NATIONAL COMMUNITY INVESTMENT FUND
Chicago, Illinois

FINANCIAL STATEMENTS
December 31, 2008 and 2007

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Crowe Horwath

Crowe Horwath LLP
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, 2008 and 2007, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the management 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, 2008 and 2007, 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 Horwath LLP
Crowe Horwath LLP

Chicago, Illinois
April 13, 2009

NATIONAL COMMUNITY INVESTMENT FUND
STATEMENTS OF FINANCIAL POSITION
December 31, 2008 and 2007

	2008	2007
ASSETS		
Current assets		
Cash and cash equivalents	$ 1,194,094	$ 3,526,104
Interest receivable	88,882	72,604
Accounts and dividends receivable	103,310	94,511
Prepaid expenses	26,510	21,356
Total current assets	1,412,796	3,714,575
Investments (Note 4)	6,112,549	2,987,295
Loans receivable (net of allowance for loan losses of $114,575 in 2008 and $1,152,766 in 2007) (Note 6)	2,244,364	3,977,577
Equity investments in Community Development Financial Institutions (CDFIs)	10,635,636	11,099,122
Investment in LLC (Note 12)	3,850	3,826
Deferred loan fees, net of accumulated amortization	26,250	30,000
	$ 20,435,445	$ 21,812,395
LIABILITIES AND NET ASSETS		
Current liabilities		
Current portion of notes payable (Note 7)	$ 640,000	$ 640,000
Accounts payable and accrued expenses	73,567	114,841
Due to Fund Advisor (Note 8)	547	21,889
Total current liabilities	714,114	776,730
Long-term debt – contractual principal	17,979,515	18,619,515
Discount for below-market rates	(4,607,507)	(5,390,569)
Long-term debt, net of discount (Note 7)	13,372,008	13,228,946
Accrued incentives on unrealized gains in equity investments in CDFIs (Note 10)	-	76,415
Net assets		
Unrestricted	1,705,559	1,571,686
Temporarily restricted (Note 11)	4,643,764	5,486,774
Permanently restricted (Note 2)	-	671,844
Total net assets	6,349,323	7,730,304
	$ 20,435,445	$ 21,812,395

See accompanying notes to financial statements.

NATIONAL COMMUNITY INVESTMENT FUND
STATEMENTS OF ACTIVITIES
Years ended December 31, 2008 and 2007

	2008	2007
Revenues		
Interest and dividend income	$ 765,250	$ 790,281
New market tax credit fee income (Note 12)	244,705	3,452,302
Conference revenue and sponsorships	81,872	83,802
Other earned revenue	27,156	133,159
Net assets released from restrictions		
grants (Note 11)	61,603	110,384
Total revenues	1,180,586	4,569,928
Expenses		
Fund Advisor staff fees and expenses	840,000	840,000
Trustee's fees	30,000	30,000
Travel	13,534	18,497
Professional services	97,403	114,035
Technology expenses	2,271	6,552
Conference expenses	19,939	35,268
Contribution expense	-	50,000
Interest expense– contractual	190,625	203,538
Insurance	32,212	34,078
Bad debt expense – interest receivable	-	237,253
Provision for (recovery of) loan losses	(213,040)	159,574
Program expenses	-	15,000
Membership dues and fees	24,957	16,800
Other expenses	6,494	8,059
Total expenses	1,044,395	1,768,654
Change in unrestricted net assets before interest amortization, gain (loss) on investments and release of permanently restricted net assets	136,191	2,801,274
Net assets released from restrictions:		
Interest – amortization of discount	783,062	677,939
Expenses:		
Interest – amortization of discount	(783,062)	(677,939)
Change in unrestricted net assets before gain (loss) on investments and release of permanently restricted net assets	136,191	2,801,274

See accompanying notes to financial statements.

NATIONAL COMMUNITY INVESTMENT FUND
STATEMENTS OF ACTIVITIES
Years ended December 31, 2008 and 2007

	2008	2007
Change in unrestricted net assets before gain (loss) on investments and release of permanently restricted net assets	136,191	2,801,274
Loss on equity CDFI investments, net of lender and Fund Advisor incentives	$ (675,071)	$ (217,522)
Gain on investments	95,465	42,255
Release of permanently restricted seed fund net asset balance (Note 2)	577,288	-
Change in unrestricted net assets	133,873	2,626,007
Temporarily restricted net assets		
Grant income	-	2,322,899
Interest income	1,655	3,075
Net assets released from restriction:		
Interest – amortization of discount	(783,062)	(677,939)
Grants and other	(61,603)	(110,384)
Change in temporarily restricted net assets	(843,010)	1,537,651
Permanently restricted net assets		
(Provision for) recovery of loan losses on seed fund loans	67,444	(78,156)
Loss on equity CDFI Investment	(162,000)	-
Release of seed fund net asset balance (Note 2)	(577,288)	-
Change in permanently restricted net assets	(671,844)	(78,156)
Total change in net assets	(1,380,981)	4,085,502
Net assets at beginning of year	7,730,304	3,644,802
Net assets at end of year	$ 6,349,323	$ 7,730,304

See accompanying notes to financial statements.

NATIONAL COMMUNITY INVESTMENT FUND
STATEMENTS OF CASH FLOWS
Years ended December 31, 2008 and 2007

		2008		2007
Cash flows from operating activities				
Change in net assets	$	(1,380,981)	$	4,085,502
Adjustments to reconcile change in net assets to cash from operating activities				
(Recovery of) provision for loan losses		(280,484)		237,730
Bad debt expense – interest receivable		-		237,253
Contribution revenue recognized from below market interest rate loan		-		(2,292,899)
Discount amortization on below market interest rate loans		783,062		677,939
Amortization (accretion) of investment premiums (discounts)		12,087		(46,565)
Net gain on investments		(95,465)		(42,255)
Write down of equity investment in CDFI		220,126		118,805
Net loss on equity investments in CDFIs		616,945		98,717
Changes in assets and liabilities				
Interest receivable		(16,278)		67,598
Accounts and dividends receivable		(8,799)		76,284
Prepaid expenses		(5,155)		(5,257)
Unconditional promises to give		-		75,000
Deferred loan fees		3,750		(30,000)
Accounts payable and accrued expenses		(41,274)		(72,532)
Due to Fund Advisor		(21,342)		16,889
Net cash from operating activities		(213,808)		3,202,209
Cash flows from investing activities				
Repayments from CDFIs		2,013,697		633,346
Equity investments in CDFIs		(450,000)		(2,440,000)
Investment in LLC		(23)		(3,826)
(Purchases) redemptions of certificates of deposit		(308,011)		329,534
Purchases of investments		(7,342,365)		(5,088,287)
Proceeds from paydowns on investments		88,500		1,342,429
Proceeds from maturities of investments		4,520,000		5,850,000
Net cash from investing investments		(1,478,202)		623,196
Cash flows from financing activities				
Principal paid on notes payable		(640,000)		(1,539,315)
Net cash from financing activities		(640,000)		(1,539,315)
Change in cash and cash equivalents		(2,332,010)		2,286,090
Cash and cash equivalents at beginning of year		3,526,104		1,240,014
Cash and cash equivalents at end of year	$	1,194,094	$	3,526,104
Supplemental disclosure of cash flow information				
Cash paid during the year for interest	$	190,625	$	213,749
Non-cash transactions				
Refinancing of long-term debt	$	-	$	16,419,515
Write-off of uncollectible loans to CDFIs	$	757,707	$	-

See accompanying notes to financial statements.

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 EQ_2 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 "Fund Advisor" 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. During 2007 and 2008 loan loss reserves related to the permanently restricted seed fund loans were funded (in 2007) and then reversed (in 2008) as the calculated reserve decreased. In late 2008, the donor of the seed fund money agreed that the grant could be released to unrestricted net assets in 2008.

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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 management 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.

Investments: Investments 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 investments owned at the end of the year are recorded as unrealized net gains (losses). The gains and losses on investments 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 investments. Certificates of deposit are stated at cost which approximates fair value.

Loans Receivable: The Fund seeks to lend money to relatively high-risk, growing depository institutions that demonstrate a high social impact. The types of loans the Fund provides include working capital loans for expansion, acquisition of existing assets, or creation of affiliated development companies. Loan maturities are seven to twelve years and are secured, when possible, by the assets of the business being financed.

Loans receivable 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 Management. At December 31, 2008 and 2007, there were no non accrual loans, exclusive of impaired loans. Loan fees and direct loan origination costs are deferred and amortized over the term of the loan as a yield adjustment. However, in 2008 and 2007, these fees were recognized in revenue since they were deemed immaterial.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 Management when deemed uncollectible, collection efforts continue and future recoveries may occur.

The allowance is maintained by the Management 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 charge-offs totaling $ 757,707 in the current year and $1,244,960 since inception in relation to these loans.

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. Impaired loans, which were fully reserved at December 31, 2008 and 2007, totaled $0 and $820,000 respectively.

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 fair value, net of any incentives payable to the lenders and the fund advisor.

Adoption of New Accounting Standard: In 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements* (SFAS No. 157). SFAS No. 157 defines fair value, provides enhanced guidance for using fair value to measure assets and liabilities under current U.S. GAAP standards, and expands the disclosure of the methods used and the effect of fair value measurements on earnings. This Standard is effective for financial statements issued for fiscal years beginning after November 15, 2007. Accordingly, the Fund adopted applicable portions of this standard for the year ended December 31, 2008.

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, 2008 and 2007, NCIF's uninsured cash balances totaled $768,851 and $1,560,602, respectively. Management believes it is not exposed to any significant credit risk on these balances.

NOTE 4 - INVESTMENTS

Investments are stated at fair value. Cost is adjusted for amortized discount or premium. Cost and fair values as of December 31, 2008 and 2007 are summarized as follows:

	December 31, 2008		December 31, 2007	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Mortgage backed securities	$ 1,429,629	$ 1,458,316	$ 525,998	$ 511,499
U.S. government agencies	2,841,937	2,919,134	2,064,759	2,073,248
Corporate securities	1,035,618	1,024,540	-	-
Certificates of deposit	710,559	710,559	402,548	402,548
Total	$ 6,017,743	$ 6,112,549	$ 2,993,305	$ 2,987,295

NOTE 5 – FAIR VALUE MEASUREMENTS

SFAS No. 157 defines fair value as the price that would be received for an asset or paid to transfer a liability (an exit price) in NCIF's principal or most advantageous market in an orderly transaction between market participants on the measurement date.

SFAS No. 157 establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

NOTE 5 – FAIR VALUE MEASUREMENTS (Continued)

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

In many cases, a valuation technique used to measure fair value includes inputs from multiple levels of the fair value hierarchy. The lowest level of significant input determines the placement of the entire fair value measurement in the hierarchy.

The fair values of debt and equity investments that are readily marketable are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1 inputs) or by quoted market prices of similar securities with similar due dates or matrix pricing, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2 inputs).

Assets and Liabilities Measured on a Recurring Basis:
Assets and liabilities measured at fair value on a recurring basis are summarized below:

	Fair Value Measurements At December 31, 2008 Using		
Assets:	Level 1	Level 2	Level 3
Investments	$ 710,559	$5,401,990	-
Equity investments in CDFIs	405,000	-	-
Liabilities:	-	-	-

Assets Measured at Fair Value on a Nonrecurring Basis:

For each major category of assets and liabilities measured at fair value on a nonrecurring basis (impaired assets) during the period, SFAS 157 requires disclosures about the fair value measurements (paragraph 33(a) and (b)). The information is presented as follows:

	Fair Value Measurements Year Ended December 31, 2008			
	Level 1	Level 2	Level 3 (net of loss)	Total Gains (Losses)
Equity investments in CDFIs	-	-	$ 731,069	$ (220,126)

NOTE 6 - LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES

	2008	2007
Loans receivable		
Seed fund loans receivable	$ -	$ 108,636
Other loans receivable	2,358,939	5,021,707
Total loans receivable	$ 2,358,939	$ 5,130,343

Changes in the allowance for loan losses are as follows:

	2008	2007
Balance at beginning of year	$ 1,152,766	$ 915,036
Write-offs	(757,707)	-
Provision for (recovery of) loan losses	(213,040)	159,574
Provision for (recovery of) seed fund loan losses	(67,444)	78,156
Balance at end of year	$ 114,575	$ 1,152,766
Loans receivable, net of allowance for loan losses	$ 2,244,364	$ 3,977,577

NOTE 7 - LONG-TERM DEBT

Long-term debt consisted of the following:

	2008	2007
1% note payable to Bank of America Community Development Corporation, due December 14, 2015, quarterly principal payments of $160,000 plus accrued interest.	$ 15,619,515	$ 16,259,515
EQ_2 note, payable to JPMorgan Chase Bank (formerly Washington Mutual Community Development Inc.), due May 1, 2010 with annual extensions through and including May 1, 2014; 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.	3,000,000	3,000,000
	18,619,515	19,259,515

NOTE 7 - LONG-TERM DEBT (Continued)

Current portion	(640,000)	(640,000)
Discount for imputed interest on below-market interest loans; see (1) below.	(4,607,507)	(5,390,569)
Total long-term debt	$ 13,372,008	$ 13,228,946

(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 discounted amount is amortized to expense.

Future maturities of long-term debt are as follows:

2009	$ 640,000
2010	640,000
2011	640,000
2012	640,000
2013	640,000
Thereafter	15,419,515
Total	$ 18,619,515

In December 2007, NCIF refinanced its existing debt with Bank of America into a single note totaling $16,419,515 due December 14, 2015.

NOTE 8 - TRANSACTIONS WITH FUND ADVISOR

ShoreBank Corporation and its subsidiaries and affiliates function as the Fund Advisor for NCIF. Fees paid to the Fund Advisor and its affiliates for services including advisory, investment management and consulting totaled $864,984 in 2008 and $874,168 in 2007. These amounts include fees due but unpaid at the previous year end.

Amounts due to the Fund Advisor and its affiliates were $547 and $21,889 at December 31, 2008 and 2007, respectively.

NOTE 9 - FUNCTIONAL EXPENSES

The statements of activities include the following functional expense categories:

	2008	2007
Fund advisory and investing	$ 853,568	$ 1,508,158
Grant related special projects	81,542	141,330
Fundraising	16,800	16,800
General and administrative expenses	92,485	102,366
	$ 1,044,395	$ 1,768,654

NOTE 10 - ACCRUED INCENTIVES ON CDFI INVESTMENTS

The lenders and Fund Advisor participate in realized gains on sale of equity investments in CDFIs. As of December 31, 2008, there was an unrealized loss of $374,830 on the Fund's equity investments in CDFIs. Accordingly, the accrued incentive of $76,415 from December 31, 2007 has been reversed and partially offset the current year loss on the write-down.

NOTE 11 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for use of future periods as follows:

	2008	2007
Imputed interest on below-market interest rate debt	$ 4,607,507	$ 5,390,569
Restricted by donors for specific program use:		
Retail financial services initiative	36,257	59,852
CDFI Fund Technical Assistance Award	-	19,064
Heron Foundation	-	17,289
	36,257	96,205
	$ 4,643,764	$ 5,486,774

NOTE 11 - TEMPORARILY RESTRICTED NET ASSETS (Continued)

Temporarily restricted net assets were released from restrictions in 2008 and 2007 as follows:

	2008	2007
Imputed interest on below-market interest rate debt	$ 783,062	$ 677,939
Retail financial services initiative	$ 25,000	$ 76,244
CDFI Fund Technical Assistance Award	19,314	21,411
Heron Foundation	17,289	12,729
	$ 61,603	$ 110,384

NOTE 12 – NEW MARKET TAX CREDIT ("NMTC") ACTIVITIES

In May 2007, NCIF closed the $38 million investment under its NMTC allocation in partnership with a minority-owned CDFI bank, City National Bank of New Jersey. 95% of the Qualified Equity Investments ("QEI") raised by the sub-allocatee, NCIF New Markets Capital Fund I CDE, LLC, was used to make a Qualified Low Income Community Investment into NJCC CDE I that partially financed acquisition and purchase of a new facility of Rutgers Business School in a low-income community. In December 2006, NCIF also invested $800,000 in City National's holding company in anticipation of the close of this transaction. Impact of the transaction is significant due to the location of Rutgers Business School (in a census tract that is an Economic Development Hot Zone with a poverty rate of 49.6%, median income that is 59.8% of area median and an unemployment rate of 45.2%) and the investment in City National.

During 2008, NCIF received another NMTC allocation of $30 million from the CDFI Fund that will be used to create 3-Way Partnerships between large bank investors, CDFI banks and NCIF to enable CDFI banks to access the program.