

**LOCAL INITIATIVES SUPPORT  
CORPORATION AND AFFILIATES**

Consolidating and Consolidated Financial Statements  
and Supplementary Information on  
Federal Awards Programs

December 31, 2017

(With Independent Auditors' Report Thereon  
and Reports on Internal Control and Compliance Thereon)

**LOCAL INITIATIVES SUPPORT  
CORPORATION AND AFFILIATES**

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## Independent Auditor's Report

The Board of Directors  
Local Initiatives Support Corporation

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, 2017, 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.

### 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 \$28,982,009 as of December 31, 2017, and change in net assets of \$1,234,476 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 the standards applicable to financial audits contained in *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 Support 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, 2017, 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.

*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 28, 2018 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 28, 2018

## LOCAL INITIATIVES SUPPORT CORPORATION AND AFFILIATES

### Consolidating and Consolidated Statement of Financial Position

December 31, 2017

	LISC Parent Only								LISC Consolidated					
	Operating Funds		Loan Fund						LISC Affiliates	CDA Partnerships	Eliminations	Unrestricted	Temporarily Restricted	Total
	Unrestricted	Temporarily Restricted	Unrestricted	Temporarily Restricted	Total									
<b>Assets</b>														
Cash and cash equivalents (Note 3 and 13)	\$ 52,359,220	\$ 20,355,115	\$ 28,163,965	\$ 12,565,684	\$ 113,443,984	\$ 62,867,051	\$ 1,211,941	\$ -	\$ 144,602,177	\$ 32,920,799	\$ 177,522,976			
Restricted cash (Note 3 and 13)	-	-	-	-	-	515,896	2,973,204	-	3,489,100	-	3,489,100			
Investments (Note 3 and 13)	40,758,129	48,387,660	-	44,900,076	134,045,865	-	-	-	40,758,129	93,287,736	134,045,865			
Investments in affiliates	68,290,461	-	-	-	68,290,461	-	-	(68,290,461)	-	-	-			
Accrued interest receivable	2,077,111	-	-	-	2,077,111	15,969	-	(54,495)	2,038,585	-	2,038,585			
Contributions receivable, net (Note 4)	80,203	33,082,110	-	4,250,000	37,412,313	-	-	-	80,203	37,332,110	37,412,313			
Government grants and contracts receivable (Note 5)	415,906	23,321,280	-	4,083,572	27,820,758	-	-	-	415,906	27,404,852	27,820,758			
Notes and other receivables	-	-	-	-	-	11,983,703	493,568	(2,170,511)	10,306,760	-	10,306,760			
Due from funds (Note 17)	4,128,086	-	-	-	4,128,086	5,629,843	-	(4,153,203)	5,604,726	-	5,604,726			
Loan receivable (Note 6)	-	-	348,823,328	1,866,612	350,689,940	1,477,230	-	(657,080)	349,643,478	1,866,612	351,510,090			
Allowance for uncollectible loans	-	-	(22,015,439)	-	(22,015,439)	(148,000)	-	-	(22,163,439)	-	(22,163,439)			
Total loans, net	-	-	326,807,889	1,866,612	328,674,501	1,329,230	-	(657,080)	327,480,039	1,866,612	329,346,651			
Recoverable grants to CDPs, net (Note 6)	6,283,023	2,729,103	-	157,000	9,169,126	-	-	(770,358)	5,512,665	2,886,103	8,398,768			
Prepaid expenses and other assets	2,069,722	579,590	-	-	2,649,312	3,398,743	1,458,992	-	6,927,457	579,590	7,507,047			
Temporary investment in Project Partnerships (Note 8)	-	-	-	-	-	68,360,264	-	-	68,360,264	-	68,360,264			
Investment in Funds	-	-	-	-	-	3,363,455	-	-	3,363,455	-	3,363,455			
Investment in Project Partnerships (Note 18)	-	-	-	-	-	60,288	-	-	60,288	-	60,288			
Property and equipment, net (Note 10)	1,828,679	-	-	-	1,828,679	2,858,453	72,128,174	-	76,815,306	-	76,815,306			
Total assets	\$ 178,290,540	\$ 128,454,858	\$ 354,971,854	\$ 67,822,944	\$ 729,540,196	\$ 160,382,895	\$ 78,265,879	\$ (76,096,108)	\$ 695,815,060	\$ 196,277,802	\$ 892,092,862			
<b>Liabilities and Net Assets (Deficits)</b>														
<b>Liabilities:</b>														
Accounts payable and accrued expenses (Note 15)	\$ 14,242,586	\$ 209,818	\$ -	\$ -	\$ 14,452,404	\$ 15,157,758	\$ 16,973,443	\$ (3,425,115)	\$ 42,948,672	\$ 209,818	\$ 43,158,490			
Government contracts and loan-related advances	3,998,856	2,714,812	-	-	6,713,668	-	-	-	3,998,856	2,714,812	6,713,668			
Grants payable (Note 7)	-	48,387,660	-	-	48,387,660	3,360,000	-	(3,360,000)	-	48,387,660	48,387,660			
Due to affiliates	-	-	-	-	-	3,949,405	-	(3,949,405)	-	-	-			
Capital contributions due to temporary investment in Project Partnerships (Note 8)	-	-	-	-	-	57,616,465	-	-	57,616,465	-	57,616,465			
Deferred liabilities	-	-	-	-	-	7,684,029	218,609	-	7,902,638	-	7,902,638			
CDA Partnerships - Long-Term Debt, net (Note 16)	-	-	-	-	-	-	58,549,149	-	58,549,149	-	58,549,149			
CDA Partnerships - Notes Payable to Funds	-	-	-	-	-	-	4,828,720	-	4,828,720	-	4,828,720			
Loans and bond payable, net (Note 11)	6,592,756	-	365,987,293	-	372,580,049	1,575,438	-	(1,575,438)	372,580,049	-	372,580,049			
Total liabilities	24,834,198	51,312,290	365,987,293	-	442,133,781	89,343,095	80,569,921	(12,309,958)	548,424,549	51,312,290	599,736,839			
Commitments and contingencies (Notes 13, 14, and 15)														
<b>Net assets:</b>														
Net assets attributable to the Organization (Note 2)	153,456,342	77,142,568	(11,015,439)	67,822,944	287,406,415	71,039,800	(3,662,276)	(67,377,524)	142,440,903	144,965,512	287,406,415			
Net assets attributable to the noncontrolling in Project Partnerships	-	-	-	-	-	-	1,358,234	3,591,374	4,949,608	-	4,949,608			
Total net assets (deficit)	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			
<b>Total liabilities and net assets</b>	\$ 178,290,540	\$ 128,454,858	\$ 354,971,854	\$ 67,822,944	\$ 729,540,196	\$ 160,382,895	\$ 78,265,879	\$ (76,096,108)	\$ 695,815,060	\$ 196,277,802	\$ 892,092,862			

See accompanying 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, 2017

SUPPORT AND REVENUES	LISC Parent Only					LISC Affiliates	CDA Partnerships	Eliminations	LISC Consolidated		
	Operating Funds		Loan Fund		LISC Parent Only				Unrestricted	Temporarily Restricted	Total
	Unrestricted	Temporarily Restricted	Unrestricted	Temporarily Restricted							
Contributions (Note 4)	\$ 2,472,500	\$ 61,299,453	\$ -	\$ 4,250,000	\$ 68,021,953	\$ -	\$ -	\$ -	\$ 2,472,500	\$ 65,549,453	\$ 68,021,953
Government grants & contracts (Note 5)	3,531,476	32,757,080	-	2,416,905	38,705,461	-	-	-	3,531,476	35,173,985	38,705,461
Interest income on investments	1,739,482	-	-	137,603	1,877,085	61,648	-	-	1,801,130	137,603	1,938,733
Interest income on loans to CDPs	17,820,588	-	-	-	17,820,588	57,312	-	-	17,877,900	-	17,877,900
Fee income	-	-	-	-	-	-	-	-	-	-	-
Other income	7,489,145	123,089	-	7,612,234	15,224,468	53,893,739	-	(1,631,584)	52,262,155	19,983,390	72,245,545
Equity in earnings of affiliates	15,259,340	-	-	-	15,259,340	9,864,158	7,435,641	-	(4,805,554)	123,089	20,106,479
Net assets released from restrictions	102,374,003	(91,542,824)	-	(10,831,179)	-	-	-	(15,259,340)	102,374,003	(102,374,003)	-
Total support and revenues	150,686,534	2,636,798	-	(4,026,671)	149,296,661	63,876,857	7,435,641	(21,696,478)	200,302,554	(1,389,873)	198,912,681
<b>EXPENSES</b>											
Program Services:											
Project development and other program activities	46,154,391	-	-	-	46,154,391	39,193,206	12,218,699	(418,199)	97,148,097	-	97,148,097
Project grants (Note 7)	51,476,266	-	-	-	51,476,266	13,887,920	-	(13,880,420)	51,483,766	-	51,483,766
Project loans:											
Interest	10,006,450	-	-	-	10,006,450	56,355	-	(131,885)	9,930,920	-	9,930,920
Provision for loss on receivable	-	-	-	-	-	539,746	-	227,777	713,510	-	713,510
Increase in provision for uncollectible loans to CDPs (Note 6)	861,547	-	3,403,559	-	4,265,106	-	-	-	4,265,106	-	4,265,106
Provision for uncollectible recoverable grants to CDPs (Note 6)	867,558	-	-	-	867,558	-	-	-	867,558	-	867,558
Total program services	109,366,212	-	3,403,559	-	112,769,771	53,677,227	12,446,476	(14,484,517)	164,408,957	-	164,408,957
Supporting Services:											
Management and general	19,342,405	-	-	-	19,342,405	8,020,431	272,242	(4,976,782)	22,658,296	-	22,658,296
Fund raising	8,714,134	-	-	-	8,714,134	-	-	-	8,714,134	-	8,714,134
Total supporting services	28,056,539	-	-	-	28,056,539	8,020,431	272,242	(4,976,782)	31,372,430	-	31,372,430
Total expenses	137,422,751	-	3,403,559	-	140,826,310	61,697,658	12,718,718	(19,461,299)	195,781,387	-	195,781,387
Change in net assets before gains and losses on investments, derivatives and gain on forgiveness of debt	13,263,783	2,636,798	(3,403,559)	(4,026,671)	8,470,351	2,179,199	(5,283,077)	(2,235,179)	4,521,167	(1,389,873)	3,131,294
Realized & unrealized gain(loss) on investments	(71,246)	-	-	-	(71,246)	-	-	-	(71,246)	-	(71,246)
Realization of unrealized loss on investment securities available for sale by the operating partnerships	-	-	-	-	-	-	78,808	-	78,808	-	78,808
Gain on transfer of temporary investments in project partnerships	-	-	-	-	-	241,794	-	-	241,794	-	241,794
Gain on forgiveness of debt	-	-	-	-	-	-	359,888	-	359,888	-	359,888
Transfer of interest in CDA Partnerships (Note 18)	-	-	-	-	-	-	3,276,321	(180,332)	3,095,989	-	3,095,989
Changes in net assets before other noncontrolling interest activities:	13,192,537	2,636,798	(3,403,559)	(4,026,671)	8,399,105	2,420,993	(1,568,060)	(2,415,511)	8,226,400	(1,389,873)	6,836,527
Other noncontrolling interest activities:											
Noncontrolling capital contributions	-	-	-	-	-	-	120,325	-	120,325	-	120,325
Net assets, December 31, 2016	140,263,805	74,505,770	(7,611,880)	71,849,615	279,007,310	68,618,807	(856,307)	(61,370,639)	139,043,786	146,355,385	285,399,171
Net assets, December 31, 2017	\$ 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

See accompanying notes to consolidating and consolidated financial statements.

## LOCAL INITIATIVES SUPPORT CORPORATION AND AFFILIATES

### Consolidating and Consolidated Statement of Cash Flows

Year ended December 31, 2017

	LISC Parent Only	LISC Affiliates	CDA Partnerships	Eliminations	2017
Cash flows from operating activities:					
Change in net assets	\$ 8,399,105	\$ 2,420,993	\$ (1,568,060)	\$ (2,415,511)	\$ 6,836,527
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:					
Equity in earnings of affiliate	(15,259,340)	-	-	15,259,340	-
Distributions from investment in affiliates	12,838,347	-	-	(12,838,347)	-
Recovery of loan losses	-	(141,800)	-	6,530	(135,270)
Gain on transfer of temporary investments in Project Partnerships	-	(241,794)	-	-	(241,794)
Gain on sale of investment in real estate company	-	(2,529)	-	2,529	-
Gain on forgiveness of debt	-	-	(359,888)	-	(359,888)
Gain on transfer of interest in CDA partnerships	-	-	(3,095,989)	-	(3,095,989)
Amortization of discounts and issuance costs	42,164	-	689,352	-	731,516
Depreciation and amortization	480,723	845,959	3,658,050	-	4,984,732
Realized and unrealized loss on investments	71,246	-	-	-	71,246
Unrealized gain on interest rate swaps held by Project Partnerships	-	-	(78,808)	-	(78,808)
Equity in income	-	(11,341)	-	-	(11,341)
Increase in allowance for loans to CDPs, net	4,265,106	-	-	-	4,265,106
Provision for loss on receivables	-	533,396	173,764	6,350	713,510
Provision for uncollectible recoverable grants	867,558	-	-	-	867,558
Change in operating assets and liabilities:					
Accrued interest receivable	(365,404)	(15,969)	-	(52,369)	(433,742)
Contributions receivable	(15,573,650)	-	-	-	(15,573,650)
Government contracts receivable	10,087,659	-	-	-	10,087,659
Notes and other receivables	-	206,670	(349,804)	450,088	306,954
Prepaid expenses and other assets	(132,219)	246,087	50,255	-	164,123
Accounts payable and accrued expenses	4,320,955	2,796,731	1,362,517	2,703,123	11,183,326
Government contracts and loan-related advances	(19,010,289)	-	-	-	(19,010,289)
Due from affiliate	(1,642,192)	427,032	-	1,215,160	-
Due from funds	-	3,183,655	-	-	3,183,655
Grants payable	(27,621,020)	-	-	-	(27,621,020)
Deferred liabilities	-	1,909,429	169,283	-	2,078,712
Net cash provided by (used in) operating activities	(38,231,251)	12,156,519	650,672	4,336,893	(21,087,167)

## LOCAL INITIATIVES SUPPORT CORPORATION AND AFFILIATES

### Consolidating and Consolidated Statement of Cash Flows

Year ended December 31, 2017

	<u>LISC Parent Only</u>	<u>LISC Affiliates</u>	<u>CDA Partnerships</u>	<u>Eliminations</u>	<u>2017</u>
Cash flows from investing activities:					
Purchase of investments	(3,870,134)	-	-	-	(3,870,134)
Proceeds from sale and maturities of investments	1,370,046	-	-	-	1,370,046
Recoverable grants to CDPs	(2,798,574)	-	-	-	(2,798,574)
Repayments received on recoverable grants to CDPs	3,244,184	-	-	-	3,244,184
Loans to CDPs	(194,957,003)	-	-	(14,314,160)	(209,271,163)
Repayments of loans to CDPs	131,229,407	134,393	-	5,000,000	136,363,800
Decrease (Increase) in note receivable	-	55,928	-	(12,700)	43,228
Contributions to temporary investments in Project Partnerships and Funds	-	(49,291,830)	-	-	(49,291,830)
Distributions from investments in Funds	-	972,482	-	-	972,482
Proceeds from sale of temporary investment in Project Partnerships and Funds	-	62,418,044	-	-	62,418,044
Contributions to investments in Funds	-	(2,705,820)	-	-	(2,705,820)
Investment in Project Partnerships	-	(1,851)	-	-	(1,851)
Transfer of interest in CDA partnerships	-	-	(90,217)	-	(90,217)
Net proceeds from sale of real estate property	-	2,529	-	(2,529)	-
Increases in restricted cash escrow	-	(125,146)	(485,575)	-	(610,721)
Purchase of property and equipment	(775,761)	(593,608)	(1,226,910)	-	(2,596,279)
Net cash provided by (used in) investing activities	<u>(66,557,835)</u>	<u>10,865,121</u>	<u>(1,802,702)</u>	<u>(9,329,389)</u>	<u>(66,824,805)</u>
Cash flows from financing activities:					
Debt issuance costs paid	(126,811)	-	(178,003)	-	(304,814)
Proceeds from loans payable	286,545,108	-	-	(8,000,000)	278,545,108
Repayment of loans payable	(223,198,779)	-	-	-	(223,198,779)
Proceeds from long-term debt	-	7,000,000	9,240,350	13,000,000	29,240,350
Repayment of long-term debt	-	(23,126,203)	(8,505,077)	-	(31,631,280)
Proceeds from notes payable - NEF Funds	-	-	1,016,150	-	1,016,150
Due to affiliate	-	7,504	-	(7,504)	-
CDA capital contribution	-	-	120,325	-	120,325
Net cash provided by (used in) financing activities	<u>63,219,518</u>	<u>(16,118,699)</u>	<u>1,693,745</u>	<u>4,992,496</u>	<u>53,787,060</u>
Net increase (decrease) in cash and cash equivalents	(41,569,568)	6,902,941	541,715	-	(34,124,912)
Cash and cash equivalents, beginning of year	<u>155,013,552</u>	<u>55,964,110</u>	<u>670,226</u>	<u>-</u>	<u>211,647,888</u>
Cash and cash equivalents, end of year	<u>\$ 113,443,984</u>	<u>\$ 62,867,051</u>	<u>\$ 1,211,941</u>	<u>\$ -</u>	<u>\$ 177,522,976</u>
Cash paid during the year for:					
Interest on indebtedness	<u>\$ 8,401,278</u>	<u>\$ 96,520</u>	<u>\$ 1,315,915</u>	<u>\$ -</u>	<u>\$ 9,813,713</u>



## LOCAL INITIATIVES SUPPORT CORPORATION AND AFFILIATES

### Consolidating and Consolidated Statement of Cash Flows

Year ended December 31, 2017

	<u>LISC Parent Only</u>	<u>LISC Affiliates</u>	<u>CDA Partnerships</u>	<u>Eliminations</u>	<u>2017</u>
Supplemental disclosures of noncash investing activities:					
Disposal of fully appreciated fixed assets	\$ 188,851	\$ -	\$ -	\$ -	\$ 188,851
Increase in temporary investments in Project Partnerships: and capital contributions due to temporary investments in Project Partnerships for the acquisition of Project Partnerships	\$ -	\$ 303,636,518	\$ -	\$ -	\$ 303,636,518
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	\$ -	\$ 336,632,021	\$ -	\$ -	\$ 336,632,021
Supplemental disclosure of cash and noncash investing activities related to deconsolidation of CDA Partnerships:					
Assets transferred	\$ -	\$ -	\$ (3,740,836)	\$ -	\$ (3,740,836)
Liabilities transferred	-	-	6,473,412	-	6,473,412
Noncontrolling interest	-	-	(2,642,359)	-	(2,642,359)
Cash paid	\$ -	\$ -	\$ 90,217	\$ -	\$ 90,217

See accompanying notes to consolidating and consolidated financial statements.

## LOCAL INITIATIVES SUPPORT CORPORATION AND AFFILIATES

Notes to Consolidating and Consolidated Financial Statements

December 31, 2017

### (1) Description of Organization and Summary of Significant Accounting Policies

#### (a) 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 200 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 also sponsors and invests in the NYC Distressed Multifamily Housing Fund I LP ("NYC Distressed"), whose purpose is to develop and preserve distressed multifamily rental housing for low and moderate-income households and for other related community development projects.

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 such 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:

## LOCAL INITIATIVES SUPPORT CORPORATION AND AFFILIATES

### Notes to Consolidating and Consolidated Financial Statements

December 31, 2017

	2017	
	Unaudited	
	Assets	Liabilities
Special-purpose entity manager:		
NEF 2009 LLC	\$ 3,830,975	\$ 2,603,206
National Equity Fund		
2011 LLC	9,027,810	4,203,802
NEF 2011 Fund Manager LLC	4,047,635	2,898,435
NEF 2012 Fund		
Manager LLC	5,204,705	4,379,664
NEF 2013 Fund		
Manager LLC*	4,031,317	4,127,793
NEF 2014 Fund		
Manager LLC*	4,603,569	6,118,388

\* It is expected that assets will exceed liabilities once all syndication revenues 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.

NEFCI also sponsors and invests in the NEF Preservation Fund I LP, NEF Preservation Fund II LP, and NEF Mortgage Loan Fund I LP (collectively “NEF Preservation Fund”), whose 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.

NEFCI also sponsors and invests in the NYC Distressed Multifamily Housing Fund II LP (“NYC Distressed II”), 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.

NEF has various subsidiaries, referred to as Community Development Advocates, (CDA), which act as general partners in certain partnerships to facilitate the promotion or rehabilitation of low-income housing. As of December 31, 2017, CDA was the general partner of twelve Project Partnerships. 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 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, 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).

## LOCAL INITIATIVES SUPPORT CORPORATION AND AFFILIATES

Notes to Consolidating and Consolidated Financial Statements

December 31, 2017

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 (QLICIs) to Qualified Active Low-Income Community Businesses (QALICBs). QLICIs 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 consulting services on NMTC transactions for unrelated third parties. As an independent consultant, NMSC provides accounting, reporting, and NMTC program compliance and software services to third parties. Additionally, NMSC services QLICI loans and the related cash receipts and disbursements on behalf of the third parties. These services are generally provided to organizations with similar community development missions and investing objectives as LISC.

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.

### *(b) 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, LIMAC, TRI, LLLF, and NP (collectively, the Organization). All significant interorganization 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:

## LOCAL INITIATIVES SUPPORT CORPORATION AND AFFILIATES

Notes to Consolidating and Consolidated Financial Statements

December 31, 2017

### **Unrestricted Funds**

The unrestricted funds are used to record activities supported by resources that have been received without restriction over which management and the board of directors have discretionary control.

Specifically, the unrestricted loan fund is used to record loans and bonds payable proceeds provided to the LISC Parent Only by financial institutions, insurance companies, foundations, and other nonprofits with lender-imposed restrictions that 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

As of December 31, 2017, unrestricted net assets consist of \$11 million of board designated net assets (\$10 million for making loans to CDPs and \$1 million to fund the non-Small Business Administration guaranteed portion of Community Advantage loans.

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 fund. Impairment losses are charged to the unrestricted operating fund.

### **Temporarily Restricted Funds**

The temporarily restricted funds are used to record contributions received with donor-imposed temporary restrictions. Contributions are recorded as temporarily 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, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidating and consolidated statement of activities and changes in net assets as net assets released from restrictions.

Specifically, the temporarily restricted loan fund is used to record contributions received with donor-imposed temporary restrictions for lending and/or credit enhancement activities. The temporarily restricted operating fund is used to record assets received with donor-imposed temporary 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.

## LOCAL INITIATIVES SUPPORT CORPORATION AND AFFILIATES

Notes to Consolidating and Consolidated Financial Statements

December 31, 2017

### **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).
- 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, 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 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 \$3,045,141 in 2017. 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 and organization 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

## LOCAL INITIATIVES SUPPORT CORPORATION AND AFFILIATES

### Notes to Consolidating and Consolidated Financial Statements

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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. Revenue from software licenses 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.

#### **Restricted Cash Escrow**

As of December 31, 2017, NEF had total restricted cash of \$3,489,100 comprised of:

- \$14,870, associated with the sale of one project partnership. Such amounts are included in unrestricted net assets. NEF will act as the disbursement agent to cover remaining obligations related to the sale. In addition, as of December 31, 2017, NEF has restricted cash of \$249,258 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 level.
- \$3,089,831, pursuant to terms of certain agreements. This balance is not included within temporarily restricted net assets and have been designated for distribution to various parties.

As of December 31, 2017, NMSC had total restricted cash of \$135,141, which includes insurance proceeds held in escrow and cash held with financial institutions for third party loan servicing.

#### **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.

## LOCAL INITIATIVES SUPPORT CORPORATION AND AFFILIATES

### Notes to Consolidating and Consolidated Financial Statements

December 31, 2017

#### **Investment in Funds**

NEF and its subsidiaries accounts for its partner and member interests in the Funds, NYC Distressed, NYC Distressed II, 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. Any additional losses incurred below zero will be suspended and offset against future income. Income from these investments will not be recorded until all suspended losses have been offset. 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 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. If an other-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 temporarily restricted support 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



## LOCAL INITIATIVES SUPPORT CORPORATION AND AFFILIATES

### Notes to Consolidating and Consolidated Financial Statements

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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 collectibility of the loans. Large loans are evaluated individually for impairment and an allowance for impairment is established using the methodology under 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 collectibility of the loans, taking into consideration project characteristics and trends.

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 collectibility 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 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.

## LOCAL INITIATIVES SUPPORT CORPORATION AND AFFILIATES

Notes to Consolidating and Consolidated Financial Statements

December 31, 2017

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

### **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

## LOCAL INITIATIVES SUPPORT CORPORATION AND AFFILIATES

### Notes to Consolidating and Consolidated Financial Statements

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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 2017.

#### **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. The Organization did not recognize any unrelated business income tax liability for the year ended December 31, 2017. 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 2014 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 New York not-for-profit membership corporation and is 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.

TRI 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.

NMSC, LLLF, and NP, 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.

#### **Consolidation**

FASB Accounting Standard Update ("ASU") No. 2017-02, Not-for-Profit Entities – Consolidation (Subtopic 958-810) ("ASU 2017-02") clarifies when not-for-profit entities that are general partners should consolidate their holdings in a for-profit limited partnership. The Corporation determined that the limited partners' or members' substantive participating rights preclude the Organization from controlling the limited partnership or limited liability company. Under this method, the Organization's share of income/losses incurred by the Funds is recognized as a reduction of the carrying value of the investment. The organization periodically evaluates its investments in the Funds for impairment and

## LOCAL INITIATIVES SUPPORT CORPORATION AND AFFILIATES

### Notes to Consolidating and Consolidated Financial Statements

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records an impairment loss if it is determined that any impairment in value exists. The Organization accounts for these investments using the equity method of accounting.

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

#### **New Accounting Pronouncements**

In January 2016, the FASB issued ASU No. 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities, which amends the guidance on the classification and measurement of financial instruments. The Guidance amends certain disclosure requirements associated with the fair value of financial instruments. ASU No. 2016-01 is effective for fiscal years beginning after December 15, 2018, and interim periods in fiscal years beginning after December 15, 2019. Entities that are not public business entities may early adopt the provisions of the standard that eliminate certain previously required disclosures. The Organization has chosen to early adopt this standard to simplify the reporting for financial instruments and as such is no longer required to provide the disclosures related to the fair value of financial instruments. The adoption of this standard did not have an impact on the remainder of the 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 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 is currently evaluating the effect ASU 2016-14 will have on its consolidating and consolidated financial statements.

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 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 will replace 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

## LOCAL INITIATIVES SUPPORT CORPORATION AND AFFILIATES

### Notes to Consolidating and Consolidated Financial Statements

December 31, 2017

2014-09. Early adoption is permitted, but not before the original effective date for private business entities (i.e. January 2017). The provisions of ASU 2014-09 are effective for the Organization on January 1, 2018. ASU 2014-09 permits the use of either the retrospective or cumulative effect transition method.

#### (2) Temporarily Restricted Net Assets

Temporarily restricted net assets, which are restricted for the Organization's thirty local/regional offices, rural programs, and several other national programs, are to be used in future years for program services such as project grants and recoverable grants, lending-related activity, technical support, and operating support to CDPs.

As of December 31, 2017, temporarily restricted net assets were \$144,965,512 (\$77,142,568 temporarily restricted operating funds and \$67,822,944 temporarily restricted loan funds), and included the following components: (1) *Educational Facilities Financing Center* – approximately \$46 million of donor-restricted funds 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 \$77 million of donor-restricted funds available to support a multitude of specifically defined projects in the local/regional offices and national programs (of which \$23 million is specifically for lending activities) and (3) *General operating and programmatic support* – approximately \$22 million of donor-restricted funds that are for use by specific local/regional offices and national programs for both general operating and programmatic support.

#### (3) Cash, Cash Equivalents, Restricted Cash, and Investments

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

	<u>Fair value</u> <u>2017</u>
Cash, cash equivalents, and restricted cash	\$ 181,012,076
Investments:	
Cash held for investment	37,383,193
Corporate bonds and fixed income funds	37,737,817
U.S. government agencies	36,158,343
Certificates of deposit	5,192,116
Alternative investments:	
Real estate investment trust	2,619,071
Hedge funds	14,955,325
	<u>134,045,865</u>
Total cash, cash equivalents, restricted cash, and investments	<u>\$ 315,057,941</u>

## LOCAL INITIATIVES SUPPORT CORPORATION AND AFFILIATES

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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, 2017, cash and cash equivalents include approximately \$2.6 million held in escrow-like arrangements with loan participants and \$254,780 in loss reserves required by specific programs. This includes \$203,770 in loan loss reserve requirements for the Small Business Administration 7(a) Community Advantage (SBA CA) Program. LISC is in compliance with the loan loss reserve requirements for the SBA CA Program.

The limitations and restrictions on the Organization’s ability to redeem or sell its alternative investments vary by investment. As of December 31, 2017, 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)	\$ 2,619,071	Lock-up	Not applicable
Multi-strategy hedge funds (B)	\$ 13,761,990	Quarterly	61 calendar days
Credit-focused hedge fund (C)	193,335	Lock-up	Not applicable
Limited partnership (D)	1,000,000	Lock-up	Not applicable
	<u>\$ 17,574,396</u>		

As of December 31, 2017, the Organization has no unfunded commitments on its alternative investments.

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.

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(D) *Limited partnership* – is an investment fund licensed by the United States Small Business Administration as a small business investment company. 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.

#### (4) Contributions Receivable

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

	<u>2017</u>
Due within one year	\$ 30,588,984
Due in one to five years	<u>7,614,119</u>
	<u>38,203,103</u>
Less discount (0.12%–5.00%)	(141,790)
Less allowance for uncollectible contributions receivable	<u>(649,000)</u>
Total contributions receivable, net	<u>\$ 37,412,313</u>

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

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

#### (5) Government Grants and Contracts

At December 31, 2017, the Organization had grant commitments from various government agencies of approximately \$43.6 million, with expiring term dates ranging from 2018 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.

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

#### (6) Program Loans, Recoverable Grants to Community Development Projects and Notes and Other Receivable

##### (a) Program Loans

In furtherance of its charitable purposes, LISC makes loans directly to CDPs (and CDPs-sponsored entities) and CDPs-affiliated projects. In general, interest rates on loans to CDPs range from 0% to 8% and repayment terms range from 6 months to 29.1 years. Delinquent loans, measured as those loans whose payment is 90 days past due, totaled \$5,520,772 at December 31, 2017. The portion of the allowance dedicated to the delinquent loans totaled \$924,526 at December 31, 2017. At December 31, 2017, loan principal of \$109,274,565 is due to LISC within one year.

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

	<u>2017</u>
Loan type:	
Acquisition loans (A)	\$ 108,476,637
Predevelopment loans (B)	19,844,127
Construction loans (C)	101,331,454
Other (D)	<u>121,857,872</u>
Total	<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:

- (A) Acquisition loans – to pay purchase and closing costs of a property
- (B) Predevelopment loans – to pay project predevelopment expenses
- (C) Construction loans – to pay hard and soft costs of new or rehabilitation projects
- (D) 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.

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

<u>2017</u>	<u>31–60 days past due</u>	<u>61–90 days past due</u>	<u>Greater than 90 days</u>	<u>Total past due</u>	<u>Current</u>	<u>Total gross loans receivable</u>
Acquisition	\$ 422,365	\$ —	\$ 845,213	\$ 1,267,578	\$ 107,209,059	\$ 108,476,637
Predevelopment	265,249	—	217,579	482,828	19,361,299	19,844,127
Construction	2,401,354	—	3,471,704	5,873,058	95,458,396	101,331,454
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, 2017 is as follows:

<u>2017</u>	<u>Acquisition</u>	<u>Predevelopment</u>	<u>Construction</u>	<u>Other</u>	<u>Total</u>
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	<u>(1,868,077)</u>	<u>(278,050)</u>	<u>(1,216,417)</u>	<u>(902,562)</u>	<u>(4,265,106)</u>
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>



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**(b) Recoverable Grants to CDPs-Sponsored Projects**

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

	<b>2017</b>
Gross recoverable grants receivable, beginning of year	\$ 18,225,849
New recoverable grants made	2,798,574
Write-offs	(545,150)
Repayments	(3,244,184)
Gross recoverable grants receivable, end of year	17,235,089
Allowance for uncollectible recoverable grants, end of year	(8,836,321)
Recoverable grants receivable, net, end of year	\$ 8,398,768

**(c) Notes and Other Receivables**

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

Pre-development and pre-credit loans, net	\$ 1,990,918
Construction loans, net	1,471,571
Enclave at Firewheel loan	2,914,108
Grow indianapolis Fund, LLC (GIF)	920,417
Other receivables	3,009,746
Total	\$ 10,306,760

**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 \$2,265,622 of loans before allowance for loan losses of \$274,704 as of December 31, 2017. The loans outstanding at December 31, 2017 have stated interest rates ranging from 5.25% to 12.0% and maturity dates ranging from March 31, 2018 to September 30, 2018. NEF received interest of \$40,723 in 2017. All loans maturing in March 2018 were extended.

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### **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 June 15, 2018 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, 2017, NEF had funded \$1,541,665, and recorded an allowance for loan loss in the amount of \$70,094 in 2017. Additionally, as of and for the year ended December 31, 2017, the Corporation recognized interest income in the amount of \$76,180.

### **Enclave at Firewheel Loan**

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, 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, 2017, NEF Development Corporation accrued interest income in the amount of \$42,960.

### **Grow Indianapolis Fund, LLC (GIF)**

NMSC has a promissory note with Grow Indianapolis Fund, LLC (GIF), an affiliate, dated November 9, 2017. The note matures on November 9, 2027 and monthly thereafter, interest-only payments are receivable through November 15, 2024. Commencing December 15, 2024 and monthly thereafter, a payment of interest and principal is receivable in installments equal to the amount necessary to fully amortize the remaining principal balance. At maturity, the remaining unpaid principal and any unpaid accrued interest thereon are due and payable in full to NMSC. The loan is secured by a Credit Agreement. As of December 31, 2017, the total amount outstanding was \$842,417.

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. No principal or interest shall be paid until maturity. At maturity, the remaining unpaid principal and any unpaid interest thereon are due and payable in full to NMSC. As of December 31, 2017, the total amount outstanding was \$78,000.

For the year ended December 31, 2017, NMSC earned \$7,962 of interest income on the related party loans. As of December 31, 2017, interest receivable was \$2,691.

### **Other Receivables - Micro Loans**

NMSC assists Northern University and LISC with administering the Impact Lending micro-loan initiative. The micro-loans are for the benefit of new and existing small business operating primarily in low-income communities in Boston, Massachusetts. LISC has agreed to facilitate up to \$500,000 of micro-loans over a two-year period. The micro-loans earn interest at a fixed rate of 7% annum. Monthly payments of interest and principal are receivable from the borrowers in a fixed amount defined in the respective promissory note. At maturity, the remaining unpaid principal and any unpaid accrued interest thereon are due and payable to NMSC. The micro-loans are unsecured. Micro-loans

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receivable as of December 31, 2017 totaled \$136,094, net of an allowance for doubtful accounts of \$4,029.

For the year ended December 31, 2017, NMSC earned \$6,087 in interest income on the micro-loans. There were no micro-loans on non-accrual status as of December 31, 2017. As of December 31, 2017, interest receivable on the micro-loans was \$890.

#### (7) Grants Payable

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

	<u>2017</u>
Grants payable, beginning of year	\$ 76,008,680
New project grants made	51,483,766
Disbursements on commitments	<u>(79,104,786)</u>
Grants payable, end of year	<u>\$ 48,387,660</u>

#### (8) 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, 2017, NEF was holding temporary investments in Project Partnerships of \$68,360,264, in which NEF contributed \$10,085,448, to the Project Partnerships and entered into promissory notes for future contributions of \$57,616,465. As of December 31, 2017, NEF also includes preacquisition costs of \$658,351, in temporary investments in Project Partnerships.

In 2016, NEF recorded a provision for loss of \$1,507,098 for its temporary investment in seven Project Partnerships, as it did not expect to recover its full investment in the Project Partnerships. In 2017, these seven Project Partnerships were transferred to various Funds. In order to approve the transfer of five of these Project Partnerships into a certain Fund, the Fund investor required that NEF make certain guaranties in the event corporate tax reform reduced the corporate tax rate below certain levels. Resolution of the guaranties in 2017 resulted in the recognition of a \$1,250,000 guaranty liability. Settlement of such liability is occurred in May 2018 through the funding of a loan to the Fund in the amount of \$1,250,000. Such loan is not expected to be recovered. No additional write-down occurred in 2017 as management believed that current market conditions and events did not warrant such a provision. Also, in 2017 NEF recorded a \$241,794 gain on transfer of temporary investments in four Project Partnerships.

#### (9) 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

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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 \$346,079 as of December 31, 2017. 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 \$56,291 for the year ended December 31, 2017.

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, 2017:

	<b>In-place Contracts</b>	<b>Customer Relationship</b>	<b>Total</b>
Year:			
2018	\$ 47,213	\$ 2,646	\$ 49,859
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
Thereafter	69,574	10,584	80,158
	\$ 274,119	\$ 23,814	\$ 297,933

#### (10) Property and Equipment

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

	<b>2017</b>
Furniture, equipment, computer software, and leasehold improvements	\$ 16,673,479
Land, buildings, and improvements	107,221,125
Gross property and equipment	123,894,604
Less accumulated depreciation and amortization	(47,079,298)
Total property and equipment, net	\$ 76,815,306

Related to the CDA entities, as of December 31, 2017, the consolidating and consolidated financial statements include \$107,221,125 in Land, Buildings and Improvements and \$3,346,908 in Furniture, Equipment, and Leasehold Improvements. Accumulated depreciation was \$38,439,859 as of December 31, 2017. Depreciation expense of \$4,928,441 was incurred for the year ended December 31, 2017.

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**(11) Loans and Bond Payable**

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

Financial institutions and insurance companies	2017-2037	0.00%-5.00%	\$ 289,679,069
Foundations	2017-2025	0.00%-4.50%	32,001,711
Public agencies/entities and retirement funds	2017-2043	0.00%-4.00%	46,094,047
Nonprofit and other institutions	2017-2026	0.00%-2.50%	<u>5,621,347</u>
Total			373,396,174
Less: Unamortized Discount and deferred costs (*)			<u>(816,125)</u>
Loans and Bonds Payable, net			<u><u>\$ 372,580,049</u></u>

**(a) Loans and Bond Payable Maturities**

Loans payable are scheduled to be repaid as of December 31, 2017 as follows:

	<b>Principal</b>
2017	\$ 23,019,480
2018	30,063,341
2019	29,415,985
2020	38,760,740
2021	54,991,172
Thereafter	<u>197,145,456</u>
Total	<u><u>\$ 373,396,174</u></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 of \$126,581, respectively).

At December 31, 2017, LISC had \$124,070,807 of available undrawn sources of funding with maturities ranging from 2018 to 2024. Interest rates range from 0% to 4.00% fixed rate (\$77,161,195) and floating rate range from LIBOR + 1.50% to LIBOR + 2.50% (\$31,200,000) and Treasury = 1.75% (\$2,500,000). 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

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of principal and interest are due quarterly with final maturity on December 15, 2043. Cumulative drawdowns as of December 31, 2017 was \$36,790,388. As of December 31, 2017, the outstanding balance was \$34,929,337 and \$13,209,612 was available for drawdown.

**(b) Pledged Assets**

LISC had certain assets as collateral to lenders to secure (1) nonrecourse indebtedness to LISC totaling \$1,342,243 as of December 31, 2017, and (2) \$37,417,024 was collateral assets for the recourse indebtedness under the CDFI BGP Loan totaling \$34,929,337 as of December 31, 2017.

**(c) Subordinated Debt**

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

**(d) Lines of Credit**

At December 31, 2017, LISC had available bank lines of credit of \$55,000,000, which expire between March 9, 2018 and September 28, 2019 with interest rates ranging from LIBOR + 1.50% to LIBOR + 2.25%. At December 31, 2017, the outstanding balance included in loans and bond payable was \$12,000,000. The available undrawn balance at December 31, 2017 was \$43,000,000.

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, 2019. 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 4.75% at December 31, 2017. The outstanding balance at December 31, 2017 was \$8,019,449.

### 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, 2017.

**(12) 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 year ended December 31, 2017 was \$2,219,289.

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

**(13) Financial Instruments with Off-Balance-Sheet Risk and Fair Values**

**(a) 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

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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.

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:

	<u>2017 Contract amount</u>
Financial instruments whose contract amounts represent credit risk:	
Financial guarantees	\$ 5,224,565
Loan commitments outstanding	<u>196,868,364</u>
Total	<u>\$ 202,092,929</u>

LISC generally makes loans over \$50,000 on a secured basis. The collateral for such loans generally consists of mortgages, security agreements, assignment of contract receivables, and guarantees.

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

**(b) 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.

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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, 2017.

	<b>Total</b>	<b>Quoted prices in active markets for identical assets (Level 1)</b>	<b>Significant other observable inputs (Level 2)</b>
Cash and cash equivalents, and restricted cash escrow	\$ 181,012,076	\$ 181,012,076	\$ —
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
	297,483,545	\$ 284,175,276	\$ 13,308,269
Alternative investments:			
Real estate investment trust	2,619,071		
Hedge funds	14,955,325		
	17,574,396		
Total investments	\$ 315,057,941		
Interest rate swap held by LISC	\$ 14,488	\$ —	\$ 14,488
Interest rate swap held by NEF Project Partnership	246,794	—	246,794
	\$ 261,282	\$ —	\$ 261,282
Loan guarantee	\$ (298,902)	\$ —	\$ (298,902)

#### (14) 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.

#### (15) Commitments and Contingencies

##### (a) 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



## LOCAL INITIATIVES SUPPORT CORPORATION AND AFFILIATES

### Notes to Consolidating and Consolidated Financial Statements

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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, 2017.

During 2015, 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 repurchase guaranty funding in the event of cross-collateral default on the construction loan and the project general partner, as guarantor, is unable to fund the obligation to repurchase the investor's interest. NEF's maximum exposure is approximately \$675,000. NEF has not accrued any contingent liability as a loss is neither probable nor estimable as of December 31, 2017. The guaranty was terminated upon conversion of the construction loan to permanent financing which occurred in February 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 guarantee is initially limited to \$1,000,000. In 2017, the guaranty was reduced to \$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, 2017.

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 \$750,000. In 2017, the guaranty was reduced to \$300,000 as the project met the applicable benchmarks. NEF has not accrued any contingent liability as a loss is neither probable nor estimable as of December 31, 2017.

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, 2017.

During 2017, NEF entered into an agreement to guaranty a loan made by a bank to a project partnership. Under this agreement, NEF guarantees the \$3,000,000 principal portion of the loan plus any accrued interest and expenses related to enforcing the guaranty provisions in the event that a repurchase right is exercised by the Portland Development Commission (PDC). Pursuant to the terms of an agreement between PDC and the general partner of the project partnership, PDC has the right to repurchase the property if construction does not commence pursuant to the terms of the agreement. NEF has not accrued any contingent liability as a loss is neither probable nor estimable as of December 31, 2017. This guaranty was terminated upon termination of PDC's repurchase right in April 2018.

## LOCAL INITIATIVES SUPPORT CORPORATION AND AFFILIATES

### Notes to Consolidating and Consolidated Financial Statements

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

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).

**(b) 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 is occurred in May 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. In 2016, the Corporation recorded a \$1,315,108 provision for loss related to these five Project Partnerships

**(c) 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.

**(d) Lease Commitments**

Minimum rental commitments under noncancelable operating real estate leases in effect at December 31, 2017 totaled \$18,391,985. These amounts exclude future escalation for real estate taxes and building operating expenses.

Minimum future rental commitments as of December 31, 2017 are as follows:

2018	\$	4,969,012
2019		4,749,128
2020		2,327,599
2021		1,621,235
2022		1,538,741
Thereafter		<u>3,186,180</u>
Total	\$	<u>18,391,895</u>

Rental expense, inclusive of real estate taxes and operating costs, for the year ended December 31, 2017, totaled \$5,613,683.

## LOCAL INITIATIVES SUPPORT CORPORATION AND AFFILIATES

### Notes to Consolidating and Consolidated Financial Statements

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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, 2017, accounts payable and accrued expenses include \$1,006,704, of deferred rent obligations related to the lease. In connection with the lease agreement, LISC issued a letter of credit in the amount \$750,000, which is renewed annually and has a current expiration date of November 30, 2018. A certificate of deposit in the amount of \$750,000 is being used as collateral for the line of credit.

(e) **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, 2017, no such provisions was necessary.

(16) **CDA Partnerships - Long-Term Debt, Net**

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

As of December 31, 2017, one of the CDA Partnerships are in technical default on their long-term debt in the amount of \$287,374. For these CDA Partnerships, management is working with the lenders and does not expect an unfavorable outcome to result from these negotiations.

Annual maturities on long-term debt at December 31, 2017 are as follows:

2018	\$	704,115
2019		446,158
2020		989,647
2021		517,434
2022		1,246,656
Thereafter		<u>55,549,992</u>
Total	\$	<u><u>59,454,002</u></u>

**LOCAL INITIATIVES SUPPORT CORPORATION AND AFFILIATES**

Notes to Consolidating and Consolidated Financial Statements

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**(17) Due from Funds**

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

		2017
Banc of America Community Housing Investment Fund X	\$	564,976
California Equity Fund 2014		241
California Equity Fund 2016		110,200
Hawaii Affordable Housing Fund I		120,770
Homestead Equity Fund XIII		128,490
Homestead Equity Fund XIV		844,428
NDC Corporate Equity Fund SP I		134,866
NEF Chicago West Town Fund		491,414
NEF Compass Shared Investment Fund I		100,217
NEF Investment Partners Fund VI - Chase 2015		17,745
NEF Regional Fund IV - Northeast		254,322
NEF Regional Fund VIII - Chicago		1,651,811
NEF Regional Secondary - California		391,546
NEF Preservation Fund I		353,444
NY Distressed		25,000
Other Funds		415,256
Total	\$	5,604,726

**(18) Project Partnerships**

**(a) 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, 2017 NEF's investment balance in the Funds and other ventures and partnerships was \$13,830 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, 2017, deficit balances related to certain of its investments in Funds and other ventures and partnerships were \$812,634, and are included in accounts payable and accrued expenses in the accompanying consolidating and consolidated statement of financial position. NEF recorded \$22,122 of equity in losses as of December 31, 2017.

NEF holds limited partner interests in NYC Distressed, NYC Distressed II, the NEF Preservation Funds, Enclave at Firewheel, and certain Funds in which it manages and accounts for these interests

## LOCAL INITIATIVES SUPPORT CORPORATION AND AFFILIATES

### Notes to Consolidating and Consolidated Financial Statements

December 31, 2017

using the equity method of accounting. The investment balance of these interests was \$3,349,625 as of December 31, 2017. NEF recorded \$33,463 of equity in income as of December 31, 2017.

The CDA entities discussed in note 1 hold generally a 1.00% or 0.01% general partnership interest in the CDA Partnerships. 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 transferred its general partner interests in three CDA Partnerships in 2017, resulting in a \$3,095,989 gain on transfer of interest in 2017, which is reflected in in the accompanying consolidating and consolidated financial statements.

**(b) 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.

**(c) 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, 2017, the fair value of the interest rate swap was \$246,794, and is included in other assets in the consolidating and consolidated statement of financial position. As the Project Partnership's derivative financial instruments do not qualify for hedge accounting, the Project Partnership recorded a \$78,808 unrealized gain on interest rate swap in 2017, and is valued within Level 2 of the fair value hierarchy.

**(19) NMTC Award Administered**

As of December 31, 2017, approximately \$969 million of the \$993 million total NMTC authority awarded to LISC had been closed. The following table shows the total allocation received, total QEIs closed, and total allocation remaining by round for the year ended December 31, 2017:

	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	59,451,944	3,653,222	63,105,166	6,894,834
Round 13	8	85,000,000	—	67,550,000	67,550,000	17,450,000
Total	125	\$ 993,000,000	\$ 895,451,944	\$ 73,203,222	\$ 968,655,166	\$ 24,344,834

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

## LOCAL INITIATIVES SUPPORT CORPORATION AND AFFILIATES

Notes to Consolidating and Consolidated Financial Statements

December 31, 2017

### (20) Subsequent Events

In connection with the preparation of the consolidating and consolidated financial statements, the Organization evaluated subsequent events after the consolidating and consolidated statement of financial position date of December 31, 2017 through June 28, 2018, which is the date the consolidating and consolidated financial statements were issued.

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 is subject to approval from the U.S. Small Business Administration (SBA).

SUPPLEMENTARY INFORMATION

# LOCAL INITIATIVES SUPPORT CORPORATION AND AFFILIATES

## Schedule of Expenditures of Federal Awards Year ended December 31, 2017

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				
		1620217		
Community Development Block Grants/Entitlement Grants				
Pass through:				
City of Chicago - Department of Family and Supportive Services	14.218	31352	\$ 51,172	\$ 51,454
City of Chicago - Department of Family and Supportive Services	14.218	43882	25,070	44,666
City of Chicago - Department of Family and Supportive Services	14.218	31251	-	11,949
City of Chicago - Department of Family and Supportive Services	14.218	43938	-	66,619
City of Hartford	14.218	17.16.00	-	23,288
City of Indianapolis	14.218	14231	17,175	27,975
City of Kalamazoo	14.218	N/A	-	10,378
City of Detroit	14.218	B-16-MC-26-006	28,968	1,379,318
City of Philadelphia	14.218	1420322	69,106	69,106
City of Philadelphia	14.218	1620217	-	14,000
City of Philadelphia	14.218	1620092	-	(213)
City of Philadelphia	14.218	1720679	-	5,476
City of Philadelphia	14.218	1720762	-	39,560
City of Houston	14.218	T-12-NN-36-0022	37,050	37,363
City of Jacksonville	14.218	N/A	-	20,000
			<u>228,541</u>	<u>1,800,939</u>
HOPE VI Cluster				
Choice Neighborhood Implementation Grant				
Pass through:				
City of Philadelphia	14.889	1620513	-	94,149
City of San Francisco	14.889	N/A	800,711	1,019,352
			<u>800,711</u>	<u>1,113,501</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	1,784,726	2,384,328
Section 4 Capacity Building for Community Development and Affordable Housing Program				
	14.252		8,989,812	14,439,631
HUD - Continuum of Care Program				
	14.267		-	33,384
Neighborhood Stabilization Program Technical Assistance				
	14.264		-	89,694
HUD - Emergency Solutions Grant Program				
Pass through:				
City of Kalamazoo	14.231	P-020375	-	20,001
Total HUD			<u>11,803,790</u>	<u>19,881,478</u>
Corporation for National Community Services(CNCS):				
Americorps				
	94.006		-	1,291,091
Social Innovation Fund - Pay for Success				
	94.019		5,249	8,743
Social Innovation Fund - Bridges				
	94.019		3,206,006	3,911,743
Social Innovation Fund- Pay for Success				
	94.024		-	368,602
Total CNCS			<u>3,211,255</u>	<u>5,580,179</u>
U.S. Department of Justice (DOJ):				
Byrne Criminal Justice Innovation				
	16.817		18,793	1,120,714
Byrne Criminal Justice Innovation				
Pass through:				
Kansas City Metropolitan Crime Commission	16.817		12,321	440,959
Edward Byrne Memorial Competitive Grant Program				
	16.751		-	110,798
Kansas City Metropolitan Crime				
	16.817	2013-AJ-BX-0008	44,304	44,304
The Community Policing Development Program				
	16.710	2013-CK-WX-K008	6,393	6,859
Total DOJ			<u>81,811</u>	<u>1,723,634</u>



# LOCAL INITIATIVES SUPPORT CORPORATION AND AFFILIATES

## Schedule of Expenditures of Federal Awards Year ended December 31, 2017

<u>Federal grantor/pass-through grantor/program or cluster title</u>	<u>Federal CFDA number</u>	<u>Pass-through entity identifying number</u>	<u>Passed through to subrecipients</u>	<u>Total Federal expenditures</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	-	27,576
State of Rhode Island & Providence Plantations				
Department of Human Services	93.575	CCF 17/18-01	-	217,625
State and Local Public Health Actions to Prevent Obesity, Diabetes, Heart Disease and Stroke				
Pass through:				
State of Rhode Island & Providence Plantations	93.757	NU58DP005511-03 & 04	-	321,891
State of Rhode Island & Providence Plantations	93.758	NB010T009077	-	31,404
Assistance Programs for Chronic Disease Prevention and Control				
Pass through:				
State of Rhode Island & Providence Plantations	93.945	NU58DP004837-04 & 05	-	19,627
Maternal and Child Health Services Block Grant				
Pass through:				
State of Rhode Island & Providence Plantations	93.994	B04MC29361 & B04MC30640	-	19,627
TANF Cluster				
Temporary Assistance for Needy Families				
Pass through:				
Lucas County Department of Job and Family Services	93.558	48-16-TANF-22	98,357	142,718
Total HHS			<u>98,357</u>	<u>780,468</u>
U.S. Department of Agriculture (USDA):				
Rural Community Development Initiative:				
USDA/Rural Housing Services	10.446		196,045	320,138
SNAP Cluster				
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program:				
Pass through:				
State of Rhode Island & Providence Plantations	10.561	SNAP ET 14-01; SNAP ET 16-01; SNAP ET 14/15-01	874,816	1,250,106
Total USDA			<u>1,070,861</u>	<u>1,570,244</u>
U.S. Department of Education (DOE):				
Credit Enhancement for Charter School Facilities				
Early Learning Facilities Project:	84.354A		-	44,570,775
Pass through:				
Rhode Island Department of Education	84.412A	S412A120033	-	4,264
Total DOE			<u>-</u>	<u>44,575,039</u>
U.S. Department of Labor Employment Training Administration:				
Reintegration of Ex-Offenders				
Workforce Innovation and Opportunity Act WIOA Adult Program	17.270		-	31,592
Pass through:				
Indianapolis Private Industry Council, Inc.	17.258	S1204-WCF-17-OSO	-	78,658
Total DOL			<u>-</u>	<u>110,250</u>
National Endowment for the Arts:				
Promotion of the Arts & Grants to Organizations and Individuals	45.024		-	243,819
U.S. Department of Treasury (DOT):				
Community Development Financial Institutions Fund Program - Capital Magnet Fund				
Community Development Financial Institutions Fund Program - Total CDFI Cluster	21.011		-	939,992
CDFI Cluster				
Community Development Financial Institutions Fund Program - Total CDFI Cluster	21.020		-	4,555,158
Community Development Financial Institute - Bond Guarantee Program	21.014		-	35,922,204
Total DOT			<u>-</u>	<u>41,417,354</u>
Total expenditure of federal awards			<u>\$ 16,266,074</u>	<u>\$ 115,882,465</u>

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

## LOCAL INITIATIVES SUPPORT CORPORATION AND AFFILIATES

Notes to Schedule of Expenditures of Federal Awards

December 31, 2017

### 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, 2017. 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. In December 2017, grant funds of \$580,731 were applied against the reserve account to cover a realized loss from credit enhancement provided. The funds were withdrawn from the reserve account in January 2018. Cumulative application of grant funds to cover credit enhancement losses from program inception to December 31, 2017 were \$580,731. The reserve account balance as of December 31, 2017 is \$44,570,775 consisting of the grant balance of \$40,832,288 and accumulated net investment earnings of \$3,738,487, of which \$137,601 was earned in 2017.

### Note 4 - Capital Magnet Fund

The U.S. Department of Treasury has awarded a total of \$9,800,000 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, 2017 is \$939,992.

**LOCAL INITIATIVES SUPPORT CORPORATION AND AFFILIATES**

Notes to Schedule of Expenditures of Federal Awards

December 31, 2017

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 \$429,700, in addition to amounts disbursed in fiscal 2017 of \$510,292. There were no administrative costs claimed for the Capital Magnet Fund program in fiscal 2017.

**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, 2017 consists of:

<u>CFDA Number</u>	<u>Program Name</u>	<u>Balance at December 31, 2017</u>
21.014	Bond Guarantee Program	\$ 34,929,337

**LOCAL INITIATIVES SUPPORT CORPORATION AND AFFILIATES**

Schedule of Indirect Cost Rate - LISC

Year ended December 31, 2017

**Indirect costs :**

Salaries and fringe benefits	\$	17,290,188
Rent and utilities		1,597,605
Computer expense		843,151
Consultants		752,769
Staff travel and related expenses		577,410
Legal fees		536,651
Depreciation and amortization		480,723
Accounting and auditing fees		407,380
Telephone		242,842
Conference and meeting		225,035
Payroll services		182,879
Insurance		127,963
Office supplies		94,419
Memberships & subscriptions		60,188
Equipment rental		47,294
Office cleaning & maintenance		30,480
Postage & delivery		15,798
Taxes		15,518
Other program expense		11,448
Printing, annual report and publications		8,747
Meals		5,631
Filing/registration fees		2,801
		23,556,920
<b>Total indirect costs (A)</b>	<b>\$</b>	<b>23,556,920</b>

**Direct Costs :**

Program services	\$	47,653,452
Project grants (allowable)		22,816,632
Fundraising		1,023,826
Other activity expenses (1)		636,018
		72,129,928
<b>Total direct costs (B)</b>	<b>\$</b>	<b>72,129,928</b>

**Indirect cost rate = (A)/(B)** 32.66%

(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 ended December 31, 2017

### (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, 2017, 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).

## LOCAL INITIATIVES SUPPORT CORPORATION AND AFFILIATES

### Notes to Schedule of Indirect Cost Rate - LISC

Year ended December 31, 2017

#### (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, 2017:

	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	\$ 46,154,391	\$ (468,553)	\$ 45,685,838	\$ (1,967,614)	\$ -	\$ 47,653,452
Project grants	51,476,266	(28,659,634)	22,816,632	-	-	22,816,632
Interest on loans and bonds payable	10,006,450	(10,006,450)	-	-	-	-
Increase (decrease) in allowance for uncollectible loans to CDPs	4,265,106	(4,265,106)	-	-	-	-
Provision for uncollectable recoverable grants to CDPs	867,558	(867,558)	-	-	-	-
Management and general	19,342,405	(771,171)	18,571,234	17,454,493	480,723	636,018
Fundraising	8,714,134	(100,990)	8,613,144	7,589,318	-	1,023,826
<b>Total expenses</b>	<b>\$ 140,826,310</b>	<b>\$ (45,139,462)</b>	<b>\$ 95,686,848</b>	<b>\$ 23,076,197</b>	<b>\$ 480,723</b>	<b>\$ 72,129,928</b>

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 Initiative Support Corporation and Affiliates, which comprise the consolidating and consolidated statement of financial position as of December 31, 2017, 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 28, 2018. 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 Initiative 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 Initiative Support Corporation and Affiliate's internal control. Accordingly, we do not express an opinion on the effectiveness of Local Initiative Support Corporation and Affiliate's 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 Initiative 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 28, 2018



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 Initiative Support Corporation

Report on Compliance for Each Major Federal Program

We have audited Local Initiative 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 Initiative Support Corporation and Affiliates' major federal programs for the year ended December 31, 2017. Local Initiative 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 Initiative 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 Initiative 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 Initiative Support Corporation and Affiliates' compliance.

*Opinion on Each Major Federal Program*

In our opinion, Local Initiative 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, 2017.

Report on Internal Control over Compliance

Management of Local Initiative 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 Initiative 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 Initiative Support Corporation and Affiliate's 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 28, 2018

## LOCAL INITIATIVES SUPPORT CORPORATION AND AFFILIATES

### Schedule of Findings and Questioned Costs

December 31, 2017

#### 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 Initiative Support Corporation and Affiliates were prepared in accordance with generally accepted accounting principles.
2. No material weaknesses related to the audit of the 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 financial statements of Local Initiative 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 Initiative 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 Treasury - Community Development Financial Institutions Fund (CFDA No. 21.020)
  - U.S. Department of Education - Credit Enhancement for Charter School Facilities (CFDA No. 84.354A)
  - Corporation for National Community Services – Social Innovation Fund (CFDA No. 94.019)
8. The threshold for distinguishing between Type A and Type B programs was: \$3,000,000.
9. Local Initiative Support Corporation and Affiliates was determined to be a low-risk auditee.

**LOCAL INITIATIVES SUPPORT CORPORATION AND AFFILIATES**

Schedule of Findings and Questioned Costs

December 31, 2017

**B. Findings - Financial Statement Audit**

None

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

None