Nonprofit Finance Fund and Affiliates

Consolidated Financial Statements and
Uniform Guidance Schedules
Together With Independent Auditors' Reports

December 31, 2018 and 2017

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Independent Auditors' Report

The Board of Directors
Nonprofit Finance Fund and Affiliates

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Nonprofit Finance Fund and Affiliates (the "Fund"), which comprise the consolidated statements of financial position as of December 31, 2018 and 2017, and the related consolidated statements of activities and cash flows for the years then ended, and the consolidated statement of functional expenses for the year ended December 31, 2018, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 consolidated 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 consolidated financial statements based on our audits. We conducted our audits 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the 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 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 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, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Nonprofit Finance Fund and Affiliates as of December 31, 2018 and 2017, and the consolidated changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Change in Accounting Principle

As discussed in Note 2 to the financial statements, during the year ended December 31, 2018 the Fund adopted new accounting guidance resulting in a change in the manner in which it presents net assets and reports certain aspects of its consolidated financial statements. Our opinion is not modified with respect to this matter.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating schedules of financial position and activities on pages 22 and 23 are presented for purposes of additional analysis and are not a required part of the 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the 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 consolidated financial statements or to the 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 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 April 29, 2019, on our consideration of Nonprofit Finance Fund 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 the Fund's 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 Nonprofit Finance Fund and Affiliates' internal control over financial reporting and compliance.

PKF O'Connor Davies, LLP

April 29, 2019

Nonprofit Finance Fund and Affiliates

Consolidated Statements of Financial Position

	December 31 2018	December 31 2017
ASSETS		
Cash and cash equivalents	$ 12,703,647	$ 9,859,425
Cash held as agent	-	727,040
Investments (Note 5)	1,163,068	597,877
Accounts receivables and other assets	3,827,299	4,851,747
Grants receivable (Note 6)	3,238,612	4,496,185
Loans receivable (Note 7)	137,101,847	114,687,981
Allowance for loan losses (Note 7)	(3,957,142)	(7,467,001)
Loans Receivable, net	133,144,705	107,220,980
Property and equipment, net (Note 8)	2,486,362	2,843,023
	$ 156,563,693	$ 130,596,277
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and other liabilities (Note 12)	$ 4,172,906	$ 3,987,216
Program specific loan payable (Note 9)	922,750	922,750
Cash held as agent	-	727,040
Loans payable (Note 9)	105,500,000	82,350,000
Total Liabilities	110,595,656	87,987,006
Net Assets		
Without Donor Restrictions (Note 14)		
Undesignated	24,811,723	22,686,422
Board designated loan loss reserve (Note 7)	3,216,390	-
Total Without Donor Restrictions	28,028,113	22,686,422
With Donor Restrictions (Notes 10 and 14)		
Program fund	8,172,524	6,183,526
Grant fund	513,625	3,624,543
Loan fund capital	9,253,775	9,240,435
BFF fund	-	874,345
Total With Donor Restrictions	17,939,924	19,922,849
Total Net Assets	45,968,037	42,609,271
	$ 156,563,693	$ 130,596,277

See notes to consolidated financial statements

Nonprofit Finance Fund and Affiliates

Consolidated Statements of Activities

	Year Ended December 31, 2018			Year Ended December 31, 2017		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE						
Operating						
Grants (Note 2)	$ 137,397	$ 9,027,208	$ 9,164,605	$ 39,985	$ 3,189,664	$ 3,229,649
Investment income	13,636	32	13,668	5,305	104	5,409
Program fees (Note 2)	2,475,347	-	2,475,347	2,930,409	-	2,930,409
Donated services and other income (Note 2)	146,677	-	146,677	268,909	-	268,909
Net assets released from restrictions (Note 10)	7,038,210	(7,038,210)	-	7,916,436	(7,916,436)	-
Total Operating	9,811,267	1,989,030	11,800,297	11,161,044	(4,726,668)	6,434,376
Lending and Financing						
Loan and financing fees (Note 2)	4,453,322	-	4,453,322	3,627,904	-	3,627,904
Interest income, net of interest expense of $2,492,539 and $1,212,879	4,386,379	-	4,386,379	4,078,556	-	4,078,556
Total Lending and Financing	8,839,701	-	8,839,701	7,706,460	-	7,706,460
Total Revenue	18,650,968	1,989,030	20,639,998	18,867,504	(4,726,668)	14,140,836
EXPENSES						
Operating						
Salaries	9,859,156	-	9,859,156	9,490,910	-	9,490,910
Employee benefits and payroll taxes	2,314,044	-	2,314,044	2,175,862	-	2,175,862
Total Salaries and Related Expenses	12,173,200	-	12,173,200	11,666,772	-	11,666,772
Program consultants	345,145	-	345,145	896,036	-	896,036
Professional support	741,731	-	741,731	638,669	-	638,669
Occupancy	1,313,967	-	1,313,967	1,278,028	-	1,278,028
Travel, information technology and other	1,165,985	-	1,165,985	1,376,901	-	1,376,901
Depreciation and amortization	344,230	-	344,230	317,325	-	317,325
Total Operating Expenses before Lending and Financing	16,084,258	-	16,084,258	16,173,731	-	16,173,731
Lending and Financing						
Provision for loan losses (Note 7)	933,576	-	933,576	2,151,267	-	2,151,267
Total Operating Expenses before Allowance Adjustment	17,017,834	-	17,017,834	18,324,998	-	18,324,998
Operating Surplus (Deficit) before Allowance Adjustment	1,633,134	1,989,030	3,622,164	542,506	(4,726,668)	(4,184,162)
Adjustment in allowance for loan losses (Note 7)	3,870,525	-	3,870,525	-	-	-
Excess (Deficiency) of Revenue over Expenses before Other Capital Access and Related Activity	5,503,659	1,989,030	7,492,689	542,506	(4,726,668)	(4,184,162)
OTHER CAPITAL ACCESS AND RELATED ACTIVITY (Note 10)						
Contribution for Loan Fund	-	13,340	13,340	-	100,000	100,000
Contribution for Grant Fund	-	267,103	267,103	-	2,262,500	2,262,500
Net assets released from restrictions	4,252,398	(4,252,398)	-	3,956,054	(3,956,054)	-
Grants made	(3,779,322)	-	(3,779,322)	(3,833,218)	-	(3,833,218)
Investment losses, non-operating	(162,080)	-	(162,080)	-	-	-
BFF contract disbursements	(472,964)	-	(472,964)	(122,836)	-	(122,836)
Change in Net Assets	5,341,691	(1,982,925)	3,358,766	542,506	(6,320,222)	(5,777,716)
NET ASSETS						
Beginning of year	22,686,422	19,922,849	42,609,271	22,143,916	26,243,071	48,386,987
End of year	$ 28,028,113	$ 17,939,924	$ 45,968,037	$ 22,686,422	$ 19,922,849	$ 42,609,271

See notes to consolidated financial statements

Nonprofit Finance Fund and Affiliates

Consolidated Statement of Functional Expenses
Year Ended December 31, 2018

	Program Activities				Support Services		
	Advice and Training	Access to Capital	Knowledge Sharing	Total Program Activities	Management and General	Fundraising	Total 2018
Salaries, payroll taxes and benefits	$ 4,173,785	$ 3,183,476	$ 800,247	$ 8,157,508	$ 2,885,421	$ 1,130,271	$ 12,173,200
Professional services	229,245	310,463	324,016	863,724	197,250	25,902	1,086,876
Occupancy	462,392	327,522	99,786	889,700	302,873	121,394	1,313,967
Travel, information technology and other	497,490	326,218	93,143	916,851	144,015	105,119	1,165,985
Depreciation and amortization	126,941	89,915	27,394	244,250	66,653	33,327	344,230
Allowance for loan losses	-	933,576	-	933,576	-	-	933,576
Grants made	3,779,322	472,964	-	4,252,286	-	-	4,252,286
Total Expenses	$ 9,269,175	$ 5,644,134	$ 1,344,586	$ 16,257,895	$ 3,596,212	$ 1,416,013	$ 21,270,120

See notes to consolidated financial statements

Nonprofit Finance Fund and Affiliates

Consolidated Statements of Cash Flows

	Year Ended December 31	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 3,358,766	$ (5,777,716)
Adjustments to reconcile change in net assets to net cash from operating activities		
Unrealized loss on investments	162,080	-
Provision for loan losses	933,576	2,151,267
Adjustment in allowance for loan losses	(3,870,525)	-
Depreciation and amortization	344,230	317,325
Retirement of property and equipment	12,431	-
Changes in operating assets and liabilities		
Accounts receivables and other assets	(250,761)	41,196
Grants receivable	1,257,573	4,824,561
Accounts payable and other liabilities	185,690	76,944
Program specific loan payable	-	(177,250)
Net Cash from Operating Activities	2,133,060	1,456,327
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	-	(474,358)
Loans disbursed during the year	(53,104,537)	(67,435,648)
Collections of loans receivable	30,117,761	27,005,392
Change in amounts held by loan servicer	1,275,209	(2,999,415)
Proceeds from sale of investments	-	105,090
Purchase of investments	(727,271)	-
Net Cash from Investing Activities	(22,438,838)	(43,798,939)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from loans	55,250,000	57,017,568
Repayment of loans	(32,100,000)	(12,417,327)
Net Cash from Financing Activities	23,150,000	44,600,241
Net Change in Cash and Cash Equivalents	2,844,222	2,257,629
CASH AND CASH EQUIVALENTS		
Beginning of year	9,859,425	7,601,796
End of year	$ 12,703,647	$ 9,859,425
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for interest	$ 2,297,714	$ 1,128,571

See notes to consolidated financial statements

1. Organization and Tax Status

The accompanying consolidated financial statements include the accounts of the Nonprofit Finance Fund ("NFF"), the New England Cultural Facilities Fund ("NECFF") and Building for the Future, Inc. ("BFF"). NECFF and BFF are supporting organizations to NFF and are controlled by NFF because of its right to appoint the majority of the Board of Directors.

NFF was incorporated in 1984 in New York State and is certified by the U.S. Department of the Treasury as a Community Development Financial Institution ("CDFI"). NECFF was established in 1995 to help cultural organizations in New England and BFF was established in 1999 to help build assets of nonprofits nationally. During 2018 and 2017 NECFF was inactive.

All three entities (collectively referred to as the "Fund") have been granted tax exempt status under Section 501(c)(3) of the Internal Revenue Code.

NFF advances economic and social progress in communities through financing, consulting, partnerships, and knowledge-sharing that help mission-driven organizations adapt, thrive, and drive positive change. As a leading CDFI, NFF currently manages over $310 million of investments. Since 1980, NFF has provided almost $860 million in financing and access to additional capital in support of over $2.3 billion in projects for thousands of organizations nationwide.

NFF works toward a more just and vibrant society through:

- ***Financing*** that invests in organizations working for social good. NFF's customized financing strengthens hardworking nonprofits and social enterprises.
- ***Consulting*** that equip social-sector leaders to make financial decisions that best serve their mission.
- ***Partnering*** on big problems. Service providers, funders, and investors turn to NFF for new ways to collaboratively support strong, fair communities.
- ***Learning*** that helps illuminate paths to solving complex social issues. Sharing experiences and expertise – from ideas to anecdotes to cutting-edge data and analysis – makes it easier.

In 2018 NFF staff worked from offices in New York, Philadelphia, Boston, Los Angeles and Oakland. A selection of NFF's services include:

Access to Capital

Loans: NFF typically makes loans ranging from $500 thousand to $5 million, and provides financing independently and in partnership with other lenders, to nonprofits and social enterprises. The financing is used for a variety of purposes including facility-related needs such as property acquisition, new construction, renovation and leasehold improvements. NFF also provides loans for working capital and operating needs including equipment loans and lines of credit.

1. Organization and Tax Status *(continued)*

Access to Capital (continued)

New Markets Tax Credits ("NMTC"): Since 2006 NFF has been awarded a total of $346 million in NMTC from the U.S. Department of the Treasury, which NFF uses to attract private investment to support nonprofits operating in low-income communities. NFF is one of a few organizations using these credits exclusively to help finance projects benefiting small and mid-sized nonprofits.

Supporting Program Related Investments and Other Impact Investments: NFF supports efforts of foundations and others considering the development of management or new or existing program-related investments and other impact investments or those seeking assistance with an existing program.

Other Capital Access and Related Activities: NFF works in partnership with funders and other providers of capital to explore thoughtful, practical applications of cutting-edge ideas like outcomes-based funding and financing, including Pay for Success ("PFS"), covering full-costs, and change capital. NFF's work in PFS has focused from the outset on helping service providers, investors, and governments understand and build readiness for productive participation in a U.S. social sector where providing and accessing capital is increasingly tied to the achievement of meaningful and measurable outcomes. In addition, NFF has provided financing for select PFS projects.

Advice and Training

Consultation and Analysis: NFF is a leading financial consulting practice providing solutions-based advice and partnership to help nonprofits and their funders address change, challenge, or opportunity. Whether through in-depth consulting services, group clinics, or long-term partnerships, NFF listens and learns to address an organization's most pressing financial or operational issues. By helping nonprofit leaders address these challenges, NFF allows them to focus on their mission and maximize their impact on the communities they serve. NFF also works with nonprofit management to help them better communicate their financial story to funders, lenders and others.

Workshops: NFF's workshops and webinars offer nonprofit leaders insight, tools, and guidance to help their organizations adapt to an ever-changing environment. Content is designed to help managers and board members become more comfortable reading and interpreting financial statements, and build data-driven, decision-making capacity in nonprofit financial management.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

2. Summary of Significant Accounting Policies *(continued)*

Basis of Consolidation

The consolidated financial statements include the accounts of NFF and the aforementioned affiliates. All significant intercompany balances and transactions are eliminated.

Use of Estimates

The preparation of the consolidated financial statements in conformity with U.S. GAAP requires management to make certain estimates and assumptions relating to the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Change in Accounting Principle

On January 1, 2018, the Fund adopted new guidance regarding the Presentation of Financial Statements for Not-for-Profit Entities. This guidance requires the Fund to collapse the three-category (unrestricted, temporarily restricted, and permanently restricted) classification of net assets into two categories: with donor restrictions and without donor restrictions. In addition, the new guidance requires the Fund to make certain expanded disclosures relating to (1) the liquidity of financial assets, and (2) expenses by both their natural and functional classification in one location in the financial statements.

Net Asset Presentation

Net assets without donor restrictions have no restriction as to use or purpose imposed by donors. Net assets with donor restrictions are subject to stipulations imposed by donors and grantors. Donor restrictions are limited to a specific time period or purpose.

Cash and Cash Equivalents

Cash and cash equivalents include all short-term highly liquid investments with a maturity of three months or less at the time of purchase, which are not intended for investment.

Investments and Investment Income Recognition

Investments are stated at fair value. Purchases and sales are recorded on a trade-date basis. Interest income is recorded on the accrual basis and dividends are recorded on the ex-dividend rate.

2. Summary of Significant Accounting Policies *(continued)*

Fair Value Measurements

The Fund follows U.S. GAAP guidance which defines fair value and establishes a fair value hierarchy organized into three levels based upon the input assumptions used in pricing assets. Level 1 inputs have the highest reliability and are related to assets with unadjusted quoted prices in active markets. Level 2 inputs relate to assets with other than quoted prices in active markets which may include quoted prices for similar assets or liabilities or other inputs which can be corroborated by observable market data. Level 3 inputs are unobservable inputs and are used to the extent that observable inputs do not exist.

The Fund follows U.S. GAAP guidance which removed the requirements to categorize within the fair value hierarchy alternative investments where fair value is measured using the Net Asset Value ("NAV") per share as a practical expedient.

Loans Receivable and Payable

The Fund both receives and makes loans with stated rates of interest that vary from the prevailing market rates for commercial loans. The Fund accounts for these loans at the stated rates. U.S. GAAP guidance generally requires that loans with below market interest rates be stated for financial reporting purposes at amounts that reflect the expected cash flows, discounted at market rates. The guidance includes several exceptions to this rule, including the customary lending activities of financial institutions whose primary business is lending money. Management of the Fund believes that this exception is applicable to the Fund. Accordingly, interest rates have not been restated. Interest income and expense are recorded on the accrual basis.

Allowance for Doubtful Accounts

The Fund determines whether an allowance for uncollectible balances should be provided for receivables. Such estimates are based on, but not limited to, historical collection experience, management's estimates of the credit-worthiness of its borrowers and current economic conditions.

Property and Equipment

Property and equipment are stated at cost, less accumulated depreciation and amortization. When assets are retired or otherwise disposed of, the cost and the related accumulated depreciation/amortization are removed from the accounts, with any net gain or loss reflected in the consolidated statements of activities for the period. Expenses for maintenance and repairs are charged to operations as incurred. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized over the shorter of their useful lives or the term of the lease. The Fund capitalizes the cost of individual property and equipment additions in excess of $1,000 and group purchases in excess of $3,000.

2. Summary of Significant Accounting Policies *(continued)*

Property and Equipment (continued)

Property and equipment are reviewed for impairment if the use of the asset significantly changes or another indicator of possible impairment is identified. If the carrying amount for the assets is not recoverable, the value is written down to the asset's fair value. There were no impairments for the years ended December 31, 2018 and 2017.

Cash Held as Agent

Cash held as agent represents funds collected on behalf of other organizations.

Grants and Contributions

Unconditional grants and contributions, including promises to give cash and other assets, are reported at fair value at the date the grant or contribution is received. The gifts are reported as donor restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, donor restricted net assets are reclassified as net assets without donor restrictions and reported in the consolidated statements of activities as net assets released from restrictions.

Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using rates applicable to the years in which the promises are received and consider market and credit risk as applicable. Amortization of the present value discounts and changes in allowance for doubtful accounts are included in the change in net assets on the consolidated statements of activities.

Program, Loan and Financing Fees

The Fund charges fees associated with program-related services and when entering into financing arrangements. These fees are recognized when services are performed or when the process of originating, refinancing, or restructuring of a loan is completed. Amounts received in advance are deferred and recognized when services are performed.

Donated Services

Contributions of services are recognized when they are received if the services (a) create or enhance nonfinancial assets, or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not donated.

Other Capital Access and Related Activity

The Fund reports donor restricted contributions for the Grant Fund and the Loan Fund and contract disbursements for the Grant Fund and BFF as other capital access and related activity. (see Note 10)

2. Summary of Significant Accounting Policies *(continued)*

New Markets Tax Credit Program

These consolidated financial statements do not include the financial statements of NFF's NMTC related entities of which NFF holds .01% in such entities. NFF's investments in these entities total $18,622 and $18,612 at December 31, 2018 and 2017 and are included in accounts receivable and other assets in the consolidated statements of financial position.

The U.S. Department of the Treasury awarded allocation ranging from $20 million to $65 million and totaling $346 million to NFF in eight allocation rounds authorized in 2006, 2008, 2009, 2010, 2011, 2012, 2016 and 2018. NFF is using these $346 million of allocations to attract and provide investment capital in low-income communities. As a NMTC allocation recipient and a Community Development Entity ("CDE") certified by the U.S. Department of the Treasury, NFF may establish CDEs for the purpose of implementing its NMTC program. As of the end of 2018, NFF has closed 40 transactions using $331 million of this allocation and established and served as managing member of 40 CDEs for the purpose of implementing its NMTC program, as permitted by the U.S. Department of the Treasury. As of December 31, 2018 and 2017, 22 of these entities remain active. The remaining subsidiary CDEs are no longer active as they have successfully reached the end of their 7-year compliance periods and the entities have been dissolved. NFF also serves as manager of two investment funds. As of December 31, 2018, NFF also serves as manager of investment fund, NFF New Market Tax Fund XIX, LLC.

Functional Allocation of Expenses

The consolidated financial statements report certain categories of expenses that are attributable to one or more program or supporting services. Therefore, expenses require allocation on a reasonable basis that is consistently applied. Salaries, payroll taxes and benefits, insurance and office expenses are allocated on the basis of estimates of time and effort. Occupancy, information technology and depreciation expenses are allocated on the basis of head count. Other expenses are based on actual costs directly related to program services and support services categories.

Accounting for Uncertainty in Income Taxes

The Fund's accounting policy is to disclose liabilities for uncertain tax positions when a liability is probable and estimable. Management is not aware of any violation of its tax status as an organization exempt from income taxes, nor of any exposure to unrelated business income tax. The Fund is no longer subject to examinations by the applicable taxing jurisdictions for the periods prior to 2015.

Reclassification

Certain accounts in the 2017 consolidated financial statements have been reclassified to conform to the 2018 financial statement presentation.

2. Summary of Significant Accounting Policies *(continued)*

Subsequent Events Evaluation by Management

Management has evaluated subsequent events for disclosure and/or recognition in the consolidated financial statements through the date that the consolidated financial statements were available to be issued, which date is April 29, 2019.

3. Concentrations of Credit Risk

The Fund makes loans to nonprofit organizations. Although the Fund is diversified as to the services provided by and location of its nonprofit borrowers, the ability of these organizations to repay their loans may be affected by adverse economic conditions or other financial constraints.

The Fund maintains cash and cash equivalents (including certificates of deposit) at several financial institutions. Accounts at each institution are insured by the Federal Deposit Insurance Corporation. During the year, the Fund may have cash balances in these financial institutions in excess of their limits. The Fund has not experienced any losses on its cash and cash equivalents.

4. Liquidity and Availability of Financial Assets

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the consolidated statement of financial position date, consist of the following:

Financial assets as of December 31, 2018:	
Cash and cash equivalents	$ 12,703,647
Investments	1,163,068
Accounts receivable and other assets	3,827,299
Grants receivable	3,238,612
Loans receivable, net	133,144,705
	154,077,331
Less amounts not available for general expenditure within one year:	
Prepaid expenses and security deposits included in accounts receivable and other assets	333,418
Loans receivable due for collection after 2019, net	106,738,512
Donor restricted grant fund net assets	513,625
Donor restricted loan fund net assets	9,253,775
Board designated net assets for loan loss reserve	3,216,390
	120,055,720
Financial assets available for general expenditure within one year	$ 34,021,611

It is NFF's policy to maintain adequate cash balance to: (1) meet 60 days of its operating needs, (2) meet estimated re-grant commitments for the next 60 days, and (3) fund $1 million for unplanned loans and lines of credit disbursements. The Fund deploys excess cash holdings in the loan fund to minimize interest expense incurred on borrowed capital.

5. Investments

Investments at December 31 are comprised of the following:

	2018	2017
Private equity, at fair value (NAV)	$ 77,920	$ 240,000
Certificates of deposit, at cost which approximates fair value	1,085,148	357,877
	$ 1,163,068	$ 597,877

Information regarding the private equity investment at December 31, 2018 is as follows:

	Fair Value	Unfunded Commitment	Redemption Frequency	Redemption Notice Period
Private equity (a)	$ 77,920	$ -	None	N/A

(a) This category includes shares in the Urban Partnership Bank, a CDFI. The shares are restricted and not publicly-traded. In October 2018, the bank was acquired by Providence Bank and Trust and the fair value approximates the payout to be received by the Fund in 2019.

6. Grants Receivable

Grants receivable, for which the Fund determined that no allowance for uncollectable amounts is required, are as follows at December 31:

	2018	2017
Foundations	$ 2,223,463	$ 2,356,955
Government	1,013,769	2,136,730
Corporations and others	1,380	2,500
	$ 3,238,612	$ 4,496,185

Collections on the outstanding grants at December 31, 2018 are scheduled to be received during 2019.

7. Loans Receivable

Loans receivable at December 31, 2018 and 2017 include collateralized loans of approximately $136,319,000 and $113,735,000. Nearly all of these loans are collateralized by borrowers' assets such as real estate, assignments of leases and rents, equipment, receivables and bank accounts. Loans receivable also include Program Related Investment (PRI) loans of $782,680 and $952,680 at December 31, 2018 and 2017 made under a customized program with a foundation. There were no past due accruing loans at December 31, 2018 and 2017.

7. Loans Receivable *(continued)*

Interest on the outstanding loans is calculated using the simple interest method. Interest rates vary between 2.00% and 7.00% per annum. A small amount of these loans were provided at lower interest rates and for flexible terms made available under special programs.

Management regularly evaluates all outstanding loans individually for impairment on an ongoing basis. Loans are moved to nonaccrual status when there is deterioration in the financial condition of the borrower, payment in full is not expected, or payment is in default for a period of 90 days or more unless the loan is well secured and in the process of collection. Such nonaccrual loans amounted to $2,801,113 and $2,595,213 as of December 31, 2018 and 2017.

Allowance for Loan Losses

In 2018, NFF updated its allowance for loan loss methodology to more accurately reflect NFF's historic loan loss experience. NFF loans are categorized into like pools based on risk rating and whether the loans have collateral, with "Strong" representing the highest quality/lowest risk and "Doubtful" representing the lowest quality/highest credit risk. Under the revised methodology, the allowance for loan loss on each loan rated Strong through Marginal is calculated as a percentage of the outstanding loan balance, with the percentage based on a loan's rating. For loans classified as Acceptable, Close Follow, Marginal and Doubtful, the calculation of the allowance for loan loss includes whether a loan is secured by collateral or is unsecured. In some cases, a higher allowance for loan losses on individual loans rated Strong through Marginal are appraised where the estimated credit loss based on specific information on those loans are greater than the percentage allowance for the like pool. The allowance for loan losses on loans rated as Doubtful are calculated individually based on the estimated credit losses for each loan. The following table presents the Fund's loans receivable balances and related allowance for loan loss by risk rating as of December 31, 2018:

Risk Rating Pool	Loan Balance	Allowance for Loan Loss
Strong	$ -	$ -
Good	35,101,035	351,010
Acceptable	92,112,586	2,161,855
Close Follow	4,117,938	427,569
Marginal	3,995,366	768,377
Doubtful	992,242	248,331
	136,319,167	3,957,142
Program Related Investment (PRI) loans	782,680	-
	$ 137,101,847	$ 3,957,142

7. Loans Receivable *(continued)*

Allowance for Loan Losses (continued)

In addition to the allowance for loan losses stated above, the NFF Board of Directors has designated a portion of NFF's net assets without donor restrictions as supplemental loan loss reserves. As of December 31, 2018, the amount of net assets without donor restrictions designated as loan loss reserves was $3,216,390. These additional reserves do not reflect estimates of any particular or additional loan portfolio risks but rather have been designated to satisfy loan covenants imposed by certain investors that NFF maintain reserves equal to at least 5% of loans receivable balances.

There was no allowance for loan losses on the PRI loans receivable balance of $782,680, which is entirely funded by a PRI from a private foundation.

Changes in the allowance for loan losses are summarized below:

	2018	2017
Balance, beginning of year	$ 7,467,001	$ 5,315,734
Less loans written off	(572,910)	-
Add provision for loan losses	933,576	2,151,267
	7,827,667	7,467,001
Less adjustment in allowance for loan losses	(3,870,525)	-
Balance, end of year	$ 3,957,142	$ 7,467,001

Due to the reduction in the allowance for loan losses resulting from the updated methodology, $3,870,525 was reported as an adjustment in the 2018 consolidated statement of activities.

As of December 31, 2018, loans committed for future disbursement totaled $28,123,847. This is comprised of closed and undrawn loans of $23,362,458 and approved and committed loans of $4,761,389.

Scheduled collections on the outstanding loans (before any application of loan allowances) are to be received as follows:

2019	$ 27,191,001
2020	21,336,832
2021	17,867,308
2022	15,533,306
2023	11,861,760
Thereafter	43,311,640
	$ 137,101,847

8. Property and Equipment

Property and equipment consist of the following at December 31:

	2018	2017	Estimated Useful Lives
Leasehold improvements	$ 2,185,283	$ 2,244,084	3-15 years
Computer equipment	1,133,240	1,084,248	3 years
Furniture and fixtures	666,889	669,511	3-10 years
	3,985,412	3,997,843	
Accumulated depreciation and amortization	(1,499,050)	(1,154,820)	
	$ 2,486,362	$ 2,843,023	

9. Loans Payable and Program Specific Loan Payable

Loans payable consist of the following as of December 31:

	2018	2017	Amortization
Bank Hapoalim, B.M.	$ 2,500,000	$ 2,500,000	Principal payable on 06/20/2020
Bank of America, N.A. (1 of 2)	2,000,000	2,000,000	Subordinated debt with principal payable on 03/19/2028
Bank of America, N.A. (2 of 2)	15,000,000	8,000,000	Principal payable in seven annual installments beginning 12/31/2022 through 11/09/2028
California Community Foundation	1,000,000	1,000,000	Principal payable on 08/01/2019
California Endowment, The	1,200,000	1,600,000	Principal payable in $400,000 annual installments beginning 03/31/2017 through 03/31/2021
Charles Schwab Bank	11,000,000	10,000,000	Principal payable on 08/16/2019; can be converted to a term loan. If converted, payable in 12 equal quarterly installment beginning 10/01/2019 and maturing on 08/18/2023
Dignity Health	4,000,000	1,000,000	Principal payable on 12/01/2024
HSBC Bank USA, N.A.	15,000,000	15,000,000	Principal payable on 08/31/2020; can be converted to a term loan. If converted, payable on 08/31/2023
JPMorgan Chase Bank, N.A.	-	4,000,000	Principal paid on 11/29/2018
Mizuho Corporate Bank (USA)	13,050,000	13,000,000	Principal payable on 09/05/2019

9. Loans Payable and Program Specific Loan Payable *(continued)*

	2018	2017	Amortization
Northern Trust Company, The	2,000,000	1,000,000	Principal payable on 02/08/2023
PNC Bank, N.A. (1 of 2)	5,000,000	5,000,000	Principal payable on 12/18/2022
PNC Bank, N.A. (2 of 2)	5,000,000	-	Principal payable on 12/18/2022
Prudential Insurance Company of America (1 of 2)	3,000,000	5,000,000	Principal payable in $1,000,000 semiannual installments beginning 06/30/2018 through 06/30/2020
Prudential Insurance Company of America (2 of 2)	5,000,000	-	Loan amortization beginning 06/302020 through 06/06/2028
Stranahan Foundation	2,000,000	2,000,000	Principal payable in $500,000 annual installments beginning 10/31/2019 through 10/31/2021
TD Bank USA, N.A.	6,500,000	9,000,000	Revolving line of credit expiring on 08/31/2021
Trinity Health Corporation	1,000,000	1,000,000	Principal payable on 03/01/2023
US Bank	6,500,000	-	Principal payable in 24 equal monthly installments beginning 10/01/2021 through 09/24/2023
Webster Bank, N.A.	2,500,000	500,000	Principal payable on 08/02/2022
Wells Fargo Community Development Corporation	2,250,000	750,000	Subordinated debt with principal payable on 11/05/2030
Total	**$ 105,500,000**	**$ 82,350,000**	

Minimum future principal payments are to be paid as follows:

2019	$ 17,866,667
2020	8,338,289
2021	12,437,488
2022	21,579,044
2023	23,038,036
Thereafter	22,240,476
	$ 105,500,000

Interest rates (fixed and variable) on loans payable had a weighted average of 3.07% and 2.64% in 2018 and 2017.

9. Loans Payable and Program Specific Loan Payable *(continued)*

At December 31, 2018, the Fund had the following available loan commitments from lenders:

California Endowment, The	$ 5,000,000
Charles Schwab Bank	4,000,000
JPMorgan Chase Bank, N.A.	4,000,000
Kresge Foundation, The	3,000,000
Mizuho Bank (USA)	1,950,000
Prudential Insurance Co.	2,000,000
TD Bank USA, N.A.	3,500,000
US Bank	8,500,000
Webster Bank, N.A.	2,500,000
	$ 34,450,000

The Fund has certain loan covenants that require among other things, maintenance of certain financial ratios and limits on the amount of debt that the Fund can incur. The Fund was in compliance with all covenants at December 31, 2018 and 2017.

Program specific loan payable, as distinct from loans payable, totaled $922,750 at December 31, 2018 and 2017, and includes loans to the Fund that incorporate subsidized interest rates, higher risk tolerance for program-related organizations and are non-recourse.

10. Net Assets With Donor Restrictions

The Fund categorizes its donor restricted net assets as follows: The Program fund includes funds available to support expenses incurred in conjunction with the delivery of services (primarily consulting services) to clients. These funds are also available to support the administration of several grant-funded initiatives. Related to these initiatives, the Grant fund includes funds available to make re-grant awards to qualified grantees. Loan fund capital includes funds assigned to support financing programs. The BFF fund includes funds ear-marked to support participants in the BFF program. These funds are a combination of matching dollars available to pay contractual grant commitments, annual preventive maintenance grants and program administration.

Net assets with donor restrictions consist of the following at December 31, 2018:

	2018	2017
Time restricted for operating support	$ 647,500	$ 832,500
Purpose restricted	17,292,424	19,090,349
	$ 17,939,924	$ 19,922,849

10. Net Assets With Donor Restrictions *(continued)*

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by the passage of time as follows:

	2018	2017
Time restricted for operating support	$ 277,504	$ 376,511
Purpose restricted	11,013,104	11,495,979
	$ 11,290,608	$ 11,872,490

11. Retirement Plan

The Fund sponsors a qualified defined contribution pension plan covering all eligible employees. The Fund contributes an amount equal to 4% of all eligible employees' salaries. Additionally, the Fund matches staff members' voluntary contributions up to a maximum of 2% of their salaries. Pension expense for 2018 and 2017 was $557,792 and $491,044. The Fund deposits these pension costs after each payroll period.

12. Accounts Payable and Other Liabilities

Accounts payable and other liabilities consist of the following at December 31:

	2018	2017
Accounts payable and accrued expenses	$ 1,911,739	$ 1,842,550
Office leasehold commitments	1,640,360	1,611,640
Deferred program fees	138,544	173,044
Other liabilities	482,263	359,982
	$ 4,172,906	$ 3,987,216

13. Commitments and Contingencies

In June 2015, NFF entered into a new lease agreement for its New York office space located in downtown Manhattan for fifteen years ending in April 2031. Fixed monthly rent payments range from $49,411 in 2016 to $75,960 in 2031. In 2016 NFF entered into new lease agreements for it Los Angeles and Philadelphia offices and in 2017 for its Boston and Oakland, California offices for lease periods ranging from five to seven years. Fixed monthly rent payments range from $5,643 in 2018 to $16,508 ending May 2023. NFF records the lease expense on a straight-line basis. At December 31, 2018 and 2017, accounts payable and other liabilities include $1,033,425 and $908,225 of deferred rent.

13. Commitments and Contingencies *(continued)*

The Fund's approximate obligation for minimum annual rentals for all of its offices, pursuant to various operating lease arrangements for real property, is as follows:

2019	$ 1,033,741
2020	1,058,259
2021	1,094,185
2022	1,013,650
2023	897,427
Thereafter	6,374,236
	$ 11,471,498

Rent expense amounted to approximately $1,093,000 and $1,039,000 in 2018 and 2017.

14. Net Assets Reclassification

As part of implementing the changes in accounting guidance, management reviewed the composition of net assets with donor restrictions and determined that, as of December 31, 2016, $10,899,353 of net assets with donor restrictions should have been reported as net assets without restrictions. The amounts are as follows:

	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total Net Assets
Balance, December 31, 2016:			
As previosuly reported	$ 11,244,563	$ 37,142,424	$ 48,386,987
Reclassification	10,899,353	(10,899,353)	-
As restated	$ 22,143,916	$ 26,243,071	$ 48,386,987
Balance, December 31, 2017:			
As previosuly reported	$ 11,787,069	$ 30,822,202	$ 42,609,271
Reclassification	10,899,353	(10,899,353)	-
As restated	$ 22,686,422	$ 19,922,849	$ 42,609,271

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Nonprofit Finance Fund and Affiliates

Supplementary Information

December 31, 2018

Nonprofit Finance Fund and Affiliates

Consolidating Schedule of Financial Position
December 31, 2018
(with summarized totals at December 31, 2017)

	2018			
	NFF	BFF	Total	2017
ASSETS				
Cash and cash equivalents	$ 12,703,647	$ -	$ 12,703,647	$ 9,859,425
Cash held as agent	-	-	-	727,040
Investments	1,163,068	-	1,163,068	597,877
Accounts receivables and other assets	3,827,299	-	3,827,299	4,851,747
Grants receivables	3,238,612	-	3,238,612	4,496,185
Loans receivable	137,101,847	-	137,101,847	114,687,981
Allowance for loan losses	(3,957,142)	-	(3,957,142)	(7,467,001)
Loans Receivable, net	133,144,705	-	133,144,705	107,220,980
Property and equipment, net	2,486,362	-	2,486,362	2,843,023
	$ 156,563,693	$	$ 156,563,693	$ 130,596,277
LIABILITIES AND NET ASSETS				
Liabilities				
Accounts payable and other liabilities	$ 4,172,906	$ -	$ 4,172,906	$ 3,987,216
Program specific loan payable	922,750	-	922,750	922,750
Cash held as agent	-	-	-	727,040
Loans payable	105,500,000	-	105,500,000	82,350,000
Total Liabilities	110,595,656		110,595,656	87,987,006
Net Assets				
Without Donor Restrictions				
Undesignated	24,811,723	-	24,811,723	22,686,422
Board designated loan loss reserve	3,216,390	-	3,216,390	-
Total Without Donor Restrictions	28,028,113	-	28,028,113	22,686,422
With Donor Restrictions				
Program fund	8,172,524	-	8,172,524	6,183,526
Grant fund	513,625	-	513,625	3,624,543
Loan fund capital	9,253,775	-	9,253,775	9,240,435
BFF fund	-	-	-	874,345
Total With Donor Restrictions	17,939,924	-	17,939,924	19,922,849
Total Net Assets	45,968,037	-	45,968,037	42,609,271
	$ 156,563,693	$ -	$ 156,563,693	$ 130,596,277

See independent auditors' report

Nonprofit Finance Fund and Affiliates

Consolidating Schedule of Activities
Year Ended December 31, 2018
(with summarized totals for the year ended December 31, 2017)

	Without Donor Restrictions			With Donor Restrictions			Totals	
	NFF	BFF	Total	NFF	BFF	Total	2018	2017
REVENUE								
Operating								
Grants	$ 137,397	$ -	$ 137,397	$ 9,027,208	$ -	$ 9,027,208	$ 9,164,605	$ 3,229,649
Investment income	13,636	-	13,636	-	32	32	13,668	5,409
Program fees	2,475,347	-	2,475,347	-	-	-	2,475,347	2,930,409
Donated services and other income	146,677	-	146,677	-	-	-	146,677	268,909
Net assets released from restrictions	7,038,210	-	7,038,210	(7,038,210)	-	(7,038,210)	-	-
Total Operating	9,811,267	-	9,811,267	1,988,998	32	1,989,030	11,800,297	6,434,376
Lending and Financing								
Loan and financing fees	4,453,322	-	4,453,322	-	-	-	4,453,322	3,627,904
Interest income, net of interest expense of $2,492,539 and $1,212,879	4,386,379	-	4,386,379	-	-	-	4,386,379	4,078,556
Total Lending and Financing	8,839,701	-	8,839,701	-	-	-	8,839,701	7,706,460
Total Revenue	18,650,968	-	18,650,968	1,988,998	32	1,989,030	20,639,998	14,140,836
EXPENSES								
Operating								
Salaries	9,859,156	-	9,859,156	-	-	-	9,859,156	9,490,910
Employee benefits and payroll taxes	2,314,044	-	2,314,044	-	-	-	2,314,044	2,175,862
Total Salaries and Related Expenses	12,173,200	-	12,173,200	-	-	-	12,173,200	11,666,772
Program consultants	345,145	-	345,145	-	-	-	345,145	896,036
Professional support	741,731	-	741,731	-	-	-	741,731	638,669
Occupancy	1,313,967	-	1,313,967	-	-	-	1,313,967	1,278,028
Travel, information technology and other	1,165,985	-	1,165,985	-	-	-	1,165,985	1,376,901
Depreciation and amortization	344,230	-	344,230	-	-	-	344,230	317,325
Total Operating Expenses before Lending and Financing	16,084,258	-	16,084,258	-	-	-	16,084,258	16,173,731
Lending and Financing								
Provision for loan losses	933,576	-	933,576	-	-	-	933,576	2,151,267
Total Operating Expenses before Allowance Adjustment	17,017,834	-	17,017,834	-	-	-	17,017,834	18,324,998
Operating Surplus (Deficit) before Allowance Adjustment	1,633,134	-	1,633,134	1,988,998	32	1,989,030	3,622,164	(4,184,162)
Adjustment in allowance for loan losses	3,870,525	-	3,870,525	-	-	-	3,870,525	-
Excess (Deficiency) of Revenue over Expenses before Other Capital Access and Related Activity	5,503,659	-	5,503,659	1,988,998	32	1,989,030	7,492,689	(4,184,162)
OTHER CAPITAL ACCESS AND RELATED ACTIVITY								
Contribution for Loan Fund	-	-	-	13,340	-	13,340	13,340	100,000
Contribution for Grant Fund	-	-	-	282,264	(15,161)	267,103	267,103	2,262,500
Net assets released from restrictions	3,779,434	472,964	4,252,398	(3,393,182)	(859,216)	(4,252,398)	-	-
Grants made	(3,779,322)	-	(3,779,322)	-	-	-	(3,779,322)	(3,833,218)
Investment losses, non-operating	(162,080)	-	(162,080)	-	-	-	(162,080)	-
BFF contract disbursements	-	(472,964)	(472,964)	-	-	-	(472,964)	(122,836)
Change in Net Assets	5,341,691	-	5,341,691	(1,108,580)	(874,345)	(1,982,925)	3,358,766	(5,777,716)
NET ASSETS			-			-	-	-
Beginning of year	22,686,422	-	22,686,422	19,048,504	874,345	19,922,849	42,609,271	48,386,987
End of year	$ 28,028,113	$ -	$ 28,028,113	$ 17,939,924	$ -	$ 17,939,924	$ 45,968,037	$ 42,609,271

See independent auditors' report

Nonprofit Finance Fund and Affiliates

Uniform Guidance Schedules and Reports

December 31, 2018

Nonprofit Finance Fund and Affiliates

Schedule of Expenditures of Federal Awards
and Accompanying Notes
Year Ended December 31, 2018

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
U.S. Department of the Treasury				
Community Development Financial Institutions Program	21.020		$ -	$ 132,650
Corporation for National and Community Service				
Social Innovation Fund Pay for Success	94.024		1,598,717	1,763,854
Total Expenditures of Federal Awards			$ 1,598,717	$ 1,896,504

1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal award activity of Nonprofit Finance Fund and Affiliates (the "Fund") under programs of the federal government for the year ended December 31, 2018. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Fund, it is not intended to and does not present the consolidated financial position, changes in net assets or cash flows of the Fund.

2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

3. Nonmonetary Assistance

Nonmonetary assistance is reported in the Schedule based on the amount disbursed or received. The Fund received no nonmonetary assistance for the year ended December 31, 2018.

4. Indirect Cost Rate

The Fund has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

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*

Independent Auditors' Report

Board of Directors
Nonprofit Finance Fund and Affiliates

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 consolidated financial statements of Nonprofit Finance Fund and Affiliates (the "Fund"), which comprise the consolidated statement of financial position as of December 31, 2018 and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated April 29, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Fund's 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 consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Fund'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.

PKF O'CONNOR DAVIES, LLP
665 Fifth Avenue, New York, NY 10022 I Tel: 212.867.8000 or 212.286.2600 I Fax: 212.286.4080 I www.pkfod.com

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fund's 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 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

PKF O'Connor Davies, LLP

April 29, 2019

PKF O'CONNOR DAVIES
ACCOUNTANTS AND ADVISORS

Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

Independent Auditors' Report

Board of Directors
Nonprofit Finance Fund and Affiliates

Report on Compliance for Each Major Federal Program

We have audited Nonprofit Finance Fund and Affiliates' (the "Fund") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Fund's major federal programs for the year ended December 31, 2018. The Fund's major federal programs are identified in the summary of auditors' 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.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Fund's 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 the Fund's 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 the Fund's compliance.

Opinion on Each Major Federal Program

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

Report on Internal Control over Compliance

Management of the Fund 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 the Fund's 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 the Fund'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 a 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 that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the consolidated financial statements of the Fund as of and for the year ended December 31, 2018, and have issued our report thereon dated April 29, 2019, which contained an unmodified opinion on those consolidated financial statements. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the 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 consolidated financial statements or to the 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 schedule of expenditures of federal awards is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

PKF O'Connor Davies, LLP

April 29, 2019

Nonprofit Finance Fund and Affiliates

Schedule of Findings and Questioned Costs
Year Ended December 31, 2018

Section I - Summary of Auditors' Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	____ yes __X__ no
Significant deficiency(ies) identified?	____ yes __X__ none reported
Noncompliance material to financial statements noted?	____ yes __X__ no

Federal Awards

Internal control over major federal programs:	
Material weakness(es) identified?	____ yes __X__ no
Significant deficiency(ies) identified?	____ yes __X__ none reported
Type of auditors' report issued on compliance for major federal programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	____ yes __X__ no

Identification of major federal programs:

CFDA Number(s)	Name of Federal Program or Cluster
94.024	Social Innovation Fund Pay for Success

Dollar threshold used to distinguish between Type A and Type B programs:	$750,000
Auditee qualified as low-risk auditee?	__X__ yes ____ no

Section II – Financial Statement Findings

During our audit, we noted no material findings for the year ended December 31, 2018.

Section III – Federal Award Findings and Questioned Costs

During our audit, we noted no material instances of noncompliance and none of the costs reported in the federal financially assisted programs are questioned or recommended to be disallowed.

Section IV – Prior year findings

There were no prior year findings.