter | <u>208,299,044</u> |
| Total | <u>\$ 438,511,876</u> |

* In April 2017, LISC issued \$100,000,000 in Taxable Bonds, Series 2017A ("Sustainability Bonds") (\$25,000,000, 3.005% term bonds due March 1, 2022; \$25,000,000, 3.782% term bonds due March 1, 2027; \$50,000,000, 4.649% term bonds due March 1, 2037). The proceeds of the Sustainability Bonds were used to finance then existing loans payable and pay a portion of the debt issuance costs. The Sustainability Bonds were issued at a discount of \$731,478, and LISC incurred debt issuance costs of \$126,581. As of December 31, 2018, the unauthorized discount and deferred costs were \$752,878.

At December 31, 2018, LISC had \$92,821,795 of available undrawn sources of funding with maturities ranging from 2019 to 2028. Interest rates range from 0% to 3.75% fixed rate (\$76,221,795) and floating rate range from LIBOR + 1.50% to LIBOR + 2.50% (\$16,600,000). In addition, during 2014, LISC was awarded available bond loan financing in the amount of \$50 million (Community Development Financial Institution Bond Guarantee Program ("CDFI BGP") Bond Loan) by the United States Department of Treasury through the qualified issuer, the Bank of America CDFI Funding Corporation. The CDFI BGP Bond Loan proceeds are used to fund community or economic development activity in low-income or underserved urban and rural areas. CDFI BGP Bond Loan can be drawn on until August 14, 2019. The rate of each advance will be based on the current average Treasury rate for the related comparable duration of the advance +.375%. Payments of principal and interest are due quarterly with final maturity on December 15, 2043. Cumulative drawdowns as of December 31, 2018 was \$50,000,000. As of December 31, 2018, the outstanding balance was \$46,934,808 and \$0 was available for drawdown.

Local Initiatives Support Corporation and Affiliates

Notes to Consolidating and Consolidated Financial Statements December 31, 2018

Pledged assets

LISC had certain assets as collateral to lenders to secure (1) nonrecourse indebtedness to LISC totaling \$1,324,243 as of December 31, 2018 and 2017, and (2) \$49,364,181 and \$37,417,024 was collateral assets for the recourse indebtedness under the CDFI BGP Loan totaling \$46,934,808 and \$34,929,337, as of December 31, 2018 and 2017, respectively.

Subordinated debt

At December 31, 2018, LISC has subordinated debt in loans and bonds payable totaling \$25.5 million in the form of ten equity equivalent investments from five financial institutions. At December 31, 2017, LISC had subordinated debt included in loans and bonds payable totaling \$19 million in the form of five equity equivalent investments from three financial institutions.

Lines of credit

At December 31, 2018, LISC had available bank lines of credit of \$65,000,000, which expire between February 10, 2019 and December 17, 2021 with interest rates ranging from LIBOR + 1.50% to LIBOR + 2.15%. At December 31, 2018 and 2017, the outstanding balance included in loans and bond payable was \$10,000,000 and \$12,000,000. The available undrawn balance at December 31, 2018 was \$55,000,000.

A subsidiary of NEF has a \$10,000,000 revolving credit facility with a bank to provide a portion of the equity needed to temporarily invest in Project Partnerships. The current maturity date is May 31, 2020. The limited partnership interests in the Project Partnerships will secure any funds advanced. Interest on any outstanding amounts is due monthly at the greater of prime plus 25 basis points or 4%. The interest rate was 5.25% to 5.75% in 2018 and was 4.75% at December 31, 2017. The outstanding balance at December 31, 2018 and 2017 was \$0.

Covenants

In accordance with the terms of loan agreements with certain lenders, LISC is required to meet several financial covenants. LISC was in compliance with its financial covenants at December 31, 2018.

Note 13 - Pension and thrift plans

LISC has a Code Section 403(b) defined-contribution pension plan covering all eligible employees. Plan contributions are computed based on formulas defined in the plan. Total pension expense for the years ended December 31, 2018 and 2017, was \$2,441,379 and \$2,219,289, respectively.

LISC, NEF and immito maintain thrift plans under Section 401(k) of the Code covering all eligible employees. Under the plans, employee contributions are partially matched by LISC, NEF and immito, respectively. Total thrift plan expense for the years ended December 31, 2018 and 2017 was \$2,249,985 and \$2,168,962, respectively.

Note 14 - Financial instruments with off-balance-sheet risk and fair values

Off-balance-sheet risk

The Organization is a party to certain financial instruments with off-balance-sheet risk to meet the financing needs of community development organizations across the United States. These financial instruments and arrangements include financial guarantees and loan commitments. These transactions and arrangements involve elements of credit risk. The Organization uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

Local Initiatives Support Corporation and Affiliates

Notes to Consolidating and Consolidated Financial Statements December 31, 2018

The Organization's exposure to credit loss in the event of nonperformance of the Organization's loans have been guaranteed or sold with recourse is equal to the contractual amounts of the instruments.

Revolving loans are agreements to lend as long as there is no violation of any condition established in the contract. The following represents the composition of financial instruments with off-balance-sheet risk:

| | 2018 Contract amount | 2017 Contract amount |
|---------------------------------------------------------------------|----------------------------|----------------------------|
| Financial instruments whose contract amounts represent credit risk: | | |
| Financial guarantees | \$ 6,120,139 | \$ 5,224,565 |
| Loan commitments outstanding | 234,677,386 | 196,868,364 |
| Total | <u>\$ 240,797,525</u> | <u>\$ 202,092,929</u> |

LISC generally makes loans over \$500,000 on a secured basis. The collateral for such loans generally consists of mortgages, security agreements, assignment of contract receivables, and guarantees.

At December 31, 2018 and 2017, LISC had interest rate swap agreements with notional amounts aggregately of \$0 and \$5,000,000. The fair value of the interest rate swaps were immaterial to the consolidating and consolidated financial statements as of December 31, 2018.

Fair values

The following methods and assumptions were used by the Organization in estimating its fair value disclosure for financial instruments: for cash, cash equivalents, restricted cash escrow, accrued interest receivable, contributions receivable, government grants receivable, notes and other receivables, recoverable grants, real estate held for sale, accounts payable and accrued expenses, grants payable, capital contributions due to temporary investment in Project Partnerships, and capital contributions due to investment in Project Partnerships, the respective amounts reported in the consolidating and consolidated statement of financial position, approximate fair values due to the short-term nature of these financial instruments. The carrying value of loans receivable approximates fair value, which is based on a discounted cash flow analysis using current rates the Organization would charge to similar borrowers with similar maturities and is considered market rate for loans made by similar community development financial institutions. The inputs used for the fair value estimates of these financial instruments are unobservable and are considered Level 3 in the fair value hierarchy. The carrying value of long-term debt and loans and bond payable approximates fair value, which is based on a discounted cash flow analysis using current borrowing rates, which are significant observable inputs and are considered Level 2 in the fair value hierarchy. The Organization utilized Level 3 inputs in its evaluation of impairment of investments in Project Partnerships, the provision for loss on temporary investments in Project Partnerships, the provision for loss on receivables, and the value of the bond receivable. For a discussion of valuations of investments, see Note 1.

Local Initiatives Support Corporation and Affiliates

Notes to Consolidating and Consolidated Financial Statements December 31, 2018

The following tables present the Organization's fair value hierarchy for those assets and liabilities measured at fair value on an annual basis as of December 31, 2018 and 2017:

| | December 31, 2018 | | |
|-------------------------------------------------------|-----------------------|-----------------------|----------------------|
| | Total | Level 1 | Level 2 |
| Cash and cash equivalents, and restricted cash escrow | <u>\$ 165,676,212</u> | <u>\$ 165,676,212</u> | <u>\$ -</u> |
| Investments: | | | |
| Cash held for investment | \$ 35,362,595 | \$ 35,362,595 | \$ - |
| Corporate bonds and fixed income funds | 37,936,096 | 37,619,043 | 317,053 |
| U.S. government agencies | 36,624,418 | 28,895,272 | 7,729,146 |
| Certificates of deposit | 5,232,689 | - | 5,232,689 |
| | <u>\$ 115,155,798</u> | <u>\$ 101,876,910</u> | <u>\$ 13,278,888</u> |
| Alternative investments: | | | |
| Real estate investment trust | \$ 3,114,764 | | |
| Hedge funds | 13,622,255 | | |
| Private equity funds | 1,603,586 | | |
| | <u>18,340,605</u> | | |
| Total investments | <u>\$ 133,496,403</u> | | |
| Interest rate swap held by NEF Project Partnership | <u>\$ 179,731</u> | <u>\$ -</u> | <u>\$ 179,731</u> |
| Total interest rate swaps | <u>\$ 179,731</u> | <u>\$ -</u> | <u>\$ 179,731</u> |
| Loan guarantee - LISC | <u>\$ (298,902)</u> | <u>\$ -</u> | <u>\$ (298,902)</u> |
| | | | |
| | December 31, 2017 | | |
| | Total | Level 1 | Level 2 |
| Cash and cash equivalents, and restricted cash escrow | <u>\$ 181,012,076</u> | <u>\$ 181,012,076</u> | <u>\$ -</u> |
| Investments: | | | |
| Cash held for investment | \$ 37,383,193 | \$ 37,383,193 | \$ - |
| Corporate bonds and fixed income funds | 37,737,817 | 37,274,094 | 463,723 |
| U.S. government agencies | 36,158,343 | 28,505,913 | 7,652,430 |
| Certificates of deposit | 5,192,116 | - | 5,192,116 |
| | <u>\$ 116,471,469</u> | <u>\$ 103,163,200</u> | <u>\$ 13,308,269</u> |
| Alternative investments: | | | |
| Real estate investment trust | \$ 2,619,071 | | |
| Hedge funds | 13,955,325 | | |
| Private equity funds | 1,000,000 | | |
| | <u>17,574,396</u> | | |
| Total investments | <u>\$ 134,045,865</u> | | |
| Interest rate swap held by LISC | <u>\$ 14,488</u> | <u>\$ -</u> | <u>\$ 14,488</u> |
| Interest rate swap held by NEF Project Partnership | 246,794 | - | 246,794 |
| Total interest rate swaps | <u>\$ 261,282</u> | <u>\$ -</u> | <u>\$ 261,282</u> |
| Loan guarantee - LISC | <u>\$ (298,902)</u> | <u>\$ -</u> | <u>\$ (298,902)</u> |

Local Initiatives Support Corporation and Affiliates

Notes to Consolidating and Consolidated Financial Statements December 31, 2018

Note 15 - Concentration of credit risk

LISC makes grants and loans to local community organizations throughout the United States that are primarily engaged in residential and commercial real estate development. Although LISC's portfolio is diversified as to location of borrower, the ability of local community organizations to repay their obligations on a timely basis may be affected by a downturn in the economy, a cutback in government subsidies, or the availability of other permanent financing sources, which may limit the capital available to complete the projects. The Organization places its cash and cash equivalents with high credit quality financial institutions that are federally insured. At times, invested cash may exceed federally insured amounts.

Note 16 - Commitments and contingencies

Project partnership guarantees

In connections with the placement of a project partnership into a Fund in 2014, a subsidiary of NEF entered into a put agreement with the investor of the Fund. Under the agreement, the fund investor could put, assign and transfer the project partnership to the subsidiary or its designee at any time after expiration of the credit period and before expiration of the credit compliance period of the project partnership, which is anticipated to be 2025 and 2030, respectively (Put Period). If the option is exercised, the subsidiary would be responsible for paying the tax credit recapture to the fund investor if a catastrophic event occurs during the Put Period and the Project Partnership was unable to rebuild the lost units due to zoning reconstruction restrictions. NEF has not accrued any contingent liability as a loss is neither probable nor estimable as of December 31, 2018.

During 2015, NEF entered into a guaranty agreement with a Fund related to a project partnership in the fund whereby NEF serves as a backstop to cover the project general partner's obligations if the project partnership's reserves are depleted and the project partnership guarantor fails to cover its obligations. NEF's guaranty is currently \$250,000 as the project reached stabilized occupancy in 2017. The guaranty period expires at the end of the operating deficit guaranty. NEF has not accrued any contingent liability as a loss is neither probable nor estimable as of December 31, 2018.

During 2017, NEF entered into a guaranty agreement with a Fund related to a project partnership in the Fund. NEF has agreed to provide additional back-up construction guaranty funding in the event of construction cost overruns and the project's general partner, as guarantor, is unable to fulfill the development completion guaranty obligations. NEF's maximum exposure is \$2,000,000. NEF has not accrued any contingent liability as a loss is neither probable nor estimable as of December 31, 2018.

During 2018, NEF entered into a guaranty agreement with a Fund related to a Project Partnership in the Fund. NEF has agreed to provide additional back-up construction guaranty funding in the event that the project's manager, as guarantor, is unable to fulfill their obligations relating to the liquidated damage rights under the development completion guaranty agreement. NEF's maximum exposure is \$557,468. NEF has not accrued any contingent liability as a loss is neither probable nor estimable as of December 31, 2018.

During 2018, NEF, as general partner of a Fund, entered into a tax credit purchase and transfer agreement with two Project Partnerships. NEF agreed to purchase the state tax credits associated with the Project Partnerships for a purchase price of \$4,366,385. As of December 31, 2018, NEF is the sole member of this Fund as third-party investors are not expected to close into this Fund until 2019.

Local Initiatives Support Corporation and Affiliates

Notes to Consolidating and Consolidated Financial Statements December 31, 2018

In 2018 and 2017, NEF has guaranty obligations as a backup guarantor for operating deficits for various project partnerships with a maximum exposure of \$867,511 and \$642,511, respectively. NEF has not accrued any contingent liability as a loss is neither probable nor estimable as of December 31, 2018.

The CDA Partnerships' low-income housing credits are contingent on its ability to maintain compliance with applicable sections of Section 42. Failure to maintain with occupied eligibility and/or unit gross rent, or to correct noncompliance within a specified time period could result in recapture of previously taken tax credits plus interest. In addition, such noncompliance may require an adjustment to the contributed capital by the limited partner(s).

Guaranty payable

As of December 31, 2017, a subsidiary of NEF has a \$1,250,000 guaranty payable to one Fund. This Fund was underwritten at a 25% corporate tax rate, and, in order for the Fund investor to approve the transfer of five Project Partnerships to the Fund, NEF agreed to guaranty the Fund yield in the event that corporate tax reform reduced the corporate tax rate below the underwritten rate of 25% but not below a floor of a 20% corporate tax rate. The termination date of the guaranty was the earlier of June 30, 2019 or the date at which corporate tax reform was passed. Corporate tax reform was passed into law in December 2017, which terminated the guaranty and reduced the corporate tax rate to 21%. Resolution of the guaranty resulted in the recognition of a \$1,250,000 guaranty liability. Settlement of such liability occurred in 2018 through the funding of a loan to the Fund in the amount of \$1,250,000. NEF does not expect the Fund to repay this loan.

Litigation

In the ordinary course of its activities, the Organization is a party to several legal proceedings. In the opinion of management and legal counsel, the resolution of such matters will not have a material adverse impact on the Organization's operations or financial position.

Lease commitments

Minimum rental commitments under noncancelable operating real estate leases in effect at December 31, 2018 totaled \$72,612,285. These amounts exclude future escalation for real estate taxes and building operating expenses.

Minimum future rental commitments as of December 31, 2018 are as follows:

| | | |
|------------|----|-------------------|
| 2019 | \$ | 4,797,728 |
| 2020 | | 6,310,098 |
| 2021 | | 5,560,037 |
| 2022 | | 5,366,504 |
| 2023 | | 4,572,539 |
| Thereafter | | 46,005,379 |
| Total | \$ | <u>72,612,285</u> |

Rental expense, inclusive of real estate taxes and operating costs, for the year ended December 31, 2018 and 2017, totaled \$5,754,484 and \$5,612,683, respectively.

In 2009, LISC entered into a lease agreement for office space expiring August 19, 2019. In connection with the lease agreement, LISC received certain periods of free rent and other rent concessions. LISC records the lease expense on a straight-line basis. At December 31, 2018 and 2017, accounts payable and accrued expenses include \$678,148 and \$1,006,704, respectively, of deferred rent obligations related to the lease. In connection with the lease agreement, LISC issued

Local Initiatives Support Corporation and Affiliates

Notes to Consolidating and Consolidated Financial Statements December 31, 2018

a letter of credit in the amount \$750,000, which is renewed annually and has a current expiration date of November 30, 2019. A certificate of deposit in the amount of \$750,000 is being used as collateral for the line of credit.

On December 12, 2018, LISC entered into a lease agreement for new office space commencing on September 1, 2019 and expiring October 31, 2034. In connection with this lease agreement, LISC will receive certain periods of free rent and other rent concession.

Government contracting

Grant and contract revenue recognized from government agencies are based on actual costs incurred and reimbursable expenses from the respective government agencies. These costs are subject to audit by the Office of the Inspector General or the respective granting agencies and the ultimate revenue recognized is contingent upon the outcome of any such audits. Accordingly, the accompanying consolidating and consolidated financial statements are subject to reflecting provisions for adjustments, if any, which may result from an audit. For the December 31, 2018, no such provisions was necessary.

Note 17 - CDA partnerships - long-term debt, net

As of December 31, 2018 and 2017, the CDA Partnerships had an outstanding long-term debt balance of \$50,510,722 and \$59,454,002, respectively, which consists of mortgage notes held by banks and other lenders. Maturity dates range from 2019 to 2057 and interest rates range from 0% to 7.72% as of December 31, 2018 and 2017. Unamortized debt issuance costs were \$659,596 and \$904,853 as of December 31, 2018 and 2017, respectively, and are presented net in long-term debt on the consolidating and consolidated statement of financial position.

As of December 31, 2018 and 2017, one CDA Partnership is in technical default on their long-term debt in the amount of \$278,374. For these CDA Partnerships, management is working with the lenders and does not expect an unfavorable outcome.

Annual maturities on long-term debt at December 31, 2018 are as follows:

| | | |
|------------|----|-------------------|
| 2019 | \$ | 568,984 |
| 2020 | | 294,722 |
| 2021 | | 308,685 |
| 2022 | | 1,023,598 |
| 2023 | | 1,506,801 |
| Thereafter | | 46,807,932 |
| Total | \$ | <u>50,510,722</u> |

Local Initiatives Support Corporation and Affiliates

Notes to Consolidating and Consolidated Financial Statements December 31, 2018

Note 18 - Due from funds

Due from funds includes the syndication and asset management fees billed but not received as of December 31, 2018 and 2017. At December 31, 2018 and 2017, the following fees are due to NEF:

| | 2018 | 2017 |
|-----------------------------------------------------|---------------------|---------------------|
| ACD Midwest Fund | \$ 109,612 | \$ 11,791 |
| Banc of America Community Housing Investment Fund X | - | 564,976 |
| California Equity Fund 2016 | - | 110,200 |
| California Equity Fund 2018 | 1,199,082 | - |
| Capital One 2012 | 119,654 | - |
| Four Eight-One Housing Investment Fund IV | 148,408 | - |
| Hawaii Affordable Housing Fund I | - | 120,770 |
| Homestead Equity Fund XIII | - | 128,490 |
| Homestead Equity Fund XIV | 515,131 | 844,428 |
| Homestead Equity Fund XV | 942,065 | - |
| NDC Corporate Equity Fund SP I | - | 134,866 |
| National Equity Fund 2018 | 294,552 | - |
| NEF Chicago West Town Fund | 55,467 | 491,414 |
| NEF Compass Shared Investment Fund I | 126,221 | 100,217 |
| NEF FRE Affordable Housing Fund LP | 731,907 | - |
| NEF Friendship Village Fund | 96,144 | 47,854 |
| NEF New York Regional Fund I | 599,216 | - |
| NEF New York Special Tax Credit Fund 2016 | 131,482 | - |
| NEF Preservation Fund I | - | 353,444 |
| NEF Regional Fund IV - Northeast | 13,990 | 254,322 |
| NEF Regional Fund VIII - Chicago | 481,364 | 1,651,811 |
| NEF Regional Secondary - California | 371,845 | 391,546 |
| NEF Texas Regional Fund | 219,963 | - |
| NY Distressed | 63,465 | 25,000 |
| Other Funds | 612,907 | 373,597 |
| Total | <u>\$ 6,832,475</u> | <u>\$ 5,604,726</u> |

Note 19 - Project Partnerships

Investment in project partnerships

NEF (or its subsidiaries) has nominal (generally 1% or less) general partner or managing member interests in the Funds and other ventures and partnerships. At December 31, 2018, NEF's investment balance in the Funds and other ventures and partnerships was \$13,730 and \$13,830, respectively, and is included in other assets, in the accompanying consolidating and consolidated statement of financial position. NEF accounts for its investments in Funds and other ventures and partnerships using the equity method of accounting, to the extent of its investment plus unrecovered advances. At December 31, 2018 and 2017, deficit balances related to certain of its investments in Funds and other ventures and partnerships were \$867,598 and \$812,634, respectively, and are included in accounts payable and accrued expenses in the accompanying consolidating and consolidated statement of financial position. NEF recorded \$54,964 and \$22,122 of equity in losses as of December 31, 2018 and 2017, respectively.

Local Initiatives Support Corporation and Affiliates

Notes to Consolidating and Consolidated Financial Statements December 31, 2018

NEF holds limited partner interests in NYC Distressed Funds, the NEF Preservation Funds, Enclave at Firewheel, and certain Funds in which it manages and accounts for these interests using the equity method of accounting. The investment balance of these interests are \$2,008,741 and \$3,349,625 as of December 31, 2018 and 2017, respectively. NEF recorded \$120,348 and \$33,463 of equity in income as of December 31, 2018 and 2017, respectively.

The CDA entities discussed in note 1 hold generally a 1.00% or 0.01% general partnership interest in the CDA Partnerships. Pursuant to U.S. GAAP, CDA is deemed to control the limited partnerships and has, therefore, consolidated all entities in which it served as a general partner or managing member if the limited partners do not overcome the presumption of control. CDA did not assume any general partner interests in 2018 and 2017. CDA transferred its general partner interests in four and three CDA Partnerships to an unrelated third party in 2018 and 2017, resulting in a \$3,179,358 and \$3,095,989 gain on disposition of interest in 2018 and 2017.

Assignment of Project Partnership interests

The assignment of Project Partnership interests to a Fund is recognized when the parties are bound by the terms of a contract, all consideration has been exchanged, any permanent financing for which NEF is responsible has been arranged and all conditions precedent to closing have been performed.

Interest rate swaps held by Project Partnerships

One Project Partnership is party to a derivative financial instrument to limit its exposure to interest rate fluctuations through the use of interest rate swaps. These instruments are held only for the purpose of hedging or limiting such risks, not for speculation. As of December 31, 2018 and 2017, the fair value of the interest rate swap was \$179,731 and \$246,794, respectively, and is included in accounts payable and other liabilities in the accompanying consolidating and consolidated statement of financial position. As the Project Partnership's derivative financial instrument does not qualify for hedge accounting, the Project Partnership recorded a \$67,063 and \$78,808 gain on interest rate swap in 2018 and 2017, respectively, and is valued within Level 2 of the fair value hierarchy.

Local Initiatives Support Corporation and Affiliates

Notes to Consolidating and Consolidated Financial Statements December 31, 2018

Note 20 - NMTC award administered

As of December 31, 2018 and 2017, approximately \$987 million and \$969 million, respectively, of the \$993 million total NMTC authority awarded to LISC had been closed. The following tables show the total allocation received, total QEIs closed, and total allocation remaining by round for the years ended December 31, 2018 and 2017:

| | Projects | Allocation received | QEIs closed before 2018 | QEIs closed during 2018 | Total QEIs closed through December 31, 2018 | Allocation remaining as of December 31, 2018 |
|------------------|----------|-----------------------|-------------------------|-------------------------|---------------------------------------------|----------------------------------------------|
| Round 1–9 and 11 | 99 | \$ 838,000,000 | \$ 838,000,000 | \$ - | \$ 838,000,000 | \$ - |
| Round 12 | 22 | 70,000,000 | 63,075,166 | 6,649,215 | 69,724,381 | 275,619 |
| Round 13 | 12 | 85,000,000 | 67,550,000 | 11,575,000 | 79,125,000 | 5,875,000 |
| Total | 133 | <u>\$ 993,000,000</u> | <u>\$ 968,625,166</u> | <u>\$ 18,224,215</u> | <u>\$ 986,849,381</u> | <u>\$ 6,150,619</u> |

| | Projects | Allocation received | QEIs closed before 2017 | QEIs closed during 2017 | Total QEIs closed through December 31, 2017 | Allocation remaining as of December 31, 2017 |
|-----------|----------|-----------------------|-------------------------|-------------------------|---------------------------------------------|----------------------------------------------|
| Round 1–9 | 89 | \$ 778,000,000 | \$ 778,000,000 | \$ - | \$ 778,000,000 | \$ - |
| Round 11 | 10 | 60,000,000 | 58,000,000 | 2,000,000 | 60,000,000 | - |
| Round 12 | 18 | 70,000,000 | 59,421,944 | 3,653,222 | 63,075,166 | 6,924,834 |
| Round 13 | 8 | 85,000,000 | - | 67,550,000 | 67,550,000 | 17,450,000 |
| Total | 125 | <u>\$ 993,000,000</u> | <u>\$ 895,421,944</u> | <u>\$ 73,203,222</u> | <u>\$ 968,625,166</u> | <u>\$ 24,374,834</u> |

As of December 31, 2018 and 2017, forty-eight and forty-nine projects reached the end of their compliance periods, respectively. As of December 31, 2018 and 2017, two of these CDEs has not exited. During 2018 and 2017, NMSC recognized \$627,476 and \$626,499 in exit fee revenue from nine and seven CDEs related to these projects, respectively.

Note 21 - Subsequent events

In connection with the preparation of the consolidating and consolidated financial statements, the Organization evaluated subsequent events after the balance sheet date of December 31, 2018 through June 27, 2019, which was the date the consolidating and consolidated financial statements were available to be issued, and concluded the following subsequent event has occurred and requires disclosure:

On January 15, 2019, LISC filed for the dissolution of LIMAC with the New York State Department of State.

Supplementary Information

Local Initiatives Support Corporation and Affiliates

Schedule of Expenditures of Federal Awards Year December 31, 2018

| Federal grantor/pass-through grantor/program or cluster title | Federal CFDA number | Pass-through entity identifying number | Passed through to subrecipients | Total Federal expenditures |
|----------------------------------------------------------------------------------------------|---------------------|----------------------------------------|---------------------------------|----------------------------|
| U.S. Department of Housing and Urban Development (HUD): | | | | |
| CDBG - Entitlement Grants Cluster | | | | |
| Community Development Block Grants/Entitlement Grants | | | | |
| Pass through: | | | | |
| City of Chicago - Department of Family and Supportive Services | 14.218 | 43882 | \$ 96,776 | \$ 137,190 |
| City of Hartford | 14.218 | 18,16.00 | - | 18,200 |
| City of Indianapolis | 14.218 | 14231 | - | 13,000 |
| City of Indianapolis | 14.218 | 15293 | - | 7,000 |
| City of Indianapolis | 14.218 | 16084 | - | 4,000 |
| City of Kalamazoo | 14.218 | B-16-MB-26-0022 | - | 20,000 |
| City of Detroit | 14.218 | B-16-MC-26-006 | 1,533,500 | 2,757,571 |
| City of Detroit | 14.218 | N/A | - | 140,847 |
| City of Philadelphia | 14.218 | 1720679 | - | 41,038 |
| City of Philadelphia | 14.218 | 1720762 | - | 61,114 |
| City of Toledo | 14.218 | N/A | - | 22,500 |
| City and County of San Francisco | 14.218 | 103340-17 | 144,100 | 156,077 |
| City and County of San Francisco | 14.218 | 1109738-18 | - | 33,042 |
| | | | <u>1,774,376</u> | <u>3,411,579</u> |
| HOPE VI Cluster | | | | |
| Choice Neighborhood Implementation Grant | | | | |
| Pass through: | | | | |
| City of Philadelphia | 14.889 | 1620513 | - | 1,594 |
| Housing Authority of Kansas City | 14.889 | N/A | 60,852 | 79,191 |
| | | | <u>60,852</u> | <u>80,785</u> |
| CDBG - Disaster Recovery Grants - Pub. L. No. 113-2 Cluster | | | | |
| Hurricane Sandy Community Development Block Grants - Disaster Recovery | | | | |
| Pass through: | | | | |
| New York City Department of Housing and Preservation Development | 14.269 | N/A | 5,808 | 107,690 |
| Section 4 Capacity Building for Community Development and Affordable Housing Program | 14.252 | | 7,938,671 | 12,636,844 |
| HUD - Continuum of Care Program | 14.267 | | - | 71,470 |
| Neighborhood Stabilization Program Technical Assistance | 14.264 | | - | 127,459 |
| HUD - Emergency Solutions Grant Program | | | | |
| Pass through: | | | | |
| City of Kalamazoo | 14.231 | B-16-MC-26-0022 | - | 13,473 |
| Total HUD | | | <u>9,779,707</u> | <u>16,449,300</u> |
| Corporation for National Community Services(CNCS): | | | | |
| Americorps | 94.006 | | - | 1,184,148 |
| Social Innovation Fund - Pay for Success | 94.019 | | - | 28 |
| Social Innovation Fund - Bridges | 94.019 | | 2,806,571 | 3,307,689 |
| Social Innovation Fund- Pay for Success | 94.024 | | - | 273,706 |
| Total CNCS | | | <u>2,806,571</u> | <u>4,765,571</u> |
| U.S. Department of Justice (DOJ): | | | | |
| Byrne Criminal Justice Innovation | 16.817 | | 2,500 | 239,883 |
| Byrne Criminal Justice Innovation | 16.817 | | 3,217 | 730,302 |
| Vacant & Problem Property Abatement & Rehabilitation | 16.710 | | 16,243 | 36,682 |
| Total DOJ | | | <u>21,960</u> | <u>1,006,867</u> |
| U.S. Department of Health and Human Services (HHS): | | | | |
| CCDF Cluster | | | | |
| Child Care and Development Block Grant: | | | | |
| Pass through: | | | | |
| State of Rhode Island & Providence Plantations | | | | |
| Department of Human Services | 93.575 | CCF 14/17-01 | - | 648 |
| State of Rhode Island & Providence Plantations | | | | |
| Department of Human Services | 93.575 | CCF 17/18-01 | - | 249,909 |
| State and Local Public Health Actions to Prevent Obesity, Diabetes, Heart Disease and Stroke | | | | |
| Pass through: | | | | |
| State of Rhode Island & Providence Plantations | 93.757 | 3417111 | - | 134,856 |
| State of Rhode Island & Providence Plantations | 93.758 | 3417111 | - | 29,681 |
| Assistance Programs for Chronic Disease Prevention and Control | | | | |
| Pass through: | | | | |
| State of Rhode Island & Providence Plantations | 93.945 | 3417111 | - | 7,760 |
| Maternal and Child Health Services Block Grant | | | | |
| Pass through: | | | | |
| State of Rhode Island & Providence Plantations | 93.994 | 3417111 | - | 58,486 |
| TANF Cluster | | | | |
| Temporary Assistance for Needy Families | | | | |
| Pass through: | | | | |
| Lucas County Department of Job and Family Services | 93.558 | 48-17-TANF-22 | - | (6,869) |
| Lucas County Department of Job and Family Services | 93.558 | 48-18-TANF-22 | 88,690 | 148,690 |
| Lucas County Department of Job and Family Services | 93.558 | 48-19-TANF-22 | - | 10,808 |
| Total HHS | | | <u>88,690</u> | <u>633,969</u> |

Local Initiatives Support Corporation and Affiliates

Schedule of Expenditures of Federal Awards Year December 31, 2018

| Federal grantor/pass-through grantor/program or cluster title | Federal CFDA number | Pass-through entity identifying number | Passed through to subrecipients | Total Federal expenditures |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------|---------------------------------------------------------------|---------------------------------|--------------------------------------------|
| U.S. Department of Agriculture (USDA): Rural Community Development Initiative: USDA/Rural Housing Services | 10.446 | | 251,216 | 370,158 |
| SNAP Cluster State Administrative Matching Grants for the Supplemental Nutrition Assistance Program: Pass through: State of Rhode Island & Providence Plantations | 10.561 | SNAP ET 14/15-01 | 861,912 | 1,393,374 |
| Total USDA | | | 1,113,128 | 1,763,532 |
| U.S. Department of Education (DOE): Credit Enhancement for Charter School Facilities Early Learning Facilities Project: Pass through: Rhode Island Department of Education | 84.354A 84.412A | 3532377-1 | - - | 45,200,011 31,462 |
| Total DOE | | | - | 45,231,473 |
| U.S. Department of Labor Employment Training Administration (DOL): Reintegration of Ex-Offenders Workforce Innovation and Opportunity Act WIOA Adult Program Pass through: Indianapolis Private Industry Council, Inc. Detroit Employment Solution Corporation Detroit Employment Solution Corporation | 17.270 17.258 17.258 17.258 | PE-30759-17-60-A-36 S1204-WCF-17-OSO 2018-01 2018-45 | 1,021,555 - - - | 1,280,519 226,796 29,170 10,552 |
| WIOA Youth Activities Pass Through Detroit Employment Solution Corporation Detroit Employment Solution Corporation | 17.259 17.259 | 2018-01 2018-45 | - - | 31,907 11,542 |
| WIOA Youth Dislocated Worker Formula Grants Pass Through Detroit Employment Solution Corporation Detroit Employment Solution Corporation | 17.278 17.278 | 2018-01 2018-45 | - - | 33,323 12,055 |
| Total DOL | | | 1,021,555 | 1,635,864 |
| National Endowment for the Arts: Promotion of the Arts & Grants to Organizations and Individuals | 45.024 | | - | 117,517 |
| U.S. Department of Treasury (DOT): Community Development Financial Institutions Fund Program - Capital Magnet 2016 Community Development Financial Institutions Fund Program - Capital Magnet 2017 | 21.011 21.011 | | - - | 2,087,750 843,170 |
| CDFI Cluster Community Development Financial Institute - InitialHFFI/Financial Assistance 2014 Community Development Financial Institute - InitialHFFI/Financial Assistance 2015 Community Development Financial Institute - InitialHFFI/Financial Assistance 2016 Community Development Financial Institute - InitialHFFI/Financial Assistance 2017 | 21.020 21.020 21.020 21.020 | | - - - - | 1,273,173 812,443 744,268 331,154 |
| Community Development Financial Institute - Bond Guarantee Program | 21.014 | | - | 3,161,038 48,138,949 |
| Total DOT | | | - | 54,230,907 |
| Total expenditure of federal awards | | | \$ 14,831,611 | \$ 125,835,000 |

The accompanying notes to schedule of expenditures of federal awards are an integral part of this schedule.

Local Initiatives Support Corporation and Affiliates
Notes of Schedule of Expenditures of Federal Awards
Year December 31, 2018

Note 1 - Basis of presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of the Local Initiatives Support Corporation and Affiliates (the "Organization") under programs of the federal government for the year ended December 31, 2018. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations, Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Because the Schedule presents only a selected portion of the operations of Local Initiatives Support Corporation and its Affiliates, it is not intended to and does not present the financial position, changes in net assets and cash flows of Local Initiatives Support Corporation and Affiliates. The financial statements of certain affiliates included in the consolidating and consolidated financial statements were not audited in accordance with *Government Auditing Standards* as they are not subject to the requirements under the Uniform Guidance.

Note 2 - Summary of significant accounting policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. The Organization has elected not to use the 10-percent de minimus indirect cost rate allowed under the Uniform Guidance.

Note 3 - Credit Enhancement for Charter School Facilities

The U.S. Department of Education has awarded total grants of \$41,413,019 to the Organization to credit enhance the loans made by financial institutions to stimulate the financing of charter schools. The grant funds are to remain invested in separate grant reserve accounts in accordance with the requirements of the grant. Such financial assistance is considered federal awards expended based on the amounts in the reserve accounts at the beginning of the grantee fiscal year; plus any new funds received; plus investment earnings received in the grantee's fiscal year to add to the reserve account; less any application of the grants resulting from the credit enhancements provided. Cumulative application of grant funds to cover credit enhancement losses from program inception to December 31, 2018 were \$580,731. The reserve account balance as of December 31, 2018 is \$45,200,011 consisting of the grant balance of \$40,832,288 and accumulated net investment earnings of \$4,367,723, of which \$629,236 was earned in 2018.

Note 4 - Capital Magnet Fund

The U.S. Department of Treasury has awarded a total of \$12,300,000 to the Organization to support Affordable Housing Activities, Economic Development Activities, or Community Service Facilities in the following manners: to provide loan loss reserves, to capitalize a revolving loan fund, for risk sharing loans, for loan guarantees, and for the awardee's operations. The balance of loans outstanding that has continuance compliance under the Capital Magnet Fund (CFDA No. 21.011) at December 31, 2018 is \$2,930,920.

Local Initiatives Support Corporation and Affiliates

**Notes of Schedule of Expenditures of Federal Awards
Year December 31, 2018**

In accordance with presentation requirements, the schedule of expenditures of federal awards includes the amount outstanding at December 31, 2017 for Capital Magnet Fund of \$487,302, in addition to amounts disbursed in fiscal 2018 of \$2,443,618. There were no administrative costs claimed for the Capital Magnet Fund program in fiscal 2018.

Note 5 - Federal loan programs

The loan program listed subsequently is administered directly by the Organization, and the balance and transactions related to this program is included in the Organization's basis financial statements. Loans outstanding at the beginning of the year and loans made during the year are included in the federal expenditures presented in the Schedule. The balance of loans outstanding at December 31, 2018 consists of:

| <u>CFDA Number</u> | <u>Program Name</u> | <u>Balance at December 31, 2018</u> |
|--------------------|------------------------|-------------------------------------|
| 21.014 | Bond Guarantee Program | \$ 46,934,808 |

Local Initiatives Support Corporation and Affiliates

**Schedule of Indirect Cost Rate - LISC
Year December 31, 2018**

Indirect costs :

| | |
|------------------------------------------|----------------------|
| Salaries and fringe benefits | \$ 19,569,844 |
| Rent and utilities | 1,745,141 |
| Computer expense | 1,078,390 |
| Depreciation and amortization | 786,428 |
| Staff travel and related expenses | 763,662 |
| Legal fees | 650,400 |
| Consultants | 467,603 |
| Telephone | 397,822 |
| Accounting and auditing fees | 390,450 |
| Conference and meeting | 253,589 |
| Taxes | 244,963 |
| Payroll services | 208,540 |
| Insurance | 146,279 |
| Memberships and subscriptions | 89,778 |
| Office supplies | 74,541 |
| Meals | 68,818 |
| Equipment rental | 61,997 |
| Office cleaning and maintenance | 60,204 |
| Other contract services | 36,961 |
| Postage and delivery | 24,320 |
| Other program expense | 21,615 |
| Photographers/Videographers | 11,707 |
| Filing/registration fees | 11,179 |
| Printing, annual report and publications | 11,116 |
| Total indirect costs (A) | \$ 27,175,347 |

Direct Costs :

| | |
|-------------------------------|----------------------|
| Program services | \$ 46,855,496 |
| Project grants (allowable) | 21,509,930 |
| Fundraising | 541,740 |
| Other activity expenses (1) | 526,699 |
| Total direct costs (B) | \$ 69,433,865 |

Indirect cost rate = (A)/(B) 39.14%

(1) Other activity expenses represent internal staff time and other expenses devoted to lobbying activities.

See accompanying notes to schedule of indirect cost rate.

Local Initiatives Support Corporation and Affiliates

Notes to Schedule of Indirect Cost Rate - LISC Year December 31, 2018

(1) Accounting Policies

Basis of Calculation

In preparing the accompanying schedule of indirect cost rate and the reconciliation of the consolidating and consolidated statement of activities to the schedule of indirect cost rate (note 2), Local Initiatives Support Corporation and Affiliate (the "Organization") utilized Title 2 U.S. Code of Federal Regulations, Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Accordingly, the accompanying schedule of indirect cost rate and the reconciliation to the consolidating and consolidated statement of activities, includes only the expenses of Local Initiatives Support Corporation ("LISC") in accordance with its indirect cost rate agreement.

Methodology Used

Each of LISC's major functions benefits from its indirect costs to the same approximate degree. As a result, LISC has elected to use the simplified-allocation method to calculate its indirect cost rate. Utilizing the LISC's consolidating and consolidated audited financial statements for the year ended December 31, 2018, LISC separated its costs into either allowable direct or indirect categories, including the costs associated with certain activities not allowable as charges to federal awards (e.g., the cost of fund-raising).

Direct costs are those that can be identified specifically with a particular final cost objective, e.g., a particular award, project, or other direct activity of LISC. Indirect costs are those that have been incurred for common or joint objectives and cannot be readily identified with a particular cost objective.

The indirect cost rate is the ratio of the total indirect costs (numerator) to the direct cost base denominator).

(2) Reconciliation

The following is a reconciliation of the statement of activities and changes in net assets to the schedule of indirect cost rate for the year ended December 31, 2018:

| | Total expenses per audited financial statements | Unallowable and excludable expenses | Direct and indirect cost pool | Indirect cost pool (administration) | Indirect cost pool (facility) | Direct cost pool |
|------------------------------------------------------------------|----------------------------------------------------------|----------------------------------------------|----------------------------------------|----------------------------------------------|----------------------------------------|------------------------|
| Project development and other program activities | \$ 46,043,188 | \$ (622,535) | \$ 45,420,653 | \$ (1,434,843) | \$ - | \$ 46,855,496 |
| Project grants | 48,808,630 | (27,298,700) | 21,509,930 | - | - | 21,509,930 |
| Interest on loans and bonds payable | 14,539,226 | (14,539,226) | - | - | - | - |
| Increase (decrease) in allowance for uncollectible loans to CDPs | 5,241,758 | (5,241,758) | - | - | - | - |
| Provision for uncollectable recoverable grants to CDPs | 2,526,383 | (2,526,383) | - | - | - | - |
| Management and general | 24,481,311 | (977,891) | 23,503,420 | 22,190,293 | 786,428 | 526,699 |
| Fundraising | 6,297,761 | (122,552) | 6,175,209 | 5,633,469 | - | 541,740 |
| Total expenses | \$ 147,938,257 | \$ (51,329,045) | \$ 96,609,212 | \$ 26,388,919 | \$ 786,428 | \$ 69,433,865 |

Note: The adjustments above relating to the indirect cost pool administration and facility to arrive at the direct cost pool were made based on instructions from the funding agency.

Independent Auditor's Report on Internal Control over Financial Reporting and
on Compliance and Other Matters Based on an Audit of Financial Statements Performed
in Accordance with *Government Auditing Standards*

To the Board of Directors
Local Initiatives Support Corporation

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidating and consolidated financial statements of Local Initiatives Support Corporation and Affiliates, which comprise the consolidating and consolidated statement of financial position as of December 31, 2018, and the related consolidating and consolidated statements of activities and changes in net assets, and cash flows for the year then ended, and the related notes to the consolidating and consolidated financial statements, and have issued our report thereon dated June 27, 2019, which includes an emphasis of matter paragraph on page 3. The financial statements of certain affiliates were not audited in accordance with *Government Auditing Standards* and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with these affiliates.

Internal Control over Financial Reporting

In planning and performing our audit of the consolidating and consolidated financial statements, we considered Local Initiatives Support Corporation and Affiliates' internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidating and consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of Local Initiatives Support Corporation and Affiliates' internal control. Accordingly, we do not express an opinion on the effectiveness of Local Initiatives Support Corporation and Affiliates' internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. 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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Local Initiatives Support Corporation and Affiliates' consolidating and consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of consolidating and consolidated financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Bethesda, Maryland
June 27, 2019

Independent Auditor's Report on Compliance for Each Major Federal Program
and on Internal Control over Compliance Required by the Uniform Guidance

To the Board of Directors
Local Initiatives Support Corporation

Report on Compliance for Each Major Federal Program

We have audited Local Initiatives Support Corporation and Affiliates' compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Local Initiatives Support Corporation and Affiliates' major federal programs for the year ended December 31, 2018. Local Initiatives Support Corporation and Affiliates' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Local Initiatives Support Corporation and Affiliates' major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Local Initiatives Support Corporation and Affiliates' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Local Initiatives Support Corporation and Affiliates' compliance.

Opinion on Each Major Federal Program

In our opinion, Local Initiatives Support Corporation and Affiliates complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2018.

Report on Internal Control over Compliance

Management of Local Initiatives Support Corporation and Affiliates is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Local Initiatives Support Corporation and Affiliates' internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Local Initiatives Support Corporation and Affiliates' internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of our testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Bethesda, Maryland
June 27, 2019

Local Initiatives Support Corporation and Affiliates

Schedule of Findings and Questioned Costs December 31, 2018

A. Summary of Auditor's Results

1. The auditor's report expresses an unmodified opinion on whether the consolidating and consolidated financial statements of Local Initiatives Support Corporation and Affiliates were prepared in accordance with generally accepted accounting principles.
2. No material weaknesses related to the audit of the consolidating and consolidated financial statements were reported in the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*. No significant deficiencies were reported.
3. No instances of noncompliance material to the consolidating and consolidated financial statements of Local Initiatives Support Corporation and Affiliates, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No material weaknesses in internal control over the major federal award programs were disclosed during the audit and reported in the Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control over Compliance Required by the Uniform Guidance. No significant deficiencies were reported.
5. The auditor's report on compliance for the major federal award programs for Local Initiatives Support Corporation and Affiliates expresses an unmodified opinion on each major federal program.
6. There are no audit findings required to be reported in accordance with 2 CFR Section 200.516(a) in this Schedule.
7. The programs tested as major programs were:
 - U.S. Department of Housing and Urban Development - Section 4 Capacity Building for Community Development and Affordable Housing Program (CFDA No. 14.252)
 - Community Development Financial Institute - Bond Guarantee Program (CFDA No. 21.014)
8. The threshold for distinguishing between Type A and Type B programs was: \$3,000,000.
9. Local Initiatives Support Corporation and Affiliates was determined to be a low-risk auditee.

B. Findings - Financial Statement Audit

None

C. Findings and Questioned Costs - Major Federal Awards Programs Audit

None



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