

**NATIONAL COMMUNITY
INVESTMENT FUND**
Chicago, Illinois

FINANCIAL STATEMENTS
December 31, 2005 and 2004

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CONTENTS

REPORT OF INDEPENDENT AUDITORS	1
FINANCIAL STATEMENTS	
STATEMENTS OF FINANCIAL POSITION	2
STATEMENTS OF ACTIVITIES	3
STATEMENTS OF CASH FLOWS	4
NOTES TO FINANCIAL STATEMENTS.....	5



Crowe Chizek and Company LLC
Member Horwath International

REPORT OF INDEPENDENT AUDITORS

To the Board of Trustees
National Community Investment Fund
Chicago, Illinois

We have audited the accompanying statements of financial position of National Community Investment Fund as of December 31, 2005 and 2004, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Trustees of National Community Investment Fund. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of National Community Investment Fund as of December 31, 2005 and 2004, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Crowe Chizek and Company LLC
Crowe Chizek and Company LLC

Chicago, Illinois
April 7, 2006

NATIONAL COMMUNITY INVESTMENT FUND
STATEMENTS OF FINANCIAL POSITION
December 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 2,756,319	\$ 3,459,431
Interest receivable	80,132	108,464
Unconditional promises to give (Note 9)	75,000	1,570,000
Prepaid expenses	<u>19,029</u>	<u>19,090</u>
Total current assets	2,930,480	5,156,985
Securities (Note 4)	5,441,647	6,460,681
Loans receivable (net of allowance for loan losses of \$680,233 in 2005 and \$213,142 in 2004)	5,841,687	6,041,523
Interest receivable - long-term	196,372	168,436
Equity investments in Community Development Financial Institutions (CDFIs)	<u>7,711,384</u>	<u>7,316,207</u>
	<u>\$ 22,121,570</u>	<u>\$ 25,143,832</u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Current portion of notes payable (Note 6)	\$ 500,000	\$ 500,000
Accounts payable and accrued expenses	103,441	60,083
Due to fund advisor (Note 7)	<u>86,573</u>	<u>192,469</u>
Total current liabilities	<u>690,014</u>	<u>752,552</u>
Long-term debt - contractual principal	20,848,858	21,375,000
Discount for below-market rates	<u>(4,453,256)</u>	<u>(5,357,663)</u>
Long-term debt, net of discount (Note 6)	<u>16,395,602</u>	<u>16,017,337</u>
Accrued incentives on unrealized gains in equity investments in CDFIs	<u>215,794</u>	<u>413,868</u>
Net assets		
Unrestricted	(601,171)	(851,569)
Temporarily restricted	4,671,331	7,412,973
Permanently restricted	<u>750,000</u>	<u>1,398,671</u>
Total net assets	<u>4,820,160</u>	<u>7,960,075</u>
	<u>\$ 22,121,570</u>	<u>\$ 25,143,832</u>

See accompanying notes to financial statements.

NATIONAL COMMUNITY INVESTMENT FUND
STATEMENTS OF ACTIVITIES
Years ended December 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Revenues		
Interest and dividend income	\$ 722,199	\$ 817,362
Conference sponsorships and other	33,590	11,135
Grant income	64,171	64,057
Other revenue	-	2,063
Net assets released from restrictions	<u>2,940,799</u>	<u>1,862,236</u>
Total revenues	<u>3,760,759</u>	<u>2,756,853</u>
Expenses, primarily program-related		
Advisory staff fees and expenses (Note 7)	1,236,944	1,221,305
Trustee's fees	22,500	22,500
Travel	60,395	65,459
Professional services	258,215	112,677
Conference sponsorships and other program expenses	36,977	56,166
Interest - contractual	220,135	220,000
Interest - amortization of discount	904,407	1,422,038
Insurance	39,914	40,027
Grants	300,000	-
Provision for loan losses	467,091	-
Other expenses	<u>38,756</u>	<u>44,313</u>
Total expenses	<u>3,585,334</u>	<u>3,204,485</u>
Change in unrestricted net assets before gain (loss) on investments and securities	175,425	(447,632)
Gain (loss) on equity CDFI investments, net of lender and fund advisor incentives	120,293	(227,475)
Gain (loss) on securities	<u>(45,320)</u>	<u>(76,934)</u>
Change in unrestricted net assets	<u>250,398</u>	<u>(752,041)</u>
Temporarily restricted net assets		
Contribution income	175,000	3,368,556
Interest income	14,601	8,128
Net assets released from restrictions	<u>(2,931,243)</u>	<u>(1,862,236)</u>
Change in temporarily restricted net assets	<u>(2,741,642)</u>	<u>1,514,448</u>
Permanently restricted net assets		
Return of grant income	(648,000)	-
Net assets released from restrictions	(9,556)	-
Interest income	<u>8,885</u>	<u>9,480</u>
Change in permanently restricted net assets	<u>(648,671)</u>	<u>9,480</u>
Change in net assets	(3,139,915)	771,887
Net assets at beginning of year	<u>7,960,075</u>	<u>7,188,188</u>
Net assets at end of year	<u>\$ 4,820,160</u>	<u>\$ 7,960,075</u>

See accompanying notes to financial statements.

NATIONAL COMMUNITY INVESTMENT FUND
STATEMENTS OF CASH FLOWS
Years ended December 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Cash flows from operating activities		
Change in net assets	\$ (3,139,915)	\$ 771,887
Adjustments to reconcile change in net assets to cash from operating activities		
Loan loss reserve adjustment	467,091	(2,063)
Increase in below-market rate discount	-	(3,173,556)
Discount amortization on below market interest rate loans	904,407	1,422,038
Amortization of securities discounts, net of premiums	2,328	(793)
Net loss on securities	45,320	76,934
Net (loss) gain on equity investments in CDFIs	(120,293)	227,475
Return of permanently restricted grant funds	648,000	-
Changes in assets and liabilities		
Interest receivable	396	2,798
Accounts receivable	-	69,550
Prepaid expenses	61	(90)
Unconditional promises to give	1,495,000	70,000
Accounts payable and accrued expenses	43,358	3,665
Due to fund advisor	<u>(105,896)</u>	<u>42,548</u>
Net cash from operating activities	<u>239,857</u>	<u>(489,607)</u>
Cash flows from investing activities		
Loans to CDFIs	(267,255)	1,058,599
Equity investments in CDFIs	(499,100)	153,137
(Redemptions) purchases of certificates of deposit	248,137	(102,242)
Purchases of securities	-	(2,576,438)
Proceeds from paydowns on securities	723,249	528,467
Proceeds from sale of securities	-	809,789
Proceeds from maturities of securities	<u>-</u>	<u>1,800,000</u>
Net cash from investing activities	<u>205,031</u>	<u>1,671,312</u>
Cash flows from financing activities		
Principal paid on notes payable	(500,000)	(125,000)
Return of permanently restricted grant funds	<u>(648,000)</u>	<u>-</u>
Net cash from financing activities	<u>(1,148,000)</u>	<u>(125,000)</u>
Change in cash and cash equivalents	(703,112)	1,056,705
Cash and cash equivalents at beginning of year	<u>3,459,431</u>	<u>2,402,726</u>
Cash and cash equivalents at end of year	<u>\$ 2,756,319</u>	<u>\$ 3,459,431</u>
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	\$ 209,552	\$ 235,671

See accompanying notes to financial statements.

NATIONAL COMMUNITY INVESTMENT FUND
NOTES TO FINANCIAL STATEMENTS
December 31, 2005 and 2004

NOTE 1 - ORGANIZATION

The National Community Investment Fund (referred to as "NCIF" or "the Fund"), an independent trust, was founded in December 1995. NCIF's mission is to increase the number and capacity of domestic, depository CDFIs that are both effective agents of local community development in distressed markets and sound financial institutions.

NCIF was created through joint efforts between Bank of America and ShoreBank Corporation. Bank of America provided NCIF's initial capital in the form of a \$15 million loan. NCIF raised an additional \$1,250,000 in capital in 1997 in the form of grants for its Seed Fund from the Ford and the John D. and Catherine T. MacArthur Foundations. During 1998, NCIF received a \$4 million loan from MBNA America Bank, NA which merged with Bank of America effective January 1, 2006. During 2000, the Fund received a \$3 million loan from Washington Mutual Community Development, Inc. To expand its geographical territory and investment activity in CDFIs, NCIF is seeking additional capital from bank and other institutional investors. NCIF has retained ShoreBank Corporation to advise the Fund on market development, investment recommendations, and general administration.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting: The accompanying financial statements of NCIF have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Basis of Presentation: The Fund's net assets are classified into three classes - permanently restricted, temporarily restricted, and unrestricted - according to the existence or absence of donor-imposed restrictions. Unrestricted net assets are not subject to donor-imposed restrictions and principally include interest income, fees for service, and related expenses associated with the core activities of the Fund. Temporarily restricted net assets are subject to donor-imposed restrictions that may or will be met either by actions of the Fund or the passage of time. Permanently restricted net assets are subject to donor-imposed restrictions to be maintained permanently by the Fund; only the income generated from certain grants may be available for operations.

(Continued)

NATIONAL COMMUNITY INVESTMENT FUND
NOTES TO FINANCIAL STATEMENTS
December 31, 2005 and 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributions: Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a temporary restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. Temporarily restricted net assets relate to NCIF's program to expand investments in CDFIs.

Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the Trustees of NCIF to make estimates and assumptions that affect certain reported amounts and disclosures. The Fund's estimated allowance for loan losses is particularly sensitive to change in the near term. Accordingly, actual results could differ from these estimates.

Cash and Cash Equivalents: For the purpose of the statements of cash flows, NCIF considers all highly liquid investments with an initial maturity of three months or less when purchased to be cash equivalents.

Income Tax: NCIF is exempt from federal income taxes as a result of its status as a non-profit organization as described under Section 501(c)(4) of the Internal Revenue Code.

Securities: Securities consist of widely traded U.S. government obligations, U.S. government agency securities, mortgage backed securities, and corporate notes, and are carried at fair value. Changes in the fair value of securities owned at the end of the year are recorded as unrealized net gains (losses). The gains and losses on securities sold during the year are recorded as realized net gains (losses) for the year. Realized and unrealized gains or losses are combined and reflected in the statements of activities as gain (loss) on securities.

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NATIONAL COMMUNITY INVESTMENT FUND
NOTES TO FINANCIAL STATEMENTS
December 31, 2005 and 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loans: The Fund seeks to lend money to relatively high-risk, growing depository institutions that are generally under \$500 million in assets. The types of loans the Fund provides include working capital loans for expansion, acquisition of existing assets, or creation of affiliated development companies. With the exception of the Seed Fund, the minimum loan amount is \$250,000 and the maximum loan amount is \$2,000,000. Loan maturities are seven to twelve years and are secured, when possible, by the assets of the business being financed.

The Fund also operates a Seed Fund that will lend up to \$250,000 in phased performance based credits to banks in the process of organizing or restructuring as CDFIs. Seed Fund loans are disbursed as borrowers and credit unions reach performance milestones that serve as "go/no go" points for the venture.

Loans are stated at the principal amount outstanding, net of unearned discount and loan origination fees. The accrual of interest is discontinued whenever principal or interest has been in default ninety consecutive days or more, unless the loan is in process of collection as determined by the Trustees. Loan fees and direct loan origination costs are deferred and amortized over the term of the loan as a yield adjustment. However in 2005 and 2004, these fees were recognized in revenue since they were deemed immaterial.

Allowance for Loan Losses: An allowance for loan losses has been established to provide for those loans which may not be repaid in their entirety. The allowance is increased by provisions for loan losses charged to expense and decreased by charge-offs, net of recoveries. Although a loan is charged off by the Trustees when deemed uncollectible, collection efforts continue and future recoveries may occur.

The allowance is maintained by the Trustees at a level considered adequate to cover losses that are deemed possible based on past industry loss experience, general economic conditions, information about specific borrower situations including their financial position, and other factors and estimates which are subject to change over time. Estimating the risk of loss and amount of loss on any loan is necessarily subjective and ultimate losses may vary from current estimates. These estimates are reviewed periodically and, as adjustments become necessary, they are reported in earnings in the periods in which they become known. The Fund has experienced losses totaling \$250,000 in relation to these loans to date.

Loans considered to be impaired are reduced to the present value of expected future cash flows by allocating a portion of the allowance for loan losses to such loans. There were no impaired loans at December 31, 2005 and 2004.

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NATIONAL COMMUNITY INVESTMENT FUND
NOTES TO FINANCIAL STATEMENTS
December 31, 2005 and 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Equity Investments in CDFIs: The Fund also makes non-controlling equity investments in CDFIs. Most of these investments are not readily marketable and, accordingly, are recorded at historical cost, net of any reductions for permanent declines in value. However, for those few investments which have readily available market prices and trade actively on a public exchange, the carrying amount is market value, net of any incentives payable to the lenders and the fund advisor.

Reclassifications: Certain prior year amounts have been reclassified to conform to the current year presentation.

NOTE 3 - CONCENTRATION OF CREDIT RISK

NCIF maintains cash balances in excess of insurable limits at one financial institution. As of December 31, 2005 and 2004, NCIF's uninsured cash balances totaled \$2,614,632 and \$3,352,269, respectively.

NOTE 4 - SECURITIES

Securities are stated at fair value. Cost is adjusted for amortized discount or premium. Cost and fair values as of December 31, 2005 and 2004 are summarized as follows:

	----- <u>December 31, 2005</u> -----		----- <u>December 31, 2004</u> -----	
	<u>Amortized</u> <u>Cost</u>	<u>Fair</u> <u>Value</u>	<u>Amortized</u> <u>Cost</u>	<u>Fair</u> <u>Value</u>
Mortgage backed securities	\$ 1,022,497	\$ 1,009,268	\$ 1,744,116	\$ 1,710,048
U.S. government agencies	3,278,313	3,227,427	3,272,492	3,270,630
Corporate securities	507,050	485,677	516,829	512,591
Certificates of deposit	<u>719,275</u>	<u>719,275</u>	<u>967,412</u>	<u>967,412</u>
Total	<u>\$ 5,527,135</u>	<u>\$ 5,441,647</u>	<u>\$ 6,500,849</u>	<u>\$ 6,460,681</u>

(Continued)

NATIONAL COMMUNITY INVESTMENT FUND
NOTES TO FINANCIAL STATEMENTS
December 31, 2005 and 2004

NOTE 5 - ALLOWANCE FOR LOAN LOSSES

Changes in the allowance for loan losses are as follows:

	<u>2005</u>	<u>2004</u>
Balance at beginning of year	\$ 213,142	\$ 208,043
Recovered allowances previously charged off	-	7,162
Loan loss reserve adjustment	<u>467,091</u>	<u>(2,063)</u>
Balance at end of year	<u>\$ 680,233</u>	<u>\$ 213,142</u>

NOTE 6 - LONG-TERM DEBT

Long-term debt consisted of the following:

	<u>2005</u>	<u>2004</u>
1% note, payable to Bank of America, due January 21, 2012; quarterly principal payments of \$125,000 plus accrued interest, to the extent of NCIF's available cash flow. Interest for any period which exceeds available cash flow is deferred until the next interest period.	\$ 14,348,858	\$ 14,875,000
1% note, payable to MBNA America Bank, due January 21, 2007; payments of interest only on a quarterly basis, to the extent of NCIF's available cash flow. Interest for any period which exceeds available cash flow is deferred until the next interest period.	4,000,000	4,000,000
1% note, payable to Washington Mutual Community Development Inc., due May 1, 2010; payments of interest only on a quarterly basis, to the extent of NCIF's available cash flow. Interest for any period which exceeds available cash flow is deferred until the next interest period.	<u>3,000,000</u>	<u>3,000,000</u>
	21,348,858	21,875,000
Current portion	(500,000)	(500,000)
Discount for imputed interest on below-market interest loans; see (1) below.	<u>(4,453,256)</u>	<u>(5,357,663)</u>
Total long-term debt	<u>\$ 16,395,602</u>	<u>\$ 16,017,337</u>

(Continued)

NATIONAL COMMUNITY INVESTMENT FUND
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2005 and 2004

NOTE 6 - LONG-TERM DEBT (Continued)

(1) A discount on below-market interest loans is imputed using interest rates ranging from 6 to 8% and included in temporarily restricted contribution revenue in the year the loan is issued. The discount represents the cumulative amount of net revenue that has been recognized due to below-market interest loans. Each year, as the interest expense is recognized, the discounting amount is amortized to expense.

Future maturities of long-term debt are as follows:

2006	\$ 500,000
2007	4,500,000
2008	500,000
2009	500,000
2010	500,000
Thereafter	<u>14,848,858</u>
Total	<u>\$ 21,348,858</u>

NOTE 7 - TRANSACTIONS WITH FUND ADVISOR

Fees paid to fund advisor for services including advisory, investment management and consulting are as follows:

	<u>2005</u>	<u>2004</u>
ShoreBank Corporation	\$ 170,625	\$ 163,719
ShoreBank	10,645	9,666
Shorebank Advisory Services	<u>1,092,336</u>	<u>944,574</u>
	<u>\$ 1,273,606</u>	<u>\$ 1,117,959</u>

Amounts due to fund advisor were \$86,573 and \$192,469 at December 31, 2005 and 2004, respectively.

(Continued)

NATIONAL COMMUNITY INVESTMENT FUND
NOTES TO FINANCIAL STATEMENTS
December 31, 2005 and 2004

NOTE 8 - FUNCTIONAL EXPENSES

The statements of activities include the following functional expense categories:

	<u>2005</u>	<u>2004</u>
Program expenses	\$ 3,260,982	\$ 2,595,595
Fundraising	24,739	22,305
General and administrative expenses	<u>299,613</u>	<u>586,585</u>
	<u>\$ 3,585,334</u>	<u>\$ 3,204,485</u>

NOTE 9 - UNCONDITIONAL PROMISES TO GIVE

Unconditional promises to give were \$75,000 and \$1,570,000 at December 31, 2005 and 2004, respectively. All unconditional promises are expected to be received within one year of the statements of financial position dates and are, therefore, not discounted.

NOTE 10 - ACCRUED INCENTIVES ON CDFI INVESTMENTS AVAILABLE FOR SALE

The lenders and fund advisor participate in realized gains on sale of equity investments in CDFIs. During 2004, the Fund sold certain common shares, which resulted in a realized gain of \$131,039. The lenders received additional interest of \$38,342 from this gain, and the fund advisor received \$26,208 for its incentive.

As of December 31, 2005, there was an unrealized gain of \$736,246 on the Fund's equity investments in CDFIs. This unrealized gain includes the calculated gain from the sale of a CDFI stock investment that was effective on January 1, 2006, making the gain determinable at December 31, 2005. Since the unrealized gain has been recognized in the financial statements, the Fund accrued the total incentive of \$215,794 that would have to be paid to the lenders and fund advisor, had these investments been sold. The Fund's statements of activities reflect the net entries to arrive at the required incentive accrual.

(Continued)

NATIONAL COMMUNITY INVESTMENT FUND
NOTES TO FINANCIAL STATEMENTS
December 31, 2005 and 2004

NOTE 11 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	<u>2005</u>	<u>2004</u>
Designated for use in future periods:		
CDFI Fund financial assistance award	\$ -	\$ 1,315,000
Imputed interest on below-market interest rate debt	<u>4,453,256</u>	<u>5,357,663</u>
	<u>4,453,256</u>	<u>6,672,663</u>
Restricted by donors for specific program use:		
Retail financial services initiative (Involves 12 banks and credit unions in researching sustainable business models for insured depositories to provide asset building banking services to low income and unbanked individuals)	104,415	631,383
CDFI Fund technical assistance award (Funds to purchase technology, consulting services, training, and in some cases staff salary to enhance NCIF's capacity)	85,608	95,000
FDIC Partnership and Fannie Mae Foundation partnership (Facilitate quarterly series of forums on how insured depositories can leverage the workplace to provide financial services and education to low wage workers)	-	11,346
National Credit Union Foundation (Assist credit unions operating in low income communities to increase their small business lending and their ability to use the Federal New Markets Tax Credit to help them raise capital for such lending)	2,563	2,581
Heron Foundation (Project support for a comprehensive analysis of the impact of community development banking institutions in low-income communities)	25,000	-
Other	<u>489</u>	<u>-</u>
	<u>218,075</u>	<u>740,310</u>
	<u>\$ 4,671,331</u>	<u>\$ 7,412,973</u>

(Continued)

NATIONAL COMMUNITY INVESTMENT FUND
NOTES TO FINANCIAL STATEMENTS
December 31, 2005 and 2004

NOTE 11 - TEMPORARILY RESTRICTED NET ASSETS (Continued)

Temporarily restricted net assets were released from restrictions in 2005 and 2004 as follows:

	<u>2005</u>	<u>2004</u>
Imputed interest on below-market interest rate debt	\$ 904,407	\$ 1,422,038
Retail financial services initiative	541,079	262,625
FDIC Partnership and Fannie Mae Foundation partnership	11,346	130,154
National Credit Union Foundation	18	47,419
CDFI Fund Financial Assistance Award	1,315,553	-
CDFI Fund Technical Assistance Award	8,840	-
MacArthur New Markets Tax Credit Award	<u>150,000</u>	<u>-</u>
	<u>\$ 2,931,243</u>	<u>\$ 1,862,236</u>

NOTE 12 - RETURN OF GRANT INCOME

In 2005, NCIF returned \$648,000 to the MacArthur Foundation as NCIF was unable to use the funds for their restricted purpose.

NOTE 13 - INVESTMENTS IN LLC

NCIF is the sole member of NCIF Capital, LLC. NCIF Capital, LLC is the managing member and NCIF is the initial investor member of the following: NCIF New Markets Capital Fund I CDE, LLC, NCIF New Markets Capital Fund II CDE, LLC and NCIF New Markets Capital Fund III CDE, LLC. The primary purpose of these LLCs is to enter into new market tax credit transactions. To date there has been no activity.