Consolidated Financial Statements and Independent Auditor's Report

Low Income Investment Fund and Subsidiaries
(A California Nonprofit Public Benefit Corporation)

June 30, 2019 and 2018

Contents

RSM US LLP

Independent Auditor's Report

To the Board of Directors
Low Income Investment Fund and Subsidiaries

Report on the Financial Statements
We have audited the accompanying consolidated financial statements of Low Income Investment Fund and Subsidiaries (the Organization), which comprise the consolidated statements of financial position as of June 30, 2019 and 2018, the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, 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.

Auditor's Responsibility
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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend upon the auditor's 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 auditor considers 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 Low Income Investment Fund and Subsidiaries as of June 30, 2019 and 2018, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

Restricted Cash
As discussed in Note 2 to the financial statements, Low Income Investment Fund and Subsidiaries adopted the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force*) during the year ended June 30, 2019 and applied it using a retrospective transition method which resulted in the restatement of beginning cash and cash equivalents and restricted cash and cash equivalents in the statement of cash flows for the year ended June 30, 2018. Our opinion is not modified with respect to this matter.

Not-for-Profit Financial Reporting
As discussed in Note 2 to the financial statements, Low Income Investment Fund and Subsidiaries adopted FASB ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities* during the year ended June 30, 2019 and applied it retrospectively to the year ended June 30, 2018. Our opinion is not modified with respect to this matter.

RSM US LLP

San Francisco, California
October 28, 2019

Low Income Investment Fund and Subsidiaries
(A California Nonprofit Public Benefit Corporation)

Consolidated Statements of Financial Position
June 30, 2019 and 2018

	2019	2018
Assets		
Current assets:		
Cash and cash equivalents	$ 28,500,676	$ 17,643,827
Restricted cash and cash equivalents	44,494,763	26,998,260
Current portion of investments	643,868	1,107,115
Accounts receivable, net	4,399,375	3,982,633
Current portion of contributions receivable	2,268,510	9,734,609
Accrued interest receivable	2,206,633	1,832,590
Prepaid expenses and deposits	837,937	858,528
Current portion of notes receivable, net	151,091,239	124,706,978
Total current assets	234,443,001	186,864,540
Investments, net of current	17,469,435	16,717,427
Contributions receivable, net of current	-	22,610
Notes receivable, net, net of current	275,019,650	285,885,127
Equipment and leasehold improvements, net	1,604,329	1,877,317
Total assets	$ 528,536,415	$ 491,367,021
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	$ 4,723,639	$ 6,843,099
Accrued interest payable	856,327	414,263
Deferred revenue	3,898,559	1,146,325
Funds held in trust	12,122,628	10,272,738
Current portion of notes payable, net	90,613,653	53,234,159
Current portion of subordinated notes payable	7,490,000	-
Total current liabilities	119,704,806	71,910,584
Notes payable, net, net of current	262,952,600	285,402,776
Subordinated notes payable	22,679,620	21,369,620
Total liabilities	405,337,026	378,682,980
Net assets:		
Without donor restrictions	74,092,186	62,113,112
With donor restrictions	49,107,203	50,570,929
Total net assets	123,199,389	112,684,041
Total liabilities and net assets	$ 528,536,415	$ 491,367,021

See notes to consolidated financial statements.

Low Income Investment Fund and Subsidiaries
(A California Nonprofit Public Benefit Corporation)

Consolidated Statement of Activities
Year Ended June 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Support, revenues and investment gains (losses):			
Net financing income:			
Interest income - lending	$ 25,051,853	$ -	$ 25,051,853
Investment income	1,164,015	188,566	1,352,581
Less interest expense	(11,077,859)	-	(11,077,859)
Less provision for loan losses and commitments	(2,515,167)	-	(2,515,167)
Total net financing income	12,622,842	188,566	12,811,408
Fees:			
Loan packaging and servicing	4,523,921	-	4,523,921
Technical assistance and consulting	6,806,174	-	6,806,174
Other	61,907	-	61,907
Total fees	11,392,002	-	11,392,002
Contributions	46,000	16,566,436	16,612,436
Net assets released from restrictions	18,218,728	(18,218,728)	-
Net gains on investments	578,067	-	578,067
Total	18,842,795	(1,652,292)	17,190,503
Total support, revenues and investment gains (losses)	42,857,639	(1,463,726)	41,393,913
Expenses:			
Program services:			
Lending production	3,082,378	-	3,082,378
Asset management and servicing	4,434,565	-	4,434,565
Child care development services	7,299,531	-	7,299,531
Strong, Prosperous, and Resilient Communities Challenge (SPARCC)	6,533,767	-	6,533,767
Other development services	293,191	-	293,191
National policy	731,576	-	731,576
Total program services	22,375,008	-	22,375,008
Supporting services:			
Management and general	7,041,974	-	7,041,974
Fundraising	1,461,583	-	1,461,583
Total supporting services	8,503,557	-	8,503,557
Total expenses	30,878,565	-	30,878,565
Change in net assets	11,979,074	(1,463,726)	10,515,348
Net assets, beginning of year	62,113,112	50,570,929	112,684,041
Net assets, end of year	$ 74,092,186	$ 49,107,203	$ 123,199,389

See notes to consolidated financial statements.

Low Income Investment Fund and Subsidiaries
(A California Nonprofit Public Benefit Corporation)

Consolidated Statement of Activities
Year Ended June 30, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Support, revenues and investment gains (losses):			
Net financing income:			
Interest income - lending	$ 19,846,848	$ -	$ 19,846,848
Investment income	628,860	83,900	712,760
Less interest expense	(6,863,073)	-	(6,863,073)
Less provision for loan losses and commitments	(2,791,828)	-	(2,791,828)
Total net financing income	10,820,807	83,900	10,904,707
Fees:			
Loan packaging and servicing	3,532,410	-	3,532,410
Technical assistance and consulting	4,632,954	-	4,632,954
Other	70,596	-	70,596
Total fees	8,235,960	-	8,235,960
Contributions	32,044	13,961,503	13,993,547
Net assets released from restrictions	14,037,055	(14,037,055)	-
Net losses on investments	(437,570)	-	(437,570)
Total	13,631,529	(75,552)	13,555,977
Total support, revenues and investment gains (losses)	32,688,296	8,348	32,696,644
Expenses:			
Program services:			
Lending production	3,837,295	-	3,837,295
Asset management and servicing	4,064,590	-	4,064,590
Child care development services	5,014,741	-	5,014,741
Strong, Prosperous, and Resilient Communities Challenge (SPARCC)	5,200,201	-	5,200,201
Other development services	486,356	-	486,356
National policy	745,549	-	745,549
Total program services	19,348,732	-	19,348,732
Supporting services:			
Management and general	6,608,353	-	6,608,353
Fundraising	1,677,709	-	1,677,709
Total supporting services	8,286,062	-	8,286,062
Total expenses	27,634,794	-	27,634,794
Change in net assets	5,053,502	8,348	5,061,850
Net assets, beginning of year	57,059,610	50,562,581	107,622,191
Net assets, end of year	$ 62,113,112	$ 50,570,929	$ 112,684,041

See notes to consolidated financial statements.

Low Income Investment Fund and Subsidiaries
(A California Nonprofit Public Benefit Corporation)

Consolidated Statement of Functional Expenses
Year Ended June 30, 2019

	Program									
	Lending Production	Asset Management and Servicing	Child Care Development Services	SPARCC	Other Development Services	National Policy	Total	Management and General	Fundraising	Total
Expenses:										
Personnel	$ 2,714,105	$ 3,192,222	$ 1,058,250	$ 565,588	$ 166,619	$ 431,705	$ 8,128,489	$ 4,822,685	$ 1,055,579	$ 14,006,753
Consultants and legal	199,446	307,527	293,716	197,384	67,412	136,418	1,201,903	462,583	68,031	1,732,517
Travel and conferences	133,966	126,416	49,815	93,691	17,034	19,396	440,318	236,335	44,423	721,076
Occupancy	398,017	608,101	276,629	101,750	36,271	61,054	1,481,822	736,506	221,126	2,439,454
Insurances, licenses and fees	48,597	101,328	7,179	4,759	1,594	1,867	165,324	323,319	10,683	499,326
Audit and annual report	6,500	-	-	-	-	-	6,500	167,449	-	173,949
Depreciation and amortization	32,684	62,449	32,371	12,663	3,816	4,094	148,077	113,736	37,516	299,329
Grants	(516,863)	-	5,579,104	5,556,647	-	-	10,618,888	-	-	10,618,888
Miscellaneous	65,926	36,522	2,467	1,285	445	77,042	183,687	179,361	24,225	387,273
Total expenses	$ 3,082,378	$ 4,434,565	$ 7,299,531	$ 6,533,767	$ 293,191	$ 731,576	$ 22,375,008	$ 7,041,974	$ 1,461,583	$ 30,878,565

See notes to consolidated financial statements.

Low Income Investment Fund and Subsidiaries
(A California Nonprofit Public Benefit Corporation)

Consolidated Statement of Functional Expenses
Year Ended June 30, 2018

	Program									
	Lending Production	Asset Management and Servicing	Child Care Development Services	SPARCC	Other Development Services	National Policy	Total	Management and General	Fundraising	Total
Expenses:										
Personnel	$ 2,479,141	$ 2,879,531	$ 896,486	$ 515,457	$ 340,461	$ 455,658	$ 7,566,734	$ 4,147,006	$ 1,132,378	$ 12,846,118
Consultants and legal	240,001	308,291	71,385	229,082	50,278	141,871	1,040,908	706,341	165,299	1,912,548
Travel and conferences	135,993	181,448	27,007	53,866	27,042	19,758	445,114	334,969	44,626	824,709
Occupancy	341,098	574,912	210,764	108,198	61,831	67,636	1,364,439	665,174	255,757	2,285,370
Insurances, licenses and fees	53,508	38,182	6,796	4,376	2,708	3,605	109,175	352,986	9,737	471,898
Audit and annual report	-	-	-	-	-	-	-	187,200	700	187,900
Depreciation and amortization	28,000	66,406	37,846	17,291	3,688	4,452	157,683	118,764	48,020	324,467
Grants	516,863	-	3,763,350	4,240,350	-	-	8,520,563	-	-	8,520,563
Miscellaneous	42,691	15,820	1,107	31,581	348	52,569	144,116	95,913	21,192	261,221
Total expenses	$ 3,837,295	$ 4,064,590	$ 5,014,741	$ 5,200,201	$ 486,356	$ 745,549	$ 19,348,732	$ 6,608,353	$ 1,677,709	$ 27,634,794

See notes to consolidated financial statements.

Low Income Investment Fund and Subsidiaries
(A California Nonprofit Public Benefit Corporation)

Consolidated Statements of Cash Flows
Years Ended June 30, 2019 and 2018

	2019	2018 (restated)
Cash flows from operating activities:		
Change in net assets	$ 10,515,348	$ 5,061,850
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	299,329	324,467
Amortization of debt issuance costs	82,653	89,525
Change in deferred fees and costs	15,023	764,245
Provision for loan losses and loan commitments	2,515,167	2,781,937
Loss (gain) on investments	(692,613)	330,788
Noncash interest income	(196,455)	(183,602)
Changes in operating assets and liabilities:		
Accounts and contributions receivable	7,071,967	(691,736)
Accrued interest receivable	(374,043)	(338,282)
Prepaid expenses and deposits	20,591	(22,536)
Accounts payable and accrued expenses	(1,879,691)	(3,356,404)
Accrued interest payable	442,063	96,111
Funds held in trust	1,849,890	(5,728,967)
Deferred revenue	2,752,234	(3,034,220)
Net cash provided by (used in) operating activities	22,421,463	(3,906,824)
Cash flows from investing activities:		
Purchases of investments	(3,268,246)	(3,269,530)
Proceeds from sales of investments	1,748,099	284,736
Proceeds from prepayments of investments	1,924,000	1,446,177
Loans made	(110,524,360)	(176,334,880)
Collections on loans	82,591,134	81,768,869
Acquisition of equipment	(26,340)	-
Net cash used in investing activities	(27,555,713)	(96,104,628)
Cash flows from financing activities:		
Proceeds from notes payable	102,870,887	110,571,450
Repayments of notes payable	(78,068,185)	(26,558,519)
Proceeds from subordinate notes payable	8,800,000	-
Debt issuance costs	(115,100)	(23,261)
Net cash provided by financing activities	33,487,602	83,989,670
Net increase (decrease) in cash, cash equivalents and restricted cash	28,353,352	(16,021,782)
Cash, cash equivalents and restricted cash at beginning of year	44,642,087	60,663,869
Cash, cash equivalents and restricted cash at end of year	$ 72,995,439	$ 44,642,087
Supplemental cash flow disclosure:		
Cash paid for interest	$ 10,633,956	$ 6,556,950
Noncash investing and financing transactions:		
Extinguishment of note receivable and note payable related to assigning note payable to the obligor of the note receivable (Note 22)	$ 10,000,000	$ -
(Increase) decrease in notes payable for change in credit enhancement	$ (159,062)	$ 85,064

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Note 1 – Organization and nature of business

Low Income Investment Fund and Subsidiaries (LIIF), a California nonprofit public benefit corporation, is a community development financial institution (CDFI) which provides a comprehensive range of programs to alleviate poverty and support healthy families and communities by increasing the availability of capital in low-income communities at affordable rates and terms. LIIF's primary programs include affordable housing, education, childcare, healthcare, healthy food, transit oriented development (TOD), and national policy. Created in 1984 in response to needs in low-income housing, LIIF provides a crucial link between community-based, development organizations and the capital markets and other sources of financing and support.

With offices in San Francisco, Los Angeles, New York, Washington D.C. and Atlanta, LIIF offers development, acquisition, construction and permanent loans, as well as lines of credit from its Revolving Loan Fund (RLF), Healthy Food and Healthy Communities Fund (HFHC), Healthy Communities Innovation Fund (HCIF), and the U.S. Department of the Treasury Community Development Financial Institutions (CDFI Fund) Bond Guarantee Program (BGP). In addition, LIIF offers loan packaging and servicing to third-party lenders, and technical assistance, grants and consulting to nonprofit community organizations, child-care facilities, educational facilities, residents of multi-family housing, foundations and public sector agencies.

The following program and supporting services are included in the accompanying consolidated financial statements:

Lending production – RLF, HFHC, and HCIF loan funds

Includes all of the activities involved with marketing, underwriting, committing and closing community development loans.

LIIF lends its capital on a secured and unsecured basis to commercial real estate development projects in six financial product/services clusters — Affordable Housing, Education, Health Care, Transit Oriented Development, Food Commerce and Community Facilities— utilizing three loan funds: the RLF; HFHC and HCIF. Through the RLF, LIIF underwrites projects in each program area. HFHC is solely dedicated to financing grocery and small food stores that sell fresh and healthy food. The HCIF provides capital to higher risk and high social return transactions. From these funds, LIIF makes loans to support: (1) costs associated with predevelopment activities, including environmental assessments, inspections, architectural services, permits, and legal fees; (2) short-term capital for land or existing building acquisition; (3) short-term capital for construction, renovation, mini-perm or bridge financing; (4) new permanent financing or refinancing of existing debt; and (5) leveraged lending for New Market Tax Credit (NMTC) projects.

Note 1 – Organization and nature of business (continued)

These loan types span LIIF's programs with varied product offerings, terms and conditions for each product/service cluster:

Affordable housing – LIIF lends to multi-family rental and co-ops, and supportive/special needs development projects. LIIF extends direct loans to developers of affordable housing projects with loan products for predevelopment, acquisition, construction and permanent financing.

Education – LIIF lends to charter school projects, offering a range of loan products including predevelopment, acquisition, construction, permanent financing and NMTC leveraged loans.

Health care – LIIF lends to federally qualified health care centers offering a range of loan products including predevelopment, acquisition, construction and permanent financing.

Transit oriented development – LIIF lends to transit oriented development projects including housing and retail space in conjunction with the project. LIIF offers a range of loan products including predevelopment, acquisition, construction and permanent financing.

Food commerce – LIIF lends to food markets and grocery stores that sell healthy and fresh foods offering predevelopment, acquisition, construction and permanent financing

Community facilities –LIIF's lending activities support a variety of commercial projects and nonprofit office space. LIIF's loan products in this area include predevelopment, acquisition, construction, permanent, and NMTC leveraged loans.

In conjunction with these lending activities, from time to time, LIIF partners with other organizations to create independent Limited Liability Companies (LLCs) to jointly lend to projects and borrowers. LIIF maintains a minority interest in these entities but often is under contract to provide administrative and accounting services for a fee. LIIF does not consolidate these entities as the participant's rights granted in the operating agreements overcome the presumption of control by the managing member. Significant LLCs include the Bay Area Transit Oriented Affordable Housing Fund (BATOAH), the Golden State Acquisition Fund (GSAF), HealthCo Participant (HealthCo), MATCH, and LIIF Housing Preservation Fund (LHPF). LIIF uses the equity method of accounting for its investment in, and earnings or losses from, these LLCs (see Note 2).

Asset management and servicing

Includes all the activities involved with monitoring and servicing community development loans funded from LIIF's loan funds as well as for the LLCs and for third-party lenders, including CDFIs and other financial institutions.

Note 1 – Organization and nature of business (continued)

Child care development services

Includes activities related to providing grants and recoverable grants to center-based and family child-care providers, financial assistance to nonprofit child care centers and technical assistance to child care providers to address key planning and business issues related to their facilities. Activities include research, analysis, underwriting, consulting and other technical assistance. LIIF accomplishes this through a variety of programs, including the San Francisco Child Care Facilities (CCFF) Fund, the Access to Quality Child Care Expansion program in Washington DC, and our technical assistance for pre-K education work in New York City.

SPARCC

In fiscal year 2016 LIIF, in partnership with Enterprise Community Partners Inc., Natural Resources Defense Council Inc., and the Federal Reserve Bank of San Francisco created the Strong, Prosperous, and Resilient Communities Challenge (SPARCC), a $90 million multi-year initiative which invests in, and amplifies, local efforts underway in six communities in cities in the US to ensure that new infrastructure investments lead to equitable and healthy opportunities for everyone. Funded by the Ford Foundation, The JPB Foundation, The Kresge Foundation, Robert Wood Johnson Foundation, and the California Endowment, the program launched in fiscal year 2017 and will continue through fiscal year ending 2020. SPARCC helps regions refine and integrate their vision for the future, where the policies and practices that shape the built environment address the issues of racial equity, health, and climate resiliency through grants, technical assistance, and capital investment.

Other development services

Includes non-lending activities associated with new program initiatives including grants, technical assistance and other program work supporting the development of healthy food and healthy communities, childcare facilities and other community facilities, community development and transit oriented development initiatives.

National policy

Includes the activities related to the design and implementation of advocacy strategies to ensure LIIF is active in federal policy initiatives relevant to its main programs. National policy also includes advancing the policy agenda of LIIF, leveraging relationships and building momentum around the organization and its mission of poverty alleviation. In addition to advocating for programs and policies that support its own activities, LIIF supports all CDFIs by serving as a nonprofit business model for providing capital to low income neighborhoods.

Management and general

Includes general managerial and administrative functions of LIIF, comprised of staff time and expense and associated with general management, financial operations and reporting, administrative, and other similar activities.

Note 1 – Organization and nature of business (continued)

Fundraising

Includes the activities necessary to encourage and secure financial support from public sources such as the CDFI Fund, Department of Education (DOE), and from individuals, foundations and corporations for operations and capital for the RLF, HFHC, HCIF, and other initiatives.

Note 2 – Summary of significant accounting policies

Basis of consolidation

Accounting guidance on reporting of related entities requires nonprofit organizations with a controlling and economic interest in other organizations to consolidate those other organizations. Accordingly, the accompanying consolidated financial statements include the accounts of LIIF and its wholly owned subsidiaries, LIIF REO I, LLC; FoodCo, LLC; LIIF TOAH Member, LLC; LIIF NMTC Holdings, LLC; LIIF New Markets, LLC; and LIIF New Markets I through XII, LLC (collectively referred to as LIIF). All significant intercompany transactions have been eliminated in consolidation.

Over the past ten years, LIIF has been awarded New Market Tax Credit (NMTC) allocations from the United States Department of Treasury. In order to utilize the NMTC allocations, LIIF establishes Sub-CDE LLCs for the purpose of expanding lending for community facility projects in economically distressed communities in the United States. LIIF generally retains a 0.01 percent managing member ownership interest in each Sub-CDE LLC established. LIIF does not consolidate these Sub-CDE LLCs as the operating agreements limit LIIF's control to administrative functions that overcome the presumption of control of the managing member. The established Sub-CDE LLCs operate under an agreement with LIIF for administrative and accounting services. In exchange, LIIF receives a 0.5 percent administrative fee on Sub-CDE LLC assets under management.

Basis of accounting

LIIF's consolidated financial statements have been prepared on the accrual basis of accounting, in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Net assets, revenue, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

- Net assets without donor restrictions - Net assets not subject to donor-imposed restrictions.
- Net assets with donor restrictions - Net assets subject to donor-imposed restrictions that will be met by our actions and/or the passage of time, or maintained perpetually restricted by us. LIIF has no endowment funds as of June 30, 2019 and 2018.

Revenue is reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Investment proceeds and realized/unrealized gains and losses are reported as changes in net assets without donor restrictions unless specifically limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Expirations of donor restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated

Note 2 – Summary of significant accounting policies (continued)

Basis of accounting, continued

time period has elapsed) are reported as reclassifications from net assets with donor restrictions to net assets without donor restrictions.

Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and revenues and expenses. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant changes in the near term include, but are not limited to the determination of the allowance for loan losses.

Cash and cash equivalents

Cash is defined as cash in demand deposit and money market accounts. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and investments so near their maturity that the risk of changes in value due to changes in interest rates is negligible. These include investments with maturity dates within three months of their acquisition date. The Federal Deposit Insurance Corporation (FDIC) provides coverage for certain accounts up to $250,000. LIIF places its cash and cash equivalents in deposits with regulated financial institutions and, at times, some deposits may be in excess of the FDIC insured limit.

Restricted cash and cash equivalents

Restricted cash and cash equivalents includes funds held in trust, amounts restricted by donors and grantors and cash and cash equivalents held as security for certain loans.

Investments

LIIF carries its investments at estimated fair value, with the exception of Federal Home Loan Bank of San Francisco (FHLB-SF) stock that is carried at par value in accordance with U.S. GAAP. Estimated fair value is based on estimated market value for fixed income securities and current share values for mutual funds. Equity securities are presented at estimated fair value. Investments held by LIIF include U.S. treasury notes, corporate bonds, asset-backed securities, including collateralized mortgage obligations (CMOs), equity interests in affiliated companies, and other equity securities.

Net investment gains or losses is reported in the consolidated statement of activities and consists of interest and dividend income, realized and unrealized gains and losses, less investment expenses.

Accounts receivable, net

Accounts receivable consist of amounts due from contracts, borrowers, related parties or receivables generated from the normal course of business. An allowance for doubtful accounts is established by management based on estimated losses related to specific receivables and aging of amounts owed to LIIF. The allowance for doubtful accounts was $93,093 and $41,778 as of June 30, 2019 and 2018, respectively.

Note 2 – Summary of significant accounting policies (continued)

Notes receivable, net

LIIF makes Program Related Investments (PRIs) to other organizations to achieve charitable purposes in alignment with LIIF's mission to alleviate poverty. These PRIs are comprised of unsecured loans bearing below market interest rates. The fair value of PRI loans is evaluated at inception to determine if a contribution element exists as a discount on the loan. Discounts are amortized over the life of the loan as an adjustment to interest income.

Notes receivable are presented at their outstanding unpaid principal balances net of deferred loan origination fees and an allowance for loan losses and credit enhancements. LIIF provides funding in the form of notes receivable, or loans, to other nonprofit organizations, developers and other borrowers, in fulfillment of its mission. Notes receivable are comprised of acquisition/predevelopment, construction, and term notes. The majority of these notes have been made to borrowers in California and New York. The ability of LIIF's borrowers to honor their loan agreements is dependent upon many factors, including general economic conditions, government actions, and their ability to arrange for subsequent financing to repay LIIF. When underwriting these notes, in most cases, LIIF obtains a collateral interest in the real estate projects.

Interest income is accrued on the unpaid principal balance at the notes' stated rate. The accrual of interest on notes is discontinued at the time the note is more than 90 days delinquent. Notes are placed on nonaccrual status or charged-off at an earlier date if collection of principal and interest is considered doubtful.

Notes are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Origination fees are deferred and amortized using the effective interest method over the term of the note as an adjustment to interest income. Costs associated with the origination of each note are capitalized as initial direct costs and are amortized to expense over the term of the note as an adjustment to interest income. The net amount of deferred origination fees and unamortized initial direct costs is reported as part of the notes receivable, net balance to which it relates on the accompanying consolidated statements of financial position.

Allowance for loan losses and credit enhancements

The allowance for loan losses and credit enhancements (collectively referred to as allowance for loan losses) is an estimate of loan losses inherent in LIIF's notes receivable portfolio as of the date of the consolidated statement of financial position. The allowance is established through a provision for loan losses that is charged to expense.

Note 2 – Summary of significant accounting policies (continued)

Allowance for loan losses and credit enhancements, continued

Additions to the allowance are expected to maintain the adequacy of the total allowance after loan losses and loan growth. Loan exposures determined to be uncollectible are charged against the allowance. Cash received on previously charged-off amounts is recorded as a recovery to the allowance. For each period in which the provision for loan losses is expensed, net assets, to the extent available, are released from net assets with donor restrictions to net assets without donor restrictions to cover the net expenditure for the provision. These net assets with donor restrictions represent third-party grants that have been made to LIIF's loan funds. These loan funds issue new loans and cover the capital costs of such lending, including establishing loss reserves upon making new loans, increasing loan loss reserves as necessary during the life of existing loans and covering losses incurred as a result of defaulted loans.

The overall allowance consists of two primary components, specific reserves related to impaired loans and general reserves for inherent losses related to loans that are evaluated collectively for impairment.

All or a portion of a loan is considered impaired when, based on current information and events, it is probable that LIIF will be unable to collect all amounts due, including principal and interest, according to the contractual terms of the original agreement. Loans determined to be impaired are individually evaluated for impairment. Factors considered by management in determining the likelihood of collectability include primary repayment source, payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays, insignificant loan extensions, or that do not reflect any deterioration in performance, are not classified as impaired. The significance of payment delays or payment shortfalls are determined on a case-by-case basis by management, and take into consideration all facts and circumstances surrounding the loan and borrower, including the length of the delay, reason for the delay, and the borrower's prior payment record.

Loans are not classified as impaired unless they are nonperforming or have been modified and designated as a troubled debt restructuring (TDR). Once a loan is nonperforming or has been modified and designated as a TDR, it is then individually assessed for impairment. When a loan is impaired, LIIF may measure impairment based on the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's observable market price, or the fair value of the collateral if the loan is collateral dependent. A loan is collateral dependent if the repayment of the loan is expected to be provided solely by the underlying collateral.

LIIF calculates the general reserve allowance by applying a pre-determined percentage amount to each loan based upon one of three loan classifications and the risk-rating of the loan. The classifications are Acquisition/Pre-Development, Construction and Term/Permanent. The allowance is aggregated into LIIF's portfolio segments - Affordable Housing, Education, Health Care, Transit Oriented Development, Food Commerce and Community Facilities. The allowance for loan losses attributed to each portfolio segment is combined to determine LIIF's overall allowance, which is included on the consolidated statements of financial position and available for all loss exposures.

Note 2 – Summary of significant accounting policies (continued)

Allowance for loan losses and credit enhancements, continued

The determination of the general reserve for loans that are not considered to be individually impaired is based on estimates made by management, to include, but not limited to, consideration of historical losses by portfolio segment, internal asset classifications, and qualitative factors to include economic trends in LIIF's service areas, industry trends, geographic concentrations, estimated collateral values, LIIF's underwriting policies, the character of the loan portfolio and probable losses inherent in the portfolio taken as a whole.

Loans for which contractual terms have been modified in a TDR and are current at the time of restructuring remain on accrual status if there is demonstrated performance prior to the restructuring and payment in full under the restructured terms is expected. A restructuring of a debt constitutes a TDR if LIIF, for economic, legal or other reasons related to the borrower's financial difficulties, grants a concession to the borrower that it would not otherwise consider. These concessions may include rate reductions, principal forgiveness, extension of maturity date and other actions intended to minimize potential losses. TDR loans typically present an elevated level of credit risk because the borrowers are not able to perform according to the original contractual terms. Loans that are reported as TDRs are considered impaired and measured for impairment as described above.

LIIF assigns a risk rating to all loans and performs detailed reviews of all loans to identify credit risks and to assess the overall collectability of that segment of the portfolio. This analysis is performed on a periodic basis depending on the risk rating of the loan. These credit quality indicators are used to assign a risk rating to each individual loan. The risk ratings for loans included in the portfolio segments can be grouped into five major categories, defined as follows:

Pass – A pass loan is performing consistent with or better than projections, and with no existing or known potential weaknesses deserving of management's close attention.

Below expectation – A below expectation loan has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or in LIIF's loan position at some future date. Below expectation loans are not adversely classified and do not expose LIIF to sufficient risk to warrant adverse classification.

Substandard – A substandard loan is not adequately protected by the current financial position and paying capacity of the borrower or the value of the collateral pledged, if any. Loans classified as substandard have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. Well-defined weaknesses include inadequate cash flow or collateral support, a project's lack of marketability, failure to complete construction on time or the project's failure to fulfill economic expectations. They are characterized by the distinct possibility that LIIF will sustain some loss if the deficiencies are not corrected.

Doubtful – Loans classified as doubtful have all the weaknesses inherent in those classified as substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently known facts, conditions and values, highly questionable and improbable.

Note 2 – Summary of significant accounting policies (continued)

Allowance for loan losses and credit enhancements, continued

Loss – Loans classified as loss are considered uncollectible and are charged-off.

All of LIIF's portfolio segments, Affordable Housing, Education, Health Care, Transit Oriented Development, Food Commerce and Community Facilities represent lending, secured by real estate or other assets, typically to nonprofit entities. The degree of risk in commercial real estate lending depends primarily on the loan amount in relation to collateral value, the interest rate and the borrower's ability to repay in an orderly fashion. These loans generally possess a lower inherent risk of loss than unsecured loans. Economic trends determined by federal, state, and local governments and related subsidies; real estate values; interest rate environments; and other key economic indicators are closely correlated to the credit quality of these loans. Weak economic trends may indicate that the borrower's capacity to repay their obligations may be deteriorating.

LIIF also makes unsecured loans, typically to nonprofit real estate developers. The degree of risk in commercial unsecured lending depends primarily on the financial viability of the borrower's underlying business, and ultimate ability to repay in an orderly fashion. These loans generally possess a higher inherent risk of loss than secured loans. Although management believes the allowance to be adequate, ultimate losses may vary from its estimates. On a routine basis the adequacy of the allowance, including consideration of the relative risks in the portfolio, current economic conditions and other factors are reviewed. If management determines that changes are warranted based on those reviews, the allowance is adjusted.

LIIF has been awarded funding from the U.S. Department of Education to provide credit enhancements for certain loans made to charter schools. A credit enhancement reduces credit risk by providing assurance that LIIF will be compensated up to the amount of the credit enhancement if the borrower were to default.

Sale of notes receivable

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from LIIF, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) LIIF does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity or the ability to unilaterally cause the holder to return specific assets. In addition, for transfers of a portion of financial assets (for example, participations of loans receivable), the transfer must meet the definition of a "participating interest" in order to account for the transfer as a sale. LIIF accounts for transfers and servicing of financial assets by recognizing the financial and servicing assets it controls and the liabilities it has incurred, derecognizes financial assets when control has been surrendered, and derecognizes liabilities when extinguished.

Note 2 – Summary of significant accounting policies (continued)

Sale of notes receivable, continued

For notes receivable sold in which LIIF has retained the servicing rights, no servicing asset or liability has been reported as of June 30, 2019 and 2018, as the benefits of future servicing rights approximate adequate compensation.

Equipment and leasehold improvements, net

Equipment and leasehold improvement acquisitions of $5,000 or more are recorded at cost if purchased or at fair value if donated.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which range from three to ten years. The cost of leasehold improvements is amortized using the straight-line method over the lesser of the useful life or the terms of the related leases. When assets are sold or otherwise disposed of, the cost and accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized in change in net assets for the period. LIIF evaluates equipment and leasehold improvements for financial impairment as events or changes in circumstances indicate that the carrying amount of such assets may not be fully recoverable. No impairments were recognized in the years ended June 30, 2019 or 2018.

Deferred revenue

Deferred revenue includes amounts prepaid under certain contracts that will be earned in future periods and conditional contributions received in advance.

Funds held in trust

Funds held in trust represent cash provided by borrowers and funders to cover anticipated draws and certain other expenses related to loans receivable. These amounts are generally held in escrow accounts in the borrower or funder name. Amounts are released from funds held in trust as participant loan fundings are incurred or as expenses are paid on behalf of the borrower.

Contributions

Contributions, which were received from donations and grants, are recognized as revenue at fair value when they are received or unconditionally promised.

LIIF reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor-stipulated time restriction ends or the purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported as net assets released from restrictions. Donor-restricted contributions, whose restrictions are met in the same reporting period as the contribution is recorded, are reported as restricted contributions and net assets released from restrictions in the same reporting period.

Note 2 – Summary of significant accounting policies (continued)

Contributions, continued

Contributions receivable consist of unconditional promises to give. Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. An allowance for uncollectible contributions receivable is established based upon estimated losses related to specific accounts and is recorded through a provision for bad debt that is charged to expense. 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 commensurate with risk applicable in the years in which those promises are received.

Fees, interest and other revenue

Loan origination fees, loan packaging and servicing fees, technical assistance fees and consulting fees, interest and investment income, and other revenue are recognized as earned.

Functional expense allocation

The costs of providing LIIF's various programs, as described in Note 1, have been summarized on a functional basis on the consolidated statements of functional expenses. Certain costs have been allocated among programs and supporting services benefited. These costs include information technology and are allocated based on management estimates of direct program support including headcount and time spent. Occupancy costs are allocated proportionately with the employee's functional categorization on a per office basis.

Income taxes

LIIF is a nonprofit organization that has been recognized by the Internal Revenue Service and the Franchise Tax Board as an organization that is exempt from federal income tax on its income other than unrelated business taxable income under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) under the California Revenue and Taxation Code, respectively. In addition, LIIF has been recognized by the Internal Revenue Service under Section 170 of the Internal Revenue Code as an organization that is eligible to receive tax-deductible contributions.

LIIF has accounted for the uncertainty in income taxes as required by the Accounting for Uncertainty in Income Taxes topic of the FASB Accounting Standards Codification (ASC). LIIF uses a comprehensive model for recognizing, measuring, presenting and disclosing in the financial statements tax positions taken or expected to be taken on a tax return. A tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50 percent likely of being realized on examination. For tax positions not meeting the "more likely than not" test as specified in FASB Interpretation 48, no tax benefit is recorded. The effect of applying this model and the resulting identification of uncertain tax positions, if any, were not considered significant for financial reporting purposes and are not anticipated to change in the 12 months following June 30, 2019.

Note 2 – Summary of significant accounting policies (continued)

Income taxes, continued

During the years ended June 30, 2019 and 2018, LIIF recognized no interest or penalties associated with unrecognized tax benefits. LIIF is subject to the filing of U.S. federal, New York, and California informational returns. Federal and New York returns for years ended June 30, 2016 through June 30, 2019, and California returns for years ended June 30, 2015 through June 30, 2019, are currently open for potential federal and state examination.

LIIF has for-profit subsidiary entities that are subject to the filing of limited liability corporation tax returns which may include U.S. federal, and New York, and California state jurisdictions. During the years ended June 30, 2019 and 2018, these subsidiary entities recognized no interest or penalties associated with unrecognized tax benefits. Federal and New York returns for years ended June 30, 2016 through June 30, 2019, and California returns for years ended June 30, 2015 through June 30, 2019, are currently open for potential federal and state examination.

Reclassifications

Certain account reclassifications have been made to the prior year's financial statements in order to conform to classifications used in the current year, with no impact to net assets or change in net assets.

Recent accounting pronouncements – adopted

In August 2016, the FASB issued ASU 2016-14, *Nonprofit Entities (Topic 958): Presentation of Financial Statements of Nonprofit Entities*, which simplifies and improves how a nonprofit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance, and cash flows. Among other changes, the ASU replaces the three current classes of net assets with two new classes, "net assets with donor restrictions" and "net assets without donor restrictions", and expands disclosures about the nature and amount of any donor restrictions. For the fiscal year ended June 30, 2019, LIIF has adopted this guidance and applied retrospectively to all periods presented herein.

A key change of the new guidance is the net asset classes used in these consolidated financial statements. Amounts previously reported as unrestricted net assets are now reported as net assets without donor restrictions and amounts previously reported as temporarily restricted net assets and permanently restricted net assets, if applicable, are now reported as net assets with donor restrictions.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force),* which provides guidance on the presentation of restricted cash or restricted cash equivalents in the statement of cash flows. LIIF has adopted this ASU in the fiscal year ended June 30, 2019 and is applied using a retrospective transition method. The adoption of the ASU resulted in a restatement of beginning cash and cash equivalents, and restricted cash and cash equivalents as of July 1, 2017 of $42,484,893 for the impacts of combining combining cash and cash equivalents with restricted cash and cash equivalents.

Note 2 – Summary of significant accounting policies (continued)

Recent accounting pronouncements – not yet adopted

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. Additionally, the ASU provides for earlier effective dates for public entities as defined in accordance with GAAP for financial reporting purposes. LIIF met the definition of a public entity for financial reporting purposes with its public bond offering in fiscal year 2020 (see Note 23). In August 2015, the FASB issued ASU 2015-14 which defers the effective date of ASU 2014-09 for public entities by one year, making it effective for LIIF for the fiscal year ending June 30, 2020. LIIF has not yet selected a transition method. Adoption of ASU 2014-09 is not expected to have a material impact on the LIIF's consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*, which updates certain aspects of recognition, measurement, presentation and disclosure of financial instruments. ASU 2016-01 is effective for LIIF for fiscal year ending June 30, 2020 based on the effective date for public entities. LIIF has elected to early adopt the amendment that no longer requires disclosure of the fair value of financial instruments that are not measured at fair value and as such, these disclosures are not included herein. LIIF is currently evaluating the impact of adoption of the remainder of this standard on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842).* The guidance in this ASU requires lessees to recognize lease assets and lease liabilities on the statement of financial position for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. ASU 2016-02 is effective for LIIF for the fiscal year ending June 30, 2020. LIIF is currently evaluating the impact the adoption of this guidance will have on its consolidated financial statements.

In June 2016, the FASB issues ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which creates a new credit impairment standard for financial assets measured at amortized cost and available-for-sale debt securities.

The ASU requires financial assets measured at amortized cost (including loans, trade receivables and held-to-maturity debt securities) to be presented at the net amount expected to be collected, through an allowance for credit losses that are expected to occur over the remaining life of the asset, rather than incurred losses. The ASU requires that credit losses on available-for-sale debt securities be presented as an allowance rather than as a direct write-down. The measurement of credit losses for newly recognized financial assets (other than certain purchased assets) and subsequent changes in the allowance for credit losses are recorded in the statement of income as the amounts expected to be collected change. In July 2019, FASB extended the effective date for ASU 2016-13 beginning with LIIF's fiscal year ending June 30, 2024 with early adoption permitted. LIIF is currently evaluating the impact the adoption of this guidance will have on its consolidated financial statements and does not plan to early adopt.

Note 2 – Summary of significant accounting policies (continued)

Recent accounting pronouncements – not yet adopted, continued

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This ASU clarifies the guidance for evaluating whether a transaction is reciprocal (i.e., an exchange transaction) or nonreciprocal (i.e., a contribution) and for distinguishing between conditional and unconditional contributions. The ASU also clarifies the guidance used by entities other than not-for-profits to identify and account for contributions made and will be effective for LIIF for fiscal year ending June 30, 2020 as a public entity. Management is evaluating the impact that the adoption of ASU 2018-08 will have on LIIF's consolidated financial statements.

Liquidity and availability

LIIF's financial assets as of June 30, 2019 available to meet general expenditures over the next twelve months consist of the following:

Financial Assets:	
Cash and cash equivalents	$ 28,500,676
Restricted cash and cash equivalents	44,494,763
Investments, net	18,113,303
Accounts receivable, net	4,399,375
Contributions receivable	2,268,510
Accrued interest receivable	2,206,633
Notes receivable	426,110,889
Total financial assets	526,094,149
Less: Amounts not available to be used within one year	
Restricted cash and cash equivalents	(44,494,763)
Notes receivable, net, net of current	(275,019,650)
Investments, net	(2,400,703)
Scheduled debt maturities	(98,103,653)
Donor restricted net assets not available for operations	(30,455,703)
Financial assets available to meet general expenditures over the next twelve months	$ 75,619,677

Management considers general expenditures to be operating expenses that will be paid with funds that do not have a donor restriction. LIIF's operating expenses are substantially supported by net financing income, loan packaging and servicing fees, and grants and contributions. LIIF's annual operating expenses do not include pass-through grants. These expenses are approximately $20 million.

Note 2 – Summary of significant accounting policies (continued)

Liquidity and availability, continued

With the exception of an investment in the FHLB-SF and equity method investments, LIIFs cash, cash equivalents, and investments have no restrictions on use. Cash in excess of what is needed for operations is used to fund notes receivable. As discussed in Note 12, LIIF also has available lines of credit of over $116 million to fund loans receivable and general expenditures at June 30, 2019. LIIF's restricted cash generally is donor, loan participant, or investor restricted for purpose or geography. We expect to be able to utilize a portion of these funds to cover salaries and other operating costs to fulfill our mission as the restrictions are met. Loans and notes receivable in the amount of $275 million have scheduled maturities after more than one year.

Note 3 – Cash and cash equivalents, restricted cash and cash equivalents, and investments

Cash and cash equivalents, restricted cash and cash equivalents, and investments consist of the following as of June 30:

	2019	2018
Cash and cash equivalents	$ 28,500,676	$ 17,643,827
Restricted cash and cash equivalents (Note 4)	44,494,763	26,998,260
Investments (Note 5)	18,113,303	17,824,542
	$ 91,108,742	$ 62,466,629

Liquid assets, as defined in investor agreements, required to meet liquidity covenants at June 30, 2019 and 2018 totaled $103,831,178 and $61,637,846, respectively.

Note 4 – Restricted cash and cash equivalents

Restricted cash and cash equivalents is restricted for the following purposes as of June 30:

	2019	2018
Funds held in trust (Note 14)	$ 12,122,628	$ 10,272,738
Program restricted	21,484,703	11,692,683
Loan funds	4,129,644	1,538,568
Secured loan funds	6,757,788	3,494,271
	$ 44,494,763	$ 26,998,260

Note 5 – Investments

Investments consist of the following as of June 30:

	2019		2018	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
U.S. Treasury notes	$ 1,133,539	$ 1,065,474	$ 1,376,683	$ 1,300,500
Corporate bonds	8,152,445	8,139,924	8,071,741	7,654,658
Asset-backed securities (including CMOs)	6,421,570	6,439,192	6,779,876	6,511,968
Equity investments	40,890	108,900	749,582	818,274
Other	678,913	678,913	574,942	574,942
	$ 16,427,357	16,432,403	$ 17,552,824	16,860,342
Plus investments at cost:				
FHLB-SF stock		1,680,900		964,200
		$ 18,113,303		$ 17,824,542

Equity investments at June 30, 2018 included 30,000 shares of Urban Partnership Bank (UPB), a CDFI based in Chicago. During the year ended June 30, 2019, UPB entered into a merger agreement with Providence Interim Bank and these shares were converted into a right to receive cash in an aggregate amount of $599,289. LIIF recorded a gain on disposal in the amount of $9,289.

The amortized cost and fair value of investment securities at June 30, 2019 by contractual maturity are shown below. Actual maturities may differ from contractual maturities because issuers of the securities may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
Within one year	$ 677,423	$ 643,868
After one year through five years	6,293,164	6,226,387
After five years through ten years	2,315,397	2,335,143
Total	9,285,984	9,205,398
Investment securities not due at a single maturity date:		
Asset-backed securities (including CMOs)	6,421,570	6,439,192
Equity investments	40,890	108,900
Other	678,913	678,913
	$ 16,427,357	16,432,403
Plus investments at cost:		
FHLB-SF stock		1,680,900
		$ 18,113,303

Note 5 – Investments (continued)

Included in the investments balance are 16,809 shares and 9,642 shares, respectively, at June 30, 2019 and 2018 of FHLB-SF stock, which are required to be held by LIIF to initiate transactions with FHLB-SF. This stock is classified as a restricted investment security carried at cost and can be sold back only at its par value of $100 per share.

Note 6 – Accounts receivable, net

Accounts receivable, net consist of the following as of June 30:

	2019	2018
Accounts receivable - contracts	$ 4,103,949	$ 3,493,094
Accounts receivable - borrowers	299,682	412,469
Accounts receivable - other	88,837	118,848
Less allowance for doubtful accounts	(93,093)	(41,778)
	$ 4,399,375	$ 3,982,633

Note 7 – Contributions receivable

Contributions receivable consist of grants and pledges awarded, less the allowance for uncollectible pledges. At June 30, 2019 and 2018, the allowance for uncollectible pledges was $0 for both years. Contributions receivable totaled $2,268,510 and $9,757,219 at June 30, 2019 and 2018, respectively. The contributions receivable balance at June 30, 2019 is comprised of grants receivable from six grantors. The largest contribution receivable, in the amount of $951,000, as of June 30, 2019 is from a private foundation to support LIIF's SPARCC program.

As of June 30, contributions receivable are due to be collected as follows:

	2019	2018
Receivable in one year or less	$ 2,268,510	$ 9,734,609
Receivable in one to five years	-	22,610
	$ 2,268,510	$ 9,757,219

Note 8 – Notes receivable, net

Notes receivable, net consist of secured and unsecured notes with interest rates ranging from 0.25 percent to 8.09 percent as of June 30 as follows:

	2019	2018
Affordable housing	$ 192,958,476	$ 164,452,874
Education	145,404,893	159,206,669
Heath care	37,686,564	28,944,402
Transit oriented development	6,366,024	16,923,193
Food commerce	23,359,969	14,012,508
Community facilities	36,305,126	40,411,725
Total notes receivable	442,081,052	423,951,371
Less deferred loan origination costs, net	(721,765)	(706,743)
Less allowance for loan losses and credit enhancements (Note 10)	(15,248,398)	(12,652,523)
Total notes receivable, net	426,110,889	410,592,105
Less current portion	(151,091,239)	(124,706,978)
Total long-term notes receivable	$ 275,019,650	$ 285,885,127

In fiscal year 2011, LIIF, in conjunction with several banks, foundations, CDFIs and the Metropolitan Transportation Commission (MTC), launched the $50,000,000 San Francisco Bay Area Transit Oriented Affordable Housing Fund (BATOAH). LIIF retains a minority interest in BATOAH and is the fund manager. The MTC provided an initial commitment of $10,000,000 in first loss, subordinated capital to BATOAH.

To facilitate the transaction, and as fund manager, LIIF agreed to receive the funds from MTC and loan the proceeds to BATOAH. Both the receivable from BATOAH and the notes payable obligation to MTC are at a 0.0 percent interest rate, mature in fiscal year 2021, and are forgivable in the event BATOAH incurs principal losses and is unable to repay the full amount of the loan. As of June 30, 2012, the full $10,000,000 was paid to LIIF from the MTC, and loaned to BATOAH. This loan to BATOAH was assigned to BATOAH during the year ended June 30, 2019.

LIIF has $50,163,001 and $41,381,864 at June 30, 2019 and 2018, respectively, of notes receivable before the allowance for loan losses on the consolidated statements of financial position related to certain loan participation agreements with third-party investors that did not meet the characteristics of a participating interest in accordance with accounting rules governing the sale of a financial asset. An equal amount of notes payable is also recorded on LIIF's consolidated statement of financial position (see Note 12.) Although these loans did not meet the characteristics of participating interest, LIIF does not maintain any economic risk for the loans. All losses on these loans will reduce the recorded liability and will reduce the receivable balance due to the participating lender. At June 30, 2019, approximately $4,622,000 of the corresponding notes receivable are in food commerce and the remainder in affordable housing. At June 30, 2018, approximately $440,000 of the corresponding notes receivable are in food commerce and the remainder in affordable housing.

Note 8 – Notes receivable, net (continued)

During the year ended June 30, 2016, LIIF originated and funded three program related investment (PRI) loans with a combined face value of $6,000,000. Each loan was determined to have a contribution element due to below market interest rates of 2.0 percent due December 2025 and June 2026, which is recorded as a discount to the loan. The total discount recorded on PRIs at June 30, 2019 and 2018 was $1,274,829 and $1,471,283, respectively. There were no PRI loans originated in the years ended June 30, 2019 or 2018.

Note 9 — Transfer of loans, servicing assets and liabilities

LIIF has retained the servicing rights on participations recorded as sales. LIIF has entered into agreements with other organizations where it provides servicing of certain loans held by these organizations. LIIF has not recorded a servicing asset or servicing liability at June 30, 2019 and 2018, as the fees LIIF earns approximate adequate compensation and the costs associated with servicing loans.

Note 10 – Allowance for loan losses and credit enhancements

Changes in the allowance for loan losses and credit enhancements for the years ended June 30 are summarized as follows:

	2019	2018
Balance, beginning of year	$ 12,652,523	$ 9,956,112
Add provision for loan loss	2,754,937	2,611,347
(Less) add additions to credit enhancements	(159,062)	85,064
Balance, end of year	$ 15,248,398	$ 12,652,523

LIIF has received a total of $18,000,000 in grants from the U.S. Department of Education to provide credit enhancements for loans made to charter schools. In accordance with the grant agreement, total investment earnings in the amount of $641,091 have been reinvested in the reserve account and are to be used in accordance with the provisions of the grant agreement. The current balance of these credit enhancement grants available to cover loan losses is $16,448,164.

Note 10 – Allowance for loan losses and credit enhancements (continued)

The following tables show the allocation of the allowance for loan losses as of and for the years ended June 30 by portfolio segment and by impairment methodology:

2019	Affordable Housing	Education	Health Care	Transit Oriented Development	Food Commerce	Community Facilities	Total
Allowance for loan losses:							
Beginning of balance	$ 6,009,959	$ 3,966,202	$ 706,728	$ 390,926	$ 338,167	$ 1,240,541	$ 12,652,523
Provision for loan losses	2,545,656	153,356	173,405	(164,994)	116,101	(68,588)	2,754,936
Additions to credit enhancements	(259,658)	-	-	-	100,597	-	(159,061)
Ending balance	8,295,957	4,119,558	880,133	225,932	554,865	1,171,953	15,248,398
Ending balance: individually evaluated for impairment	-	699,783	-	-	-	-	699,783
Ending balance: collectively evaluated for impairment	$ 8,295,957	$ 3,419,775	$ 880,133	$ 225,932	$ 554,865	$ 1,171,953	$ 14,548,615
Notes receivable:							
Ending balance: collectively evaluated for impairment	$ 192,958,476	$ 136,110,732	$ 37,686,564	$ 6,366,024	$ 23,359,969	$ 36,305,126	$ 442,081,052
Ending balance: individually evaluated for impairment	-	9,294,161	-	-	-	-	-
Ending balance	$ 192,958,476	$ 145,404,893	$ 37,686,564	$ 6,366,024	$ 23,359,969	$ 36,305,126	$ 442,081,052

2018	Affordable Housing	Education	Health Care	Transit Oriented Development	Food Commerce	Community Facilities	Total
Allowance for loan losses:							
Beginning of balance	$ 4,489,327	$ 3,227,572	$ 526,192	$ 160,716	$ 345,666	$ 1,206,639	$ 9,956,112
Provision for loan losses	1,510,300	678,069	180,536	213,969	(7,499)	35,972	2,611,347
Additions to credit enhancements	10,332	60,561	-	16,241	-	(2,070)	85,064
Ending balance	6,009,959	3,966,202	706,728	390,926	338,167	1,240,541	12,652,523
Ending balance: individually evaluated for impairment	13,721	-	-	-	-	-	13,721
Ending balance: collectively evaluated for impairment	$ 5,996,238	$ 3,966,202	$ 706,728	$ 390,926	$ 338,167	$ 1,240,541	$ 12,638,802
Notes receivable:							
Ending balance: collectively evaluated for impairment	$ 164,315,661	$ 159,206,669	$ 28,944,402	$ 16,923,193	$ 14,012,508	$ 40,411,725	$ 423,814,158
Ending balance: individually evaluated for impairment	137,213	-	-	-	-	-	137,213
Ending balance	$ 164,452,874	$ 159,206,669	$ 28,944,402	$ 16,923,193	$ 14,012,508	$ 40,411,725	$ 423,951,371

LIIF considers the performance of the notes receivable portfolio and its impact on the allowance for loan losses. For all of the notes receivable portfolio segments, management evaluates credit quality of individual loans based on payment activity, borrower financial condition and other factors in order to assign individual internal risk ratings. The following table shows the portfolio segments as allocated by management's internal risk ratings as of June 30:

2019	Affordable Housing	Education	Health Care	Transit Oriented Development	Food Commerce	Community Facilities	Total
Pass	$ 165,563,209	$ 124,910,597	$ 37,686,564	$ 2,866,024	$ 23,359,969	$ 34,944,623	$ 389,330,986
Below expectation	27,395,267	11,200,135	-	3,500,000	-	1,360,503	43,455,905
Substandard	-	9,294,161	-	-	-	-	9,294,161
Total	$ 192,958,476	$ 145,404,893	$ 37,686,564	$ 6,366,024	$ 23,359,969	$ 36,305,126	$ 442,081,052

2018	Affordable Housing	Education	Health Care	Transit Oriented Development	Food Commerce	Community Facilities	Total
Pass	$ 147,830,040	$ 154,226,601	$ 28,944,402	$ 16,923,193	$ 14,012,508	$ 38,659,266	$ 400,596,010
Below expectation	16,485,621	4,980,068	-	-	-	1,752,459	23,218,148
Substandard	137,213	-	-	-	-	-	137,213
Total	$ 164,452,874	$ 159,206,669	$ 28,944,402	$ 16,923,193	$ 14,012,508	$ 40,411,725	$ 423,951,371

Note 10 – Allowance for loan losses and credit enhancements (continued)

As of June 30, 2019 and 2018, LIIF had no loans that were past due 30 days or longer. Nonaccrual loans totaled $0 at June 30, 2019 and 2018. There were no accruing loans past due greater than 90 days at June 30, 2019 and 2018. Nonaccrual cash basis interest recognized for the years ended June 30, 2019 and 2018 was $0 for both years. Interest foregone on nonaccrual loans for the both years ended June 30, 2019 and 2018 was $0.

The following tables show information related to impaired notes receivable at and for the years ended June 30:

	2019				
Description	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With an allowance recorded:					
Education	$ 9,294,161	$ 9,294,161	$ 699,783	$ 8,553,342	$ 481,027

	2018				
Description	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With an allowance recorded:					
Affordable housing	$ 137,213	$ 137,213	$ 13,721	$ 262,812	$ 10,874

Troubled debt restructurings

No loans receivable were modified during the years ended June 30, 2019 and 2018 as TDRs. For the years ended June 30, 2019 and 2018, LIIF had loans of $12,525 and $25,050 identified as TDRs, respectively. LIIF has allocated $1,010 and $1,954 of specific reserves to loans whose notes receivable terms have been modified in TDRs as of June 30, 2019 and 2018, respectively. LIIF has not committed to lend any additional amounts to customers with outstanding notes receivable that are classified as TDRs as of June 30, 2019 and 2018. There were no notes receivable modified as TDRs for which there was a payment default within 12 months following the modification during the years ended June 30, 2019 and 2018.

The terms of certain other notes receivable were modified during the years ended June 30, 2019 and 2018 that did not meet the definition of a TDR. The modification of these loans involved either a modification of the terms of a note agreement to borrowers who were not experiencing financial difficulties or a delay in a payment that was considered to be insignificant.

Note 11 – Equipment and leasehold improvements, net

Equipment and leasehold improvements, net consist of the following as of June 30:

	2019	2018
Equipment and leasehold improvements	$ 3,586,893	$ 3,593,629
Less accumulated depreciation and amortization	(1,982,564)	(1,716,312)
	$ 1,604,329	$ 1,877,317

Note 11 – Equipment and leasehold improvements, net (continued)

Depreciation and amortization expense totaled $299,329 and $324,467 for the years ended June 30, 2019 and 2018, respectively.

Note 12 – Notes payable, net

Notes payable, net, with the exception of the Bond Guarantee Program (BGP) debt and recourse notes payable for loans that did not meet true sales criteria, represent full recourse unsecured obligations of LIIF to repay borrowed money. Notes payable at June 30 are as follows:

	2019	2018
To private foundations, at annual interest rates of 1.0% to 2.5%, notes mature in calendar years 2020 to 2028.	$ 4,150,000	$ 675,000
To financial institutions, including lines of credit, at annual interest rates of 0% to 5.5%, notes mature in calendar years 2019 to 2029.	212,916,525	219,641,014
To religious organizations, at annual interest rates of 1.5% to 3.0%, notes mature in calendar years 2020 to 2023.	3,500,000	3,500,000
To governmental agencies; at annual interest rates of 0% to 3.9%, notes mature in calendar years 2021 to 2045.	110,269,675	106,552,415
To individuals and other organizations, at annual interest rates of 0% to 3.0%, notes mature in calendar years 2019 to 2024.	23,792,455	9,298,461
	354,628,655	339,666,890
Less unamortized debt issuance costs	(1,062,402)	(1,029,955)
Less current portion of notes payable, net of unamortized debt issuance costs	(90,613,653)	(53,234,159)
	$ 262,952,600	$ 285,402,776
Current portion of unamortized debt issuance costs	$ 97,877	$ 86,341
Long-term portion of unamortized debt issuance costs	964,525	943,614
Total unamortized debt issuance costs	$ 1,062,402	$ 1,029,955

Annual maturities of notes payable are as follows:

Years ending June 30:	
2020	$ 90,613,653
2021	54,807,570
2022	44,422,268
2023	14,688,723
2024	60,110,380
Thereafter	89,986,061
	$ 354,628,655

LIIF has $50,163,001 and $41,381,864 of notes payable on the consolidated statements of financial position related to certain loan participation agreements with third-party investors that did not meet the characteristics of a participating interest in accordance with accounting rules governing the sale of a financial asset at June 30, 2019 and 2018, respectively. An equal amount of notes receivable is also recorded on LIIF's statement of financial position (see Note 8). Although these loans did not meet the characteristics of participating interest, LIIF does not maintain any economic risk for the loans. All losses on these loans will reduce the recorded liability and will reduce the receivable balance due to the participating lender.

Note 12 – Notes payable, net (continued)

In September 2014 and July 2016, LIIF entered into $65,000,000 and $50,000,000, respectively, of bond loan agreements with CRF QI, LLC, as part of the CDFI Bond Guarantee Program that provides LIIF with up to 29.5-year maturities at capital-efficient rates. Under these agreements, LIIF is required to pledge eligible collateral to the lender equal to 103 percent of the bond loan and to fund an additional three percent in cash of the bond loan amount to a risk share pool account. As of June 30, 2019 and 2018, LIIF has pledged $81,840,785 and $70,307,565, respectively, of notes receivable under this arrangement and has $78,935,749 and $63,408,575, respectively, of outstanding debt. The agreements contain certain loan covenants and other related conditions similar to LIIF's other traditional notes payable, except for the pledging of collateral to the lender and the funding of the risk share pool.

Included in notes payable is a $10,000,000 obligation to the MTC as of June 30, 2018, as discussed in Note 8. The MTC obligation is at a 0.0 percent interest rate, maturing in 2021, and is forgivable to the extent that BATOAH is unable to repay its note payable to LIIF of the same amount. In April 2018, LIIF, MTC and BATOAH entered into an amended and restated funding agreement whereby the MTC loan to LIIF was to be assigned to BATOAH. This note was assigned to BATOAH during the year ended June 30, 2019 and the balance of the note is zero as of June 30, 2019.

In connection with select notes payable, LIIF is required to meet certain financial and nonfinancial covenants. The financial covenants include covenants related to liquidity, and capital adequacy and are reported to lenders as contractually required. As of June 30, 2019 and 2018, LIIF was in compliance with all covenants.

Available credit

Included in notes payable in the table above, LIIF has revolving lines of credit with financial institutions which, in aggregate, permit maximum borrowings that amount to $294,563,577 and $227,907,312 at June 30, 2019 and 2018, respectively, at interest rates that vary with market conditions. At June 30, 2019 and 2018, commitments totaling $116,500,549 and $30,000,000 were available to be drawn on such lines. Lines of credit balances at June 30, 2019 and June 30, 2018 include $30,000,000 with the Federal Home Loan Bank of San Francisco which requires the pledging of eligible assets as collateral in order to draw on the line. All remaining lines of credit are unsecured.

In addition to these lines of credit, LIIF has available credit on term loans of $30,079,967 and $48,039,967 as of June 30, 2019 and 2018, all of which require pledging notes receivable and cash as collateral.

Note 12 – Notes payable, net (continued)

Notes payable by instrument type at June 30 are as follows:

	2019	2018
Lines of Credit, excluding Bond Guarantee Program	$ 144,555,698	$ 179,505,435
Bond Guarantee Program	78,935,749	63,408,575
Term Loans	112,826,660	66,971,636
Participation loans not meeting sale criteria, net of allowance	48,480,168	41,381,864
MTC obligation	-	10,000,000
Credit enhancements	-	(231,000)
Subordinated notes payable	(30,169,620)	(21,369,620)
	$ 354,628,655	$ 339,666,890

Note 13 – Subordinated notes payable

Subordinated notes payable include notes payable to financial institutions in the amount of $30,169,620 and $21,369,620 at June 30, 2019 and 2018, respectively, with maturities in 2026 through 2028, with some facilities permitting renewals in perpetuity. The notes bear interest at rates of 0.0 percent to 2.5 percent per annum and interest is payable annually. The notes are unsecured and are subordinate to all other liabilities.

Note 14 – Funds held in trust

Funds held in trust includes cash provided by borrowers and funders to cover anticipated draws and certain operations expenses associated with loan participations at June 30 as follows:

	2019	2018
Funds received from borrowers and funders	$ 5,020,200	$ 5,243,791
Funds received from City of New York	7,102,428	5,028,947
	$ 12,122,628	$ 10,272,738

Note 15 – Interest and investment income

Interest and investment income for the years ended June 30 consists of the following:

	2019	2018
Investment income, net	$ 1,930,648	$ 275,190
Interest income - lending	23,744,265	18,501,508
Loan origination fees, net	1,307,588	1,345,340
	$ 26,982,501	$ 20,122,038

Note 16 – Net assets with donor restrictions

Net assets with donor restrictions are restricted for the following purposes or periods as of June 30:

	2019	2018
Time restrictions:		
Subsequent years' operations	$ 50,000	$ 575,000
Purpose restrictions:		
Program operations	2,153,337	4,259,851
Time and purpose restrictions:		
Revolving Loan Fund	13,023,484	16,457,015
Education Fund	16,448,164	8,747,321
Healthy Foods Fund	15,233,508	15,287,793
SPARCC	948,710	5,243,949
Healthy Communities Innovation Fund	1,250,000	-
Total time and purpose restrictions	46,903,866	45,736,078
Total donor restricted net assets	$ 49,107,203	$ 50,570,929

LIIF has received a number of capital grants available for use in support of loan funds with donor time and purpose restrictions, including loan capital, loan loss reserves and credit enhancement. LIIF accounts for these funds as net assets with donor restrictions. LIIF releases grants to net assets without donor restrictions as donor restrictions are met through meeting the purpose of the grant or the expiration of time.

Net assets with donor restrictions – (1) Revolving Loan Fund represents capital grants used to fund loans, provide credit enhancements to loans, or to cover loan losses. (2) Education Fund represents grants received from the U.S. Department of Education to be used as credit enhancement for loans supporting charter school facilities. (3) Healthy Foods Fund represents grants received from the CDFI Fund to be used to support fresh food retail outlets in underserved communities. (4) SPARCC represents grants from foundations to support LIIF new infrastructure investments lead to equitable and healthy opportunities for everyone. (5) Healthy Communities Innovation Fund represents a contribution restricted for higher risk, high mission and high social return loans and are time and purpose restricted.

Note 17 – Net assets released from restrictions

Net assets were released from donor restrictions during the years ended June 30 by incurring expenditures satisfying the restricted purposes, or by occurrences of other events specified by donors, as follows:

	2019	2018
Qualified program expenses	$ 4,104,949	$ 4,015,014
Provision for loan losses, commitments and credit enhancements	2,515,167	2,784,828
Capital grants	11,598,612	7,237,213
	$ 18,218,728	$ 14,037,055

Note 18 – Leases

LIIF leases office space in San Francisco, Los Angeles, New York City, Washington D.C. and Atlanta under operating leases expiring on various dates through 2025. Future minimum annual lease payments are as follows:

Years ending June 30:	
2020	$ 1,626,033
2021	1,588,123
2022	1,336,884
2023	1,324,718
2024	1,276,953
Thereafter	1,090,598
	$ 8,243,309

In November 2014, LIIF entered into a 10-year lease agreement for new office space for its San Francisco, California, corporate offices. The lease calls for monthly payments with annual increases over the term and rent commencing in April 2015. LIIF has agreements to sublease portions of its Los Angeles and San Francisco office through 2023 and 2021, respectively. Future minimum annual lease payments have been reduced by the minimum sublease rental amount of $179,444 due in the future.

Rent expense, net of sublease receipts, for the years ended June 30, 2019 and 2018 was $1,691,982 and $1,659,663, respectively.

Note 19 – Other commitments and contingencies

Cash, cash equivalents and investments

Demand deposits held in banks are insured by the Federal Deposit Insurance Corporation (FDIC). At June 30, 2019, LIIF had insured balances which totaled $1,153,364 and uninsured balances which totaled $71,842,075.

Note 19 – Other commitments and contingencies (continued)

Cash, cash equivalents and investments, continued

For investments held by a broker who is a member of the Securities Investor Protection Corporation, the cash and securities are insured for the custody function of the broker up to $500,000, including a $250,000 limit for cash. At June 30, 2019, LIIF had deposits and securities with insured balances which totaled $616,992 and uninsured balances which totaled $15,144,590. Another $2,351,721 of investments are not held by a broker and are also uninsured.

Concentrations of credit risk

LIIF does not have significant concentrations with any one customer. Concentrations of notes receivable existed in acquisition, construction/permanent and term loans. At June 30, 2019, approximately 27 percent, 23 percent and 27 percent, respectively, of the notes receivable were acquisition, construction/permanent and term loans. Loans related to education and affordable housing projects represented 33 percent and 44 percent respectively of notes receivable as of June 30, 2019.

Contingencies

From time to time, LIIF may be a party to certain legal proceedings arising out of the ordinary course of business, the outcomes of which individually or in the aggregate, in the opinion of LIIF's management, would not have a material adverse effect on LIIF's business operations, financial position, results of operations or cash flows.

LIIF has received federal funds for specific purposes that are subject to review and audit by grantor agencies. Although such audits could result in expenditure disallowances under terms of grants, it is management's opinion that any required reimbursements or future revenue offsets subsequently determined are remote and would not have a material effect on LIIF's financial position, results of operations or cash flows.

LIIF had allocated $0 and $2,187,723 of DOE grant funds with donor restrictions as first dollar loss credit enhancement to certain charter school loans owned wholly or partially by third-party investors as of June 30, 2019 and 2018, respectively. LIIF owns no real estate as of June 30, 2019 and 2018. All loans with an allocation of DOE grant funds are performing as expected.

As part of LIIF's NMTC business, as of June 30, 2019, LIIF has assumed a contingent liability of approximately $136,000,000 if LIIF acted in bad faith and was found guilty of negligence in structuring NMTC transactions or in breach of certain other conditions. Management believes this liability is remote as LIIF is an experienced NMTC allocatee, receives high quality external legal advice when structuring transactions and has regular third-party reviews and annual audits of all NMTC transactions.

Note 19 – Other commitments and contingencies (continued)

Contingencies, continued

In addition, if LIIF were unable to redeploy qualified low income investments that are repaid during the seven year NMTC compliance period and caused the tax credit investor to lose all tax credits claimed and available to be claimed, LIIF would have a liability for the present value of these failed tax credits which is estimated to be $15,000,000 as of June 30, 2019. None of the qualified low income investments made as part of these NMTC deals has repaid during the tax credit compliance period and in the unlikely event that one does repay, LIIF is confident that the investment would be redeployed during the allowable redeployment period. Contingent liabilities related to LIIF NMTC transactions are therefore considered remote.

Other

Amounts related to undisbursed closed loans at June 30, 2019 and 2018 totaled $27,445,886 and $33,903,251, respectively. Amounts related to loan approvals and/or loan commitments at June 30, 2019 and 2018 totaled $30,107,533 and $36,785,628, respectively.

Note 20 – Defined contribution plan

LIIF has a 401(k) plan (the Plan) for the benefit of its employees. All regular full- and part-time employees are eligible to participate in the Plan upon date of hire. Employees are allowed to defer a portion of earned salaries as contributions to the Plan. The Plan allows LIIF to make matching contributions and/or nonelective discretionary contributions for the benefit of the employees. LIIF contributed $391,495 and $318,316 to the Plan in 2019 and 2018, respectively. LIIF also maintains a 457(b) deferred compensation plan for certain employees.

Note 21 – Fair value measurements

LIIF groups its assets and liabilities measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. Valuations within these levels are based upon:

Level 1 – Quoted market prices for identical instruments traded in active exchange markets.

Level 2 – Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable or can be corroborated by observable market data.

Level 3 – Model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect LIIF's estimates of assumptions that market participants would use on pricing the asset or liability, such as discounting an appraisal, for the present value of expected future cash flows. Valuation techniques include management judgment and estimation that may be significant.

Note 21 – Fair value measurements (continued)

Assets recorded at fair value

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

The following table presents information about LIIF's assets measured at fair value on a recurring and nonrecurring basis as of June 30, 2019 and 2018:

Recurring basis – LIIF is required or permitted to record the following assets at fair value on a recurring basis.

	2019			
Description	Fair Value	Level 1	Level 2	Level 3
U.S. Treasury notes	$ 1,065,474	$ 1,065,474	$ -	$ -
Corporate bonds	8,139,924	-	8,139,924	-
Asset-backed securities including CMOs	6,439,192	-	6,439,192	-
Equity investments	108,900	-	108,900	-
Other	678,913	-	678,913	-
	$ 16,432,403	$ 1,065,474	$ 15,366,929	$ -

	2018			
Description	Fair Value	Level 1	Level 2	Level 3
U.S. Treasury notes	$ 1,300,500	$ 1,300,500	$ -	$ -
Corporate bonds	7,654,658	-	7,654,658	-
Asset-backed securities including CMOs	6,511,968	-	6,511,968	-
Equity investments	818,274	-	228,274	590,000
Other	574,942	-	574,942	-
	$ 16,860,342	$ 1,300,500	$ 14,969,842	$ 590,000

Level 1 securities are classified as U.S. government obligations. Debt securities of U.S. governmental agencies, municipal bonds and corporate bonds are grouped as Level 2. Fair values for certificates of deposit, debt securities of U.S. governmental agencies and corporate bonds are based on quoted market prices for similar securities.

As of June 30, 2018 the Level 3 equity investment fair value was calculated based on equity interest on a per share noncontrolling, nonmarketable interest basis. This investment was disposed of in June 2019.

Note 21 – Fair value measurements (continued)

Assets recorded at fair value, continued

The following table presents additional information about Level 3 assets measured at fair value. Both observable and unobservable inputs may be used to determine the fair value of positions that LIIF has classified within the Level 3 category. As a result, the unrealized gains and losses for assets within Level 3 category may include changes in fair value that were attributable to both observable and unobservable inputs.

Changes in Level 3 assets measured at fair value for the year ended June 30, 2019 were as follows:

Fair Value Measurements Using Significant Unobservable Inputs	Equity Investments	Impaired Loans
Beginning balance as of June 30, 2018	$ 590,000	$ 123,492
Deterioration of credit quality	-	9,294,161
Gain (loss) on change in valuation	9,289	-
Less collections of principal	-	(123,492)
Sale of investment	(599,289)	-
Ending balance as of June 30, 2019	$ -	$ 9,294,161

The Level 3 equity investment was exchanged for cash during the year ended June 30, 2019, as described in Note 5 and resulted in a gain on sale of $9,289.

Nonrecurring basis – The following table presents information about LIIF's assets measured at fair value on a nonrecurring basis and indicates the fair value hierarchy of the valuation techniques utilized by LIIF to determine such fair value as of June 30, 2019 and 2018, respectively. See Note 2, Allowance for loan losses and credit enhancements, for measurement of impaired loans.

	2019			
Description	Fair Value	Level 1	Level 2	Level 3
Impaired loans:				
Education	$ 9,294,161	$ -	$ -	$ 9,294,161
Total assets measured at fair value on a nonrecurring basis	$ 9,294,161	$ -	$ -	$ 9,294,161

	2018			
Description	Fair Value	Level 1	Level 2	Level 3
Impaired loans:				
Affordable housing	$ 123,492	$ -	$ -	$ 123,492
Total assets measured at fair value on a nonrecurring basis	$ 123,492	$ -	$ -	$ 123,492

Note 22 – Related-party transactions

LIIF has entered into various loans with borrowers and notes payable from lenders where a senior level employee of the borrower or lender is on LIIF's Board. These related-party loans were made on substantially the same terms, including interest rates and collateral requirements that were prevailing at the date these loans were made. Grant income was received from donors where a senior level employee is on LIIF's Board.

LIIF has originated loans for and made loans to BATOAH. As discussed in Note 8, LIIF committed to loan BATOAH $10,000,000, of which notes receivable totaling $10,000,000 were outstanding at June 30, 2018. This note was assigned to BATOAH during the year ended June 30, 2019. In addition, LIIF signed a loan agreement to fund up to $8,500,000 to BATOAH as a participant in loans LIIF originates for BATOAH.

In April 2018, BATOAH executed a new funding agreement which simplified and refinanced the existing debt capital structure. Certain existing creditors were paid in full during the year ended June 30, 2019. Under the new capital structure, BATOAH purchased a 25% subordinate participating interest in loans originated by LIIF and the other CDFI members of BATOAH. The existing loans made by BATOAH to third-party borrowers were refinanced under the new structure in the year ended June 30, 2019.

Under these funding agreements, LIIF loaned $765,746 and $527,880 at June 30, 2019 and 2018, respectively to BATAOH. LIIF provides administrative support and loan servicing to BATOAH under a management services agreement. LIIF receives an origination fee on loans if other members originate and sell to BATOAH. For the years ended June 30, 2019 and 2018, LIIF earned management and loan servicing fees from BATOAH totaling $37,409 and $67,871, respectively. Additionally, BATOAH is a variable interest entity under the guidance in ASC 810, Consolidation. As of June 30, 2019, BATOAH's statement of financial position included approximately $7,200,000 in cash and cash equivalents, $3,500,000 in notes receivable and total assets of $10,700,000. In addition, there was $10,000,000 in notes payable while members' equity was approximately $650,000. Total liabilities and members' equity was approximately $10,700,000. As of June 30, 2018, BATOAH's statement of financial position included approximately $8,200,000 in cash and cash equivalents, $12,000,000 in notes receivable for total assets of $20,200,000. In addition, there was approximately $9,500,000 in notes payable and $10,000,000 in subordinated debt, while members' equity was approximately $600,000. Total liabilities and members' equity was approximately $20,200,000.

LIIF entered into a partnership in GSAF, LLC on March 5, 2012. For each loan underwritten and originated by LIIF on behalf of this entity, LIIF is obligated to directly lend and fund 75 percent of the principal amount. Loans underwritten and originated totaled $5,836,970 and $5,575,042 as of June 30, 2019 and 2018, respectively. LIIF receives a management fee from GSAF, LLC. For the years ended June 30, 2019 and 2018, LIIF earned a management fee totaling $180,085 and $174,150, respectively. As of June 30, 2019 and 2018, GSAF owed LIIF $7,963 and $1,336,057, respectively.

Note 22 – Related-party transactions (continued)

LIIF is a member in certain Sub-CDE and investment fund LLCs associated with NMTC transactions. LIIF has also participated as a leveraged lender into certain investment fund LLCs. LIIF receives interest income from these loans and receives a management and loan servicing fees from these LLCs. For the years ended June 30, 2019 and 2018, LIIF earned administrative and loan servicing fees totaling $1,728,509 and $1,802,555, respectively.

LIIF entered into a partnership in MATCH LLC, on April 12, 2017. LIIF receives a management fee from MATCH, LLC. For the years ended June 30, 2019 and 2018, LIIF earned management fees totaling $28,234 and $11,899, respectively. As of June 30, 2019 and 2018, MATCH, LLC owed LIIF $14,750 and $0, respectively.

LIIF entered into a partnership in LIIF Housing Preservation Fund, LLC (LHPF) on August 3, 2017. LIIF provides administrative support and loan servicing to LHPF under a loan and security agreement. LIIF receives an origination and servicing fee on loans. For the year ended June 30, 2019 and 2018, LIIF earned loan origination and loan servicing fees from LHPF totaling $246,757 and $155,293, respectively. As of June 30, 2019 and 2018, LHPF owed LIIF $8,332 and $65,118, respectively.

Assets and liabilities related to transactions with related parties included on the accompanying consolidated statements of financial position as of June 30 are as follows:

	2019	2018
Notes payable	$ 74,120,116	$ 79,731,079
Cash deposits	1,364,477	4,726,635
Notes receivable	81,728,379	67,363,623
Grants receivable	750,000	-
Accounts receivable	278,696	465,823
Investments	342,357	679,977

Revenues and expenses related to transactions with related parties, included on the accompanying consolidated statements of activities for the years ended June 30 are as follows:

	2019	2018
Interest income	$ 4,146,989	$ 4,149,680
Grant income	2,006,070	163,000
Administrative and support services income	2,025,340	2,059,633
Interest expense	1,926,244	1,854,588
Rent income	10,200	10,200

Note 23 – Subsequent events

In July 2019, LIIF issued $25 million 3.386% Serial Bonds and $75 million of 3.711% Term Bonds Series 2019 (Sustainability Bonds), "the Bonds". The proceeds of the issuance was used to refinance certain fixed and floating rate debt obligations and to pay costs of issuance of the Bonds. Interest on the Bonds is payable January 1 and July 1. The Serial Bonds are to be redeemed July 1, 2026 and the Term Bonds are to be redeemed in equal annual redemption amounts between July 1, 2027 and July 1, 2029.

All events occurring from June 30, 2019 through October 28, 2019, the date the consolidated financial statements were available to be issued, have been reviewed.