

CLEARINGHOUSE CRA INVESTMENT FUND, LLC
FINANCIAL STATEMENTS
For the year ended December 31, 2016
with
Report of Independent Auditors

Novogradac & Company LLP
Certified Public Accountants



Report of Independent Auditors

To the Members of Clearinghouse CRA Investment Fund, LLC:

Report on the Financial Statements

We have audited the accompanying financial statements of Clearinghouse CRA Investment Fund, LLC, which comprise the balance sheet as of December 31, 2016, and the related statements of operations, changes in members' equity and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Clearinghouse CRA Investment Fund, LLC as of December 31, 2016, and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Novogrodac & Company LLP

Long Beach, California
March 21, 2017

CLEARINGHOUSE CRA INVESTMENT FUND, LLC

BALANCE SHEET

December 31, 2016

ASSETS

Cash and cash equivalents	\$	329,730
Accrued interest receivable		45,453
Restricted cash		197,817
Loans receivable, net		<u>11,241,806</u>
Total assets	\$	<u><u>11,814,806</u></u>

LIABILITIES AND MEMBERS' EQUITY

Liabilities		
Due to CDFI		
Management fee payable	\$	40,744
Other payables		<u>38,780</u>
Total liabilities		79,524
Members' equity		<u>11,735,282</u>
Total liabilities and members' equity	\$	<u><u>11,814,806</u></u>

see accompanying notes

CLEARINGHOUSE CRA INVESTMENT FUND, LLC

STATEMENT OF OPERATIONS

For the year ended December 31, 2016

INTEREST INCOME

Interest income - loans receivable \$ 921,902

NON-INTEREST INCOME

Loan processing income 3,482

EXPENSES

Management fees 173,074

Income tax expense 6,800

Total expenses 179,874

Net income \$ 745,510

see accompanying notes

CLEARINGHOUSE CRA INVESTMENT FUND, LLC**STATEMENT OF CHANGES IN MEMBERS' EQUITY**

For the year ended December 31, 2016

	<u>Managing Member</u>	<u>Investor Members</u>	<u>Total Members' Equity</u>
Balance, January 01, 2016	\$ -	\$ 14,034,681	\$ 14,034,681
Net income	-	745,510	745,510
Priority interest distributions	-	(783,191)	(783,191)
Equity distributions	-	(2,261,718)	(2,261,718)
Balance, December 31, 2016	<u>\$ -</u>	<u>\$ 11,735,282</u>	<u>\$ 11,735,282</u>

see accompanying notes

CLEARINGHOUSE CRA INVESTMENT FUND, LLC

STATEMENT OF CASH FLOWS

For the year ended December 31, 2016

Cash flows from operating activities:	
Net income	\$ 745,510
Adjustments to reconcile net income to net cash provided by operating activities:	
Changes in operating assets and liabilities:	
Decrease in accrued interest receivable	9,206
Decrease in due to CDFI	(16,660)
Net cash provided by operating activities	<u>738,056</u>
Cash flows from investing activities:	
Decrease in loans receivable, net	<u>2,249,702</u>
Net cash provided by investing activities	<u>2,249,702</u>
Cash flows from financing activities:	
Priority interest distributions	(783,191)
Equity distributions	<u>(2,261,718)</u>
Net cash used in financing activities	<u>(3,044,909)</u>
Net decrease in cash and cash equivalents	(57,151)
Cash and cash equivalents at beginning of year	<u>386,881</u>
Cash and cash equivalents at end of year	<u>\$ 329,730</u>

see accompanying notes

CLEARINGHOUSE CRA INVESTMENT FUND, LLC
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

1. Organization

Clearinghouse CRA Investment Fund, LLC (“CRA Fund”) was formed to enable qualified investments to be used to finance community development projects throughout California. CRA Fund was initially created in April 2008 and subsequently amended as investors were added. CRA Fund entered into an Amended and Restated Operating Agreement in November 2011. Pursuant to the Second Amended and Restated Operating Agreement of CRA Fund (the “CRA Operating Agreement”), the managing member of CRA Fund is Clearinghouse Community Development Financial Institution (“CDFI”). The investor members of CRA Fund are disclosed in Note 6 (the “CRA Investor Members”).

Cash distributions, capital transactions, profits and losses are generally allocated among the members in accordance with their ownership interests. Profit and loss of CRA Fund shall be allocated to and among the members’ capital accounts in a manner that as closely as possible gives economic effect to the distributions made, or deemed made. Losses allocated shall not exceed the maximum losses that can be so allocated without causing any adjusted deficit at the end of the fiscal year.

2. Summary of significant accounting policies and nature of operations

Basis of accounting

CRA Fund prepares its financial statements on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Cash and cash equivalents

Cash and cash equivalents include all cash balances on deposit with financial institutions and highly liquid investments with a maturity of three months or less at the date of acquisition.

Restricted cash is not considered cash and cash equivalents, and includes cash held for loan loss reserves.

Concentration of credit risk

CRA Fund maintains cash in bank deposit accounts that, at times, may exceed federally insured limits. CRA Fund has not experienced any losses in such accounts. CRA Fund believes it is not exposed to any significant credit risk on cash.

Economic and geographic concentrations

CRA Fund lends in the California market. Future operations could be affected by changes in economic or other conditions in that market.

Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amount reported in the financial statements and accompanying notes. Actual results could differ from those estimates. A material estimate that is partially susceptible to significant change in the near term relates to the allowance for loan losses provision.

CLEARINGHOUSE CRA INVESTMENT FUND, LLC
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

2. Summary of significant accounting policies and nature of operations (continued)

Income taxes

Income taxes on the CRA Fund's income are levied on the members at the member level. Accordingly, all profits and losses of CRA Fund are recognized by each member on its respective tax return. The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires CRA Fund to report information regarding its exposure to various tax positions taken by CRA Fund. Management has determined whether any tax positions have met the recognition threshold and has measured CRA Fund's exposure to those tax positions. Management believes that CRA Fund has adequately addressed all relevant tax positions and that there are no unrecorded tax liabilities. Federal and state tax authorities generally have the right to examine and audit the previous three years of tax returns filed. Any interest or penalties assessed to CRA Fund are recorded in operating expenses. No interest or penalties from federal or state tax authorities were recorded in the accompanying financial statements.

Loans receivable and allowance for loan losses

Loans receivable are stated at the amount of unpaid principal, less loan loss reserves.

CRA Fund evaluates each loan individually for impairment. A loan is impaired when it is probable that CRA Fund will be unable to collect all contractual principal and interest payments due in accordance with the terms of the loan agreement. Impaired loans are measured based on the present value of expected future cash flows discounted at the loan's effective interest rate or, as a practical expedient, at the loan's observable market price or the fair value of the collateral if the loan is collateral dependent. The amount of impairment, if any, is included in the allowance for loan losses as specific reserves. When management determines an amount to be uncollectible, that amount is written off. As of December 31, 2016, CRA Fund determined that there were no impaired loans. There were no delinquencies in CRA Fund for the year ended December 31, 2016. CRA Fund has not experienced any write-offs since inception.

Revenue recognition

CRA Fund recognizes revenue from interest income on the loans receivable. Interest on the notes is based on the principal balance outstanding and is recognized when earned in accordance with the contractual terms of the loan agreements and promissory notes.

Interest on loans is calculated using the simple-interest method on principal amounts outstanding. The accrual of interest on impaired loans is discontinued when, in management's opinion, the borrower may be unable to make payments as they become due. When the accrual of interest is discontinued, all unpaid accrued interest is reversed. Interest income is subsequently recognized only to the extent cash payments are received and the principal balance is believed to be collectible.

Subsequent events

Subsequent events have been evaluated through March 21, 2017, which is the date the financial statements were available to be issued, and there are no subsequent events requiring disclosure.

CLEARINGHOUSE CRA INVESTMENT FUND, LLC
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

3. Restricted cash and loan loss reserves

Restricted cash includes a reserve account established by CDFI in accordance with the Operating Agreement. CDFI is required to deposit an amount equal to .50% of the unpaid principal balance purchased and is to permit distributions solely to replace amounts lost as a result of loan write-offs. All remaining cash in the loan loss reserve will be distributed to CDFI upon dissolution of the fund. As of December 31, 2016, the reserve account balance was \$197,817.

4. Loans receivable

CRA Fund’s loan portfolio is composed of loans that are primarily secured by real estate and commercial properties. This collateral is concentrated primarily within Los Angeles and Orange Counties, but includes collateral located in various counties throughout California. As of December 31, 2016, real estate-secured loans accounted for approximately 100% of total loans. Substantially all of these loans are secured by first-trust deeds with an initial loan-to-value ratio of generally not greater than 80%.

CRA Fund evaluates each borrower’s creditworthiness on a case-by-case basis. Collateral held generally consists of first-trust deeds on real estate and income-producing commercial properties.

CRA Fund’s loan portfolio consisted of the following at December 31, 2016:

	<u>2016</u>
Loans receivable	\$ 11,439,623
Less: loan loss reserve	<u>(197,817)</u>
Loans receivable, net	<u>\$ 11,241,806</u>

The approximate yield for 2016 to investors for CRA Fund was 6.00%.

5. Transactions with related parties

Management fees

Pursuant to the Operating Agreements, CRA Fund is to pay an annual management fee to CDFI as the managing member (the “Management Fee”). The Management Fee consists of two separate components paid on a quarterly basis. The first component is a loan servicing fee, which accrues quarterly at a rate of .125% of the outstanding principal loan balances. The second component is a compliance fee, which accrues quarterly at a rate of .25% of the outstanding principal loan balance for CRA Fund. For the year ended December 31, 2016, CDFI earned a Management Fee of \$173,074. As of December 31, 2016, \$40,744 remained payable.

Other payables

As the managing member, CDFI paid expenditures during the year on behalf of CRA Fund. As of December 31, 2016, CRA Fund owed CDFI \$38,780 in reimbursements.

6. Capital structure

Pursuant to the CRA Operating Agreement, CRA Fund has the following capital structure:

CLEARINGHOUSE CRA INVESTMENT FUND, LLC
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

6. Capital structure (continued)

	<u>2016</u>	
CRA Fund Investor Members	CRA Fund Commitment Amount	CRA Fund Members' Equity
First Bank	\$ 10,000,000	\$ 3,111,338
Wells Fargo	10,000,000	3,111,338
PE Investments VII2	5,000,000	1,213,170
HSBC	5,000,000	1,171,908
Pacific Western	10,000,000	3,111,338
Total CRA Fund	\$ 40,000,000	11,719,092
Cumulative residual income		16,190
CRA Fund equity		\$ 11,735,282

From April 2008 to May 2010, CRA Fund secured commitments of \$40,000,000 from the CRA Investor Members. From those commitments, CRA Investor Members made capital contributions of \$37,665,769 on or before August 2010. At this time, additional capital calls were ceased. As of December 31, 2016, CRA Investor Members have received capital distributions of \$26,123,064 and priority return distributions of \$10,831,812. As of December 31, 2016, CRA Fund has outstanding net loans receivable of \$11,241,806.