Low Income Investment Fund and Subsidiaries

Compliance Report
June 30, 2020

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

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2020

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Contract/Grant/Pass-Through Entity Identifying Number			Total Federal Expenditures	Passed Through to Subrecipients
U.S. Department of Health and Human Services - passed through City and County of San Francisco						
Temporary Assistance to Needy Families (TANF) Cluster:						
Temporary Assistance to Needy Families	93.558	DPSS17000033			$ 136,086	$ -
U.S. Department of Health and Human Services - passed through Office of the State Superintendent of Education (OSSE) of District of Columbia						
Every Student Succeeds Act/Preschool Development Grants	93.434	90TP0045			992,193	750,000
Total U.S. Department of Health and Human Services					1,128,279	750,000
U.S. Department of Education - Direct						
California Charter School Facilities Financing Demonstration Program	84.354A	S354A020003			2,390,549	-
Credit Enhancement for Charter School Facilities Program	84.354A	U354A070009			5,274,504	-
Credit Enhancement for Charter School Facilities Program	84.354A	U354A160003			8,070,569	6,000,000
Credit Enhancement for Charter School Facilities Program	84.354A	U354A170003			8,065,629	-
Total U.S. Department of Education					23,801,251	6,000,000
U.S. Department of Treasury - Direct						
Community Development Financial Institutions (CDFI) Cluster:						
CDFI Program	21.020	181FA023076			400,000	-
CDFI Program	21.020	191FA051131			799,000	-
Total CDFI Cluster					1,199,000	-
Capital Magnet Fund	21.011	181CM050518			281,059	-
CDFI Bond Guarantee Program:			Balance as of July 1, 2019	New Federal Loans	Total	
CDFI Bond Guarantee Program	21.014	14-BG-012322	$ 52,463,625	$ 7,950,300	60,413,925	-
CDFI Bond Guarantee Program	21.014	16-BG-012322	26,472,124	-	26,472,124	-
Total CDFI Bond Guarantee Program					86,886,049	-
Total U.S. Department of Treasury					88,366,108	-
Total Federal Programs					$ 113,295,638	$ 6,750,000

See notes to schedule of expenditures of federal awards.

Notes to Schedule of Expenditures of Federal Awards

Note 1 – Basis of presentation and summary of significant accounting policies

The accompanying Schedule of Expenditures of Federal Awards (SEFA) presents expenditures for the year ended June 30, 2020 related to all federal award programs of Low Income Investment Fund and Subsidiaries (LIIF). The information in the SEFA is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200 (2 CFR 200), *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the SEFA presents only a selected portion of the operations of LIIF, it is not intended to and does not present the financial position, changes in net assets, or cash flows of LIIF. Expenditures reported on the SEFA are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

LIIF has not elected to use the 10% de minimus indirect cost rate as allowed under the Uniform Guidance.

Note 2 – Charter school facilities financing demonstration program and credit enhancement for charter schools facilities grant program

During 2002, LIIF received an award from the U.S. Department of Education in the amount of $3,000,000 (S354A020003) to be used for providing facilities financing for charter schools in the state of California. During 2008, LIIF received an additional award totaling $5,000,000 (U354A070009). During 2019, LIIF received additional awards totaling $2,000,000 (U354A160003) and $8,000,000 (U354A170003). In accordance with the award agreement, these amounts are to be used to provide credit enhancements (fund loss reserves and/or cover potential losses) for charter schools. As required by federal regulations, the $18,000,000 of funds received under this award were deposited into a reserve fund account and are invested in obligations issued or guaranteed by the United States. In accordance with the grant agreement, total investment earnings in the amount of $1,034,251 have been reinvested in a reserve account and are to be used in accordance with the provisions of the grant agreement. In accordance with policy guidance issued by the U.S. Department of Education related to this federal program, the total amount of federal awards expended includes the total amount of the reserve fund at the beginning of the grantee's fiscal year and any funds drawn down during the fiscal year to add to the reserve fund. Accordingly, the total amount included in the SEFA is the balance of the reserve fund, including investment earnings. As of June 30, 2020, LIIF used $1,233,000 to cover losses of the program.

Note 3 – Community Development Financial Institution bond guarantee program

In September 2014 and July 2016, LIIF entered into financing arrangements of $65,000,000 and $50,000,000, respectively, with the Community Development Financial Institution (CDFI) Bond Guarantee Program through CRF QI, LLC, a Qualified Issuer. Under this program, the Secretary of the Treasury provides a guarantee for the repayment of the full amount issued to the eligible CDFIs for eligible community or economic development purposes for a period not to exceed 30 years. LIIF has drawn down $92,870,333 of this total facility in amortizing debt with terms varying between 20 and 28 years under the agreement in order to refinance eligible projects. LIIF has $22,129,667 of available credit under these agreements. The total amount included in the SEFA is the prior-year bonds outstanding plus the current-year drawdowns. The bond amounts outstanding for the September 2014 and July 2016 financing arrangements were $58,202,629 and $25,745,033, respectively. The total bond amount outstanding at June 30, 2020 is $83,947,662.

Note 4 – CDFI Cluster

The CDFI program is included in the CDFI cluster based on the grouping of related programs included in the *OMB Compliance Supplement* to 2 CFR 200. Accordingly, this is presented as a cluster even though only one program was included in the SEFA for the year ended June 30, 2020.

RSM US LLP

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Independent Auditor's Report

Board of Directors
Low Income Investment Fund

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States, the consolidated financial statements of Low Income Investment Fund and Subsidiaries (LIIF), which comprise the consolidated statement of financial position as of June 30, 2020, the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated March 31, 2021.

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered LIIF's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of LIIF's internal control. Accordingly, we do not express an opinion on the effectiveness of LIIF's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters
As part of obtaining reasonable assurance about whether LIIF's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the consolidated financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report
The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

RSM US LLP

San Francisco, California
March 31, 2021

RSM US LLP

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

Independent Auditor's Report

Board of Directors
Low Income Investment Fund

Report on Compliance for Each Major Federal Program
We have audited Low Income Investment Fund and Subsidiaries' (LIIF) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of LIIF's major federal programs for the year ended June 30, 2020. LIIF's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility
Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility
Our responsibility is to express an opinion on compliance for each of LIIF's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about LIIF's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of LIIF's compliance.

Opinion on Each Major Federal Program
In our opinion, LIIF complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2020.

Report on Internal Control Over Compliance
Management of LIIF is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered LIIF's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of LIIF's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance
We have audited the consolidated financial statements of LIIF as of and for the year ended June 30, 2020, and have issued our report thereon dated March 31, 2021, which contained an unmodified opinion on those consolidated financial statements. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

RSM US LLP

San Francisco, California
March 31, 2021

Schedule of Findings and Questioned Costs

Part I – Summary of auditor's results

Financial statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: Unmodified

Internal control over financial reporting:

Material weakness(es) identified?	____ Yes	X No
Significant deficiency(ies) identified?	____ Yes	X None Reported
Noncompliance material to financial statements noted?	____ Yes	X No

Federal awards

Internal control over major federal programs:

Material weakness(es) identified?	____ Yes	X No
Significant deficiency(ies) identified?	____ Yes	X None Reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with Section 2 CFR 200.516(a)?	____ Yes	X No

Identification of major programs:

CFDA Numbers	Name of Federal Program or Cluster
84.354A	Credit Enhancement for Charter School Facilities Program
93.434	Every Student Succeeds Act/Preschool Development Grants

Dollar threshold used to distinguish between type A and type B programs: $3,000,000

Auditee qualified as low-risk auditee?	X Yes	____ No

Part II – Financial statement findings

None reported

Part III – Findings and questioned costs for federal awards

None reported

capital for healthy
families & communities

Summary Schedule of Prior Audit Findings

Financial statement findings

None reported

Findings and questioned costs for federal awards

None reported

Consolidated Financial Statements and Independent Auditor's Report

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

June 30, 2020 and 2019

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RSM US LLP

Independent Auditor's Report

Board of Directors
Low Income Investment Fund

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Low Income Investment Fund and Subsidiaries (LIIF), which comprise the consolidated statements of financial position as of June 30, 2020 and 2019, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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, 2020 and 2019, 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
As discussed in Note 2 to the financial statements, Low Income Investment Fund and Subsidiaries has adopted Financial Accounting Standards Board Accounting Standards Update (ASU) 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, and ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, as amended. Our opinion is not modified with respect to these matters.

Other Reporting Required by *Government Auditing Standards*
In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2021, on our consideration of LIIF's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of LIIF's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering LIIF's internal control over financial reporting and compliance.

RSM US LLP

San Francisco, California
March 31, 2021

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

Consolidated Statements of Financial Position
June 30, 2020 and 2019

	2020	2019
Assets		
Current assets:		
Cash and cash equivalents	$ 35,750,954	$ 28,500,676
Restricted cash and cash equivalents	45,238,522	44,494,763
Current portion of investments	2,262,358	643,868
Accounts receivable, net	840,984	363,319
Current portion of contributions receivable	13,257,763	6,304,566
Accrued interest receivable	2,489,155	2,206,633
Prepaid expenses and deposits	791,803	837,937
Current portion of notes receivable, net	176,046,055	151,091,239
Total current assets	276,677,594	234,443,001
Investments, net of current	16,798,839	17,469,435
Contributions receivable, net of current	4,561,701	-
Notes receivable, net of current	276,984,873	275,019,650
Equipment and leasehold improvements, net	1,127,835	1,604,329
Total assets	$ 576,150,842	$ 528,536,415
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	$ 4,743,785	$ 4,325,310
Accrued interest payable	2,645,488	856,327
Conditional contributions	7,083,331	3,750,000
Deferred revenue	148,559	148,559
Funds held in trust	7,432,208	12,122,628
Other liabilities	3,310,338	398,329
Current portion of notes payable, net	68,158,945	90,613,653
Current portion of subordinated notes payable	-	7,490,000
Total current liabilities	93,522,654	119,704,806
Other liabilities, net of current	2,500,000	-
Notes payable, net of current	316,309,204	262,952,600
Subordinated notes payable, net of current	26,679,620	22,679,620
Total liabilities	439,011,478	405,337,026
Commitments and contingencies (Notes 18, 19 and 23)		
Net assets:		
Without donor restrictions	77,077,417	74,092,186
With donor restrictions	60,061,947	49,107,203
Total net assets	137,139,364	123,199,389
Total liabilities and net assets	$ 576,150,842	$ 528,536,415

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, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Support, revenues and investment gains (losses):			
Net financial income:			
Interest income - lending	$ 28,188,115	$ -	$ 28,188,115
Less interest expense	(11,578,521)	-	(11,578,521)
Less provision for loan losses and commitments	(1,677,930)	-	(1,677,930)
Total net financial income	14,931,664	-	14,931,664
Fees:			
Loan packaging and servicing	2,600,872	-	2,600,872
Technical assistance and consulting	242,056	-	242,056
Other	31,507	-	31,507
Total fees	2,874,435	-	2,874,435
Investment income, net	1,130,658	204,593	1,335,251
Contributions	9,214,512	20,812,900	30,027,412
Net assets released from restrictions	10,062,749	(10,062,749)	-
Total	20,407,919	10,954,744	31,362,663
Total support, revenues and investment gains (losses)	38,214,018	10,954,744	49,168,762
Expenses:			
Program services:			
Lending production, asset management, and servicing	8,499,741	-	8,499,741
Child care development services	9,883,539	-	9,883,539
Strong, Prosperous, and Resilient Communities Challenge (SPARCC)	4,463,645	-	4,463,645
Other development services	786,813	-	786,813
National policy	713,926	-	713,926
Total program services	24,347,664	-	24,347,664
Supporting services:			
Management and general	7,572,725	-	7,572,725
Fundraising	2,133,331	-	2,133,331
Total supporting services	9,706,056	-	9,706,056
Total expenses	34,053,720	-	34,053,720
Loss on disposal of fixed assets	1,175,067	-	1,175,067
Total expenses and losses	35,228,787	-	35,228,787
Change in net assets	2,985,231	10,954,744	13,939,975
Net assets, beginning of year	74,092,186	49,107,203	123,199,389
Net assets, end of year	$ 77,077,417	$ 60,061,947	$ 137,139,364

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 financial income:			
Interest income - lending	$ 25,051,853	$ -	$ 25,051,853
Less interest expense	(11,077,859)	-	(11,077,859)
Less provision for loan losses and commitments	(2,515,167)	-	(2,515,167)
Total net financial income	11,458,827	-	11,458,827
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)	-
Investment income, net	1,742,082	188,566	1,930,648
Total	20,006,810	(1,463,726)	18,543,084
Total support, revenues and investment gains (losses)	42,857,639	(1,463,726)	41,393,913
Expenses:			
Program services:			
Lending production, asset management, and servicing	7,516,943	-	7,516,943
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 Functional Expenses
Year Ended June 30, 2020

	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	$ 5,728,199	$ 1,335,834	$ 624,627	$ 509,150	$ 441,194	$ 8,639,004	$ 5,447,199	$ 1,124,027	$ 15,210,230
Consultants and legal	989,247	290,968	608,317	99,237	128,095	2,115,864	546,529	653,434	3,315,827
Travel and conferences	151,942	48,321	57,175	35,638	14,554	307,630	292,548	23,228	623,406
Occupancy and equipment	1,069,211	297,298	115,434	80,676	55,414	1,618,033	548,102	275,169	2,441,304
Insurances, licenses and fees	146,226	4,399	7,036	1,429	892	159,982	391,076	4,007	555,065
Audit and annual report	-	-	-	-	-	-	204,035	-	204,035
Depreciation and amortization	119,106	38,434	13,294	10,292	3,487	184,613	59,905	42,459	286,977
Grants	225,136	7,867,007	3,037,288	50,000	-	11,179,431	-	-	11,179,431
Miscellaneous	70,674	1,278	474	391	70,290	143,107	83,331	11,007	237,445
Total expenses before interest expense and provision for loan losses and commitments	8,499,741	9,883,539	4,463,645	786,813	713,926	24,347,664	7,572,725	2,133,331	34,053,720
Interest expense	11,578,521	-	-	-	-	11,578,521	-	-	11,578,521
Provision for loan losses and commitments	1,677,930	-	-	-	-	1,677,930	-	-	1,677,930
Total expenses	$ 21,756,192	$ 9,883,539	$ 4,463,645	$ 786,813	$ 713,926	$ 37,604,115	$ 7,572,725	$ 2,133,331	$ 47,310,171

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	$ 5,906,327	$ 1,058,250	$ 565,588	$ 166,619	$ 431,705	$ 8,128,489	$ 4,822,685	$ 1,055,579	$ 14,006,753
Consultants and legal	506,973	293,716	197,384	67,412	136,418	1,201,903	462,583	68,031	1,732,517
Travel and conferences	260,382	49,815	93,691	17,034	19,396	440,318	236,335	44,423	721,076
Occupancy and equipment	1,006,118	276,629	101,750	36,271	61,054	1,481,822	736,506	221,126	2,439,454
Insurances, licenses and fees	149,925	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	95,133	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	102,448	2,467	1,285	445	77,042	183,687	179,361	24,225	387,273
Total expenses before interest expense and provision for loan losses and commitments	7,516,943	7,299,531	6,533,767	293,191	731,576	22,375,008	7,041,974	1,461,583	30,878,565
Interest expense	11,077,859	-	-	-	-	11,077,859	-	-	11,077,859
Provision for loan losses and commitments	2,515,167	-	-	-	-	2,515,167	-	-	2,515,167
Total expenses	$ 21,109,969	$ 7,299,531	$ 6,533,767	$ 293,191	$ 731,576	$ 35,968,034	$ 7,041,974	$ 1,461,583	$ 44,471,591

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, 2020 and 2019

	2020	2019
Cash flows from operating activities:		
Change in net assets	$ 13,939,975	$ 10,515,348
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	286,977	299,328
Amortization of debt issuance costs	211,975	82,653
Change in deferred fees and costs	35,479	15,023
Loss on disposal of fixed assets	1,175,067	-
Provision for loan losses and commitments	1,677,930	2,515,167
Gain on related-party equity investments	(58,963)	(114,546)
Net realized and unrealized gains and losses	(272,702)	(578,067)
Noncash interest income	(211,790)	(196,455)
Changes in operating assets and liabilities:		
Accounts and contributions receivable	(11,992,563)	7,071,967
Accrued interest receivable	(282,522)	(374,043)
Prepaid expenses and deposits	46,134	20,591
Accounts payable and accrued expenses	317,593	(2,278,020)
Accrued interest payable	1,789,161	442,064
Funds held in trust	(4,690,420)	1,849,890
Other liabilities	5,412,009	398,329
Conditional contributions	3,333,333	2,752,234
Net cash provided by operating activities	10,716,673	22,421,463
Cash flows from investing activities:		
Purchases of investments	(20,519,725)	(3,268,246)
Proceeds from sales of investments	3,068,915	1,748,099
Proceeds from calls, maturities, and prepayments of investments	16,834,582	1,924,000
Loans made	(137,826,213)	(110,524,360)
Collections on loans	109,146,921	82,591,134
Acquisition of equipment and leasehold improvements	(985,552)	(26,340)
Net cash used in investing activities	(30,281,072)	(27,555,713)
Cash flows from financing activities:		
Proceeds from notes payable	160,880,300	102,870,887
Repayments of notes payable	(128,671,043)	(78,068,185)
Proceeds from subordinated notes payable	4,000,000	8,800,000
Repayment of subordinated notes payable	(7,490,000)	-
Debt issuance costs	(1,160,821)	(115,100)
Net cash provided by financing activities	27,558,436	33,487,602
Net increase in cash, cash equivalents and restricted cash and cash equivalents	7,994,037	28,353,352
Cash, cash equivalents and restricted cash and cash equivalents at beginning of year	72,995,439	44,642,087
Cash, cash equivalents and restricted cash and cash equivalents at end of year	$ 80,989,476	$ 72,995,439
Cash and cash equivalents	$ 35,750,954	$ 28,500,676
Restricted cash and cash equivalents	45,238,522	44,494,763
	$ 80,989,476	$ 72,995,439

(Continued)

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

Consolidated Statements of Cash Flows (Continued)
Years Ended June 30, 2020 and 2019

	2020	2019
Supplemental cash flow disclosure:		
Cash paid for interest	$ 9,784,428	$ 10,633,956
Noncash investing and financing transactions:		
Extinguishment of note receivable and note payable related to assigning note payable to the obliger of the note (Note 22)	$ -	$ 10,000,000
Increase in notes payable for change in credit enhancement	$ -	$ (159,062)

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, child care, health care, 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 – 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 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, LIIF Housing Preservation Fund (LHPF) and LIIF Housing Preservation Fund, II, LLC (LHPF II). LIIF uses the equity method of accounting for its investment in, and earnings or losses from, these LLCs (see Note 2).

Also 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, D.C., 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 U.S. to ensure that new infrastructure investments lead to equitable and healthy opportunities for everyone. 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. Funded by the Ford Foundation, The JPB Foundation (JPB), The Kresge Foundation (Kresge), the Robert Wood Johnson Foundation (RWJF), and The California Endowment, the program launched in fiscal year 2017. In fiscal year 2020, JPB, Kresge and RWJF renewed their commitment with Phase 2 and were joined by the Ballmer Foundation. SPARCC will continue through fiscal year ending 2023.

Other development services

Includes nonlending activities associated with new program initiatives, including grants, technical assistance and other program work supporting the development of healthy food and healthy communities, child care 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 VI, X and XI, LLC (collectively referred to as LIIF). All significant intercompany transactions have been eliminated in consolidation.

LIIF has been awarded 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% 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% 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 LIIF's actions and/or the passage of time, or maintained perpetually restricted. LIIF has no endowment funds as of June 30, 2020 and 2019.

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

Note 2 – Summary of significant accounting policies (continued)

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 required to be maintained in separate bank accounts 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 on the consolidated statements 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 as of June 30, 2020 and 2019.

Note 2 – Summary of significant accounting policies (continued)

Notes receivable, net

LIIF makes loans in the following portfolio segments, Affordable Housing, Education, Health Care, Transit Oriented Development, Food Commerce and Community Facilities. LIIF also 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 and predevelopment, construction, term, Equity with a Twist (EQT) and Charter School Tenant Improvement (CSTI) 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 statements 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 collectibility 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 percentage of the principal amount outstanding to each loan based upon an estimate of the loss that may be incurred in the event that a loan defaults. The percentage applied is based upon one of the five loan classifications and the risk-rating of the loan. The loan classifications are Acquisition and Pre-Development, Construction, Term, EQT and CSTI.

The allowance is aggregated into LIIF's loan types - Acquisition and Pre-Development, Construction, Term, EQT and CSTI loans. The allowance for loan losses attributed to each loan type 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

Acquisition and Pre-Development Loans are for early stage financing for future development projects. Acquisition loans are secured by vacant land, vacant buildings or occupied buildings being repositioned for a future financing structure which may or may not include physical improvements and economic stabilization. Pre-development loans may be secured or unsecured. As early stage loans for properties which generate no, or possibly limited, revenue, underwriting for all of these loans is based on the current and future value of the site, the potential for the sponsor to obtain multiple financing sources to execute the next of stage of financing and the market for the proposed project to be developed. These loans are viewed as having a higher risk profile because the properties are mostly not revenue producing and do not have the next stage of financing secured.

Construction Loans finance the construction and, at times, the acquisition of the site for development. The loans are secured by the site and funded on a draw basis, often in a complex structure with multiple funding sources. The risk of these projects is the ability of the sponsor and contractor to complete the construction within budget and in accordance with local regulations and to reach physical occupancy and economic stabilization. For some projects, there may be a lease-up component that happens during the term of the loan; for others, the property is leased prior to construction and the occupying tenants are underwritten prior to closing. The sponsor's ability to execute on all aspects of the project as well as the analysis of the economic feasibility of the project in the projected economic environment is critical.

Term Loans finance revenue generating stabilized, partially or fully amortizing, properties for up to 7 years or, in some cases when financed by longer term debt for longer periods of up to 30 years. All term loans are collateralized by the operating properties. The loans are dependent upon the economics of the property depending on whether it is occupied rental housing or occupied by an ongoing business generally charter schools, early childhood education programs, health care organizations or other operators in community facilities.

EQT transactions are 10-year enterprise level loans to not-for-profit community development organizations having cross-sectoral alignment with LIIF's mission. The transactions are not project specific and over the life of the loan, these loans may be used to facilitate several projects in multiple sectors. Borrowers are responsible for paying interest on the agreed-upon schedule and to repay the loan at or before maturity based on agreed-upon terms. As unsecured and long term, these loans are viewed as more risky than the secured and/or project based lending and represent a small portion of the loan portfolio.

Note 2 – Summary of significant accounting policies (continued)

Allowance for loan losses and credit enhancements, continued

CSTI Loans are up to four-year loans made to early stage charter schools to allow them to build out space for classrooms and other uses. The loans may be unsecured or secured with UCC filings. As of June 30, 2020, no loans have been made with this product. It is anticipated that while a form of construction, these loans will have a greater risk

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 collectibility 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.

Note 2 – Summary of significant accounting policies (continued)

Allowance for loan losses and credit enhancements, continued

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.

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.

Note 2 – Summary of significant accounting policies (continued)

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.

For notes receivable sold in which LIIF has retained the servicing rights, no servicing asset or liability has been reported as of June 30, 2020 and 2019, 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 recoverable. LIIF vacated its San Francisco office in June 2020 and wrote off a net book value of approximately $1,175,000 of tenant improvements and furniture and fixtures. No impairments were recognized in the year ended June 30, 2019.

Deferred revenue

Deferred revenue includes amounts prepaid under certain contracts that will be earned in future periods.

Conditional contributions

Conditional contributions consist of a transfer of assets in which the conditions have not been substantially met nor explicitly waived by the donor in accordance with Accounting Standards Update (ASU) 2018-08. In addition to amounts recorded on the consolidated statements of financial position, LIIF has approximately $2,600,000 in additional conditional contributions.

Other liabilities

Other liabilities include repayable grants and agency obligations.

Note 2 – Summary of significant accounting policies (continued)

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.

Fair value measurement of financial instruments

The carrying amount of investments in marketable securities and investments are recorded at fair value. The carrying amounts of other financial instruments approximate their fair value.

Impairment of long-lived assets

An impairment loss is recognized on a long-lived asset if its carrying amount is not recoverable and exceeds its fair value. The carrying amount is not recoverable when it exceeds the sum of undiscounted cash flows expected to result from use of the asset over its remaining useful life and final disposition. The amount of an impairment loss is the difference between an asset's carrying amount and its fair value. Once an impairment loss is recognized, the carrying amount of the asset is lowered and depreciation is adjusted for the remaining useful life of the asset.

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.

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.

Note 2 – Summary of significant accounting policies (continued)

Revenue recognition

LIIF's services that fall within the scope of FASB Accounting Standards Codification (ASC) Topic 606 are presented within fees on the consolidated statements of activities and are recognized as LIIF satisfies its obligations to the customer.

Loan packaging and servicing: Primarily represents administration fees, NMTC placement and packaging fees, and servicing fees. Administration fees are from administrative services to the sub-CDE funds created from NMTC transactions. Administrative duties include maintaining the accounting records, processing cash transactions, and oversight of audits and AUP reports. Revenue is recognized over time as services are performed as the sub-CDE funds receive the benefits of the services over time as LIIF performs the administrative duties. Packaging fees represent an origination fee for assembling the tax credit investor, the senior and/or subordinated lender, and allocating the NMTC to the CDE as well as origination fees for closing loans to third parties. Revenue is recognized at the point in time of the sub-allocation. Servicing fees are outside of the scope of FASB ASC Topic 606. For the year ended June 30, 2020, $1,136,217 of revenue was recognized from revenue streams where recognition occurs over time, $295,870 was recognized from revenue streams at a point in time, and $1,168,785 was outside of the scope of FASB ASC Topic 606.

Technical assistance and consulting: Primarily related to certain early child care education awards that LIIF has received. Revenue is recognized as the programmatic work required under the contract is fulfilled. For the year ended June 30, 2020, $242,056 of revenue was recognized over time.

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 headcount 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.

Note 2 – Summary of significant accounting policies (continued)

LIIF has accounted for the uncertainty in income taxes as required by the Accounting for Uncertainty in Income Taxes topic of the FASB ASC. LIIF uses a comprehensive model for recognizing, measuring, presenting and disclosing in the consolidated 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% 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, 2020.

During the years ended June 30, 2020 and 2019, 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, 2017 through June 30, 2020, and California returns for years ended June 30, 2016 through June 30, 2020, 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, New York, and California state jurisdictions. During the years ended June 30, 2020 and 2019, these subsidiary entities recognized no interest or penalties associated with unrecognized tax benefits. Federal and New York returns for years ended June 30, 2017 through June 30, 2020, and California returns for years ended June 30, 2016 through June 30, 2020, are currently open for potential federal and state examination.

Reclassifications

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

Note 2 – Summary of significant accounting policies (continued)

Recent accounting pronouncements – adopted

In May 2014, the Financial Accounting Standards Board (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 replaces most existing revenue recognition guidance in U.S. GAAP and permits the use of either a full retrospective or retrospective with cumulative effect transition method. LIIF adopted this standard for the year ended June 30, 2020, and applied retrospectively for the year ended June 30, 2019. LIIF has selected the modified retrospective transition method and the adoption did not have a material effect. Fees contracts are reciprocal agreements and LIIF recognizes this revenue in accordance with the five-step model under ASC 606 as follows:

- Identify the contract with a customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contract
- Recognize revenue when or as performance obligations are satisfied

Fees revenue is recognized over time as services are provided by LIIF to its customers. In some cases, LIIF's contracts with customers include multiple performance obligations that are not fulfilled simultaneously. When this occurs, the transaction price is allocated on a relative stand-alone selling price (SSP) basis to each performance obligation. LIIF determines SSP based on observable selling prices of its products.

Note 2 – Summary of significant accounting policies (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. LIIF adopted both the contributions received and contributions made portions of this ASU in the fiscal year ended June 30, 2020, using a modified prospective basis. Under a modified prospective basis, in the first set of financial statements following the effective date, the amendments should be applied to agreements that are either: 1. Not completed as of the effective date, or 2. Entered into after the effective date. No prior-period results should be restated, and there should be no cumulative-effect adjustment to the opening balance of net assets at the beginning of the year of adoption. Due to the adoption of 2018-08, LIIF implemented new guidance on the classification of revenue. Revenue from its child care contracts with government agencies have been evaluated and LIIF has determined that there is no reciprocal exchange of value. Therefore, these revenues are to be considered contributions and not technical assistance fees. There was no significant impact on the adoption of this standard for contributions made.

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 ended June 30, 2020, based on the effective date for public entities. LIIF fully adopted this ASU in the fiscal year ended June 30, 2020, and the adoption did not have a significant impact on the consolidated financial statements as the cost approximates fair value for LIIF's equity investments.

Recent accounting pronouncements – not yet adopted

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. In June 2020, the FASB issued ASU 2020-05, which defers the effective date of ASU 2016-02 for one year, making it effective for LIIF for the fiscal year ending June 30, 2021. LIIF's evaluation of this standard anticipates recognizing an approximate $7 million right of use asset and lease obligation upon adoption on its consolidated financial statements.

In June 2016, the FASB issued 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.

Note 2 – Summary of significant accounting policies (continued)

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.

Liquidity and availability

LIIF's financial assets as of June 30 available to meet general expenditures over the next 12 months consist of the following:

	2020	2019
Financial assets:		
Cash and cash equivalents	$ 35,750,954	$ 28,500,676
Restricted cash and cash equivalents	45,238,522	44,494,763
Investments, net	19,061,197	18,113,303
Accounts receivable, net	840,984	363,319
Contributions receivable	17,819,464	6,304,566
Accrued interest receivable	2,489,155	2,206,633
Notes receivable	453,030,928	426,110,889
Total financial assets	574,231,204	526,094,149
Less amounts not available to be used within one year:		
Restricted cash and cash equivalents	(45,238,522)	(44,494,763)
Notes receivable, net of current	(276,984,873)	(275,019,650)
Investments, net	(2,830,120)	(2,400,703)
Scheduled debt maturities	(68,158,945)	(98,103,653)
Contributions receivable, net of current	(4,561,701)	-
Donor restricted net assets not available for general operations	(43,389,104)	(30,455,703)
Financial assets available to meet general expenditures over the next 12 months	$ 133,067,939	$ 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 financial income, loan packaging and servicing fees, and grants and contributions. LIIF's annual operating expenses do not include pass-through grants. These recurring expenses are approximately $24 million and $20 million for the years ended June 30, 2020 and 2019, respectively.

Note 2 – Summary of significant accounting policies (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. LIIF also has available unrestricted lines of credit of $160 million to fund loans receivable and general expenditures and $22 million of available restricted lines of credit at June 30, 2020. LIIF's restricted cash generally is donor, loan participant, or investor restricted for purpose or geography. However, 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 $277 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:

	2020	2019
Cash and cash equivalents	$ 35,750,954	$ 28,500,676
Restricted cash and cash equivalents (Note 4)	45,238,522	44,494,763
Investments (Note 5)	19,061,197	18,113,303
	$ 100,050,673	$ 91,108,742

Liquid assets, as defined in investor agreements, required to meet liquidity covenants at June 30, 2020 and 2019, totaled $86,090,446 and $107,582,178, respectively.

Note 4 – Restricted cash and cash equivalents

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

	2020	2019
Funds held in trust (Note 14)	$ 7,432,208	$ 12,122,628
Program restricted	24,372,715	21,484,703
Loan funds	9,038,898	4,129,644
Secured loan funds	4,394,701	6,757,788
	$ 45,238,522	$ 44,494,763

Note 5 – Investments

Investments consist of the following as of June 30:

	2020 Amortized Cost	2020 Fair Value	2019 Amortized Cost	2019 Fair Value
U.S. Treasury notes	$ 825,454	$ 786,743	$ 1,133,539	$ 1,065,474
Corporate bonds	5,582,685	5,778,910	8,152,445	8,139,924
Asset-backed securities (including CMOs)	9,567,869	9,600,949	6,421,570	6,439,192
Equity investments	97,890	162,365	40,890	108,900
	$ 16,073,898	16,328,967	$ 15,748,444	15,753,490
Plus other investments:				
Equity method		749,730		678,913
FHLB-SF stock at cost		1,982,500		1,680,900
		$ 19,061,197		$ 18,113,303

The amortized cost and fair value of investment securities at June 30, 2020, 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. Included in the investments balance are 19,825 shares and 16,809 shares, respectively, at June 30, 2020 and 2019, of FHLB-SF stock, which are required to be held by LIIF as a member of the 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.

	Amortized Cost	Fair Value
Within one year	$ 2,357,102	$ 2,262,358
After one year through five years	5,954,083	6,160,662
After five years through ten years	7,183,330	7,229,311
Total	15,494,515	15,652,331
Investment securities not due at a single maturity date:		
Asset-backed securities (including CMOs)	481,493	514,271
Equity investments	97,890	162,365
	$ 16,073,898	16,328,967
Plus investments at cost:		
Other		749,730
FHLB-SF stock		1,982,500
		$ 19,061,197

Note 6 – Accounts receivable, net

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

	2020	2019
Accounts receivable - contracts	$ 106,341	$ 67,893
Accounts receivable - borrowers	673,986	299,682
Accounts receivable - other	153,750	88,837
Less allowance for doubtful accounts	(93,093)	(93,093)
	$ 840,984	$ 363,319

Note 7 – Contributions receivable

Contributions receivable consist of grants and pledges awarded, less the allowance for uncollectible pledges. At June 30, 2020 and 2019, the allowance for uncollectible pledges was $0 for both years. The contributions receivable balance at June 30, 2020 and 2019, is comprised of grants receivable from twelve and nine grantors, respectively. The two largest contributions receivable, in the amount of $8,559,955, as of June 30, 2020, are from private foundations to support LIIF's SPARCC program through 2023. The largest contribution receivable, in the amount of $2,224,000, as of June 30, 2019, is from a state education agency to support LIIF's child care development services program.

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

	2020	2019
Receivable in one year or less	$ 13,257,763	$ 6,304,566
Receivable in one to five years	4,561,701	-
	$ 17,819,464	$ 6,304,566

Note 8 – Notes receivable, net

Notes receivable, net consist of secured and unsecured notes with interest rates ranging from 2.0% to 8.0% as of June 30 are as follows:

	2020	2019
Affordable housing	$ 223,244,306	$ 192,958,475
Education	144,262,034	145,404,893
Heath care	40,219,695	37,686,564
Transit oriented development	2,835,326	6,366,024
Food commerce	23,737,127	23,359,969
Community facilities	37,381,176	36,305,126
Total notes receivable	471,679,664	442,081,051
Less deferred loan origination costs, net	(757,243)	(721,764)
Less allowance for loan losses and credit enhancements (Note 10)	(17,891,493)	(15,248,398)
Total notes receivable, net	453,030,928	426,110,889
Less current portion	(176,046,055)	(151,091,239)
Total long-term notes receivable	$ 276,984,873	$ 275,019,650

The following table presents total notes receivable outstanding by segment as of June 30:

	2020	2019
Acquisition/Pre-Development	$ 151,903,168	$ 136,150,365
Construction	113,285,536	128,446,625
Term	200,979,135	172,758,890
EQT	5,511,825	4,725,171
CSTI	-	-
Total notes receivable	471,679,664	442,081,051
Less deferred loan origination costs, net	(757,243)	(721,764)
Less allowance for loan losses and credit enhancements (Note 10)	(17,891,493)	(15,248,398)
Total notes receivable, net	453,030,928	426,110,889
Less current portion	(176,046,055)	(151,091,239)
Total long-term notes receivable	$ 276,984,873	$ 275,019,650

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.

Note 8 – Notes receivable, net (continued)

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% 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 $56,563,071 and $50,163,001 at June 30, 2020 and 2019, 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 statements 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. The following table presents the outstanding balance by segment as of June 30:

	2020	2019
Acquisition/Pre-Development	$ 10,598,533	$ 8,199,736
Construction	41,959,917	37,997,893
Term	4,004,621	3,965,372
	$ 56,563,071	$ 50,163,001

The total discount recorded on PRIs at June 30, 2020 and 2019, was $1,288,175 and $1,274,829, respectively. The discount is amortized into interest expense over the remaining life of the loans.

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, 2020 and 2019, as the fees that LIIF earns approximate adequate compensation and the costs associated with servicing the 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:

	2020	2019
Balance, beginning of year	$ 15,248,398	$ 12,652,523
Add provision for loan loss	1,577,047	2,754,936
Additions (reductions) to credit enhancements	358,516	(159,061)
Recoveries	707,532	-
Balance, end of year	$ 17,891,493	$ 15,248,398

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 $1,034,250 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 $16,672,843 and is included in donor restricted net assets.

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

	2020					
	Acquisition/Pre-Development	Construction	Term	EQT	CSTI	Total
Allowance for loan losses:						
Beginning balance	$ 6,548,414	$ 3,814,667	$ 4,585,317	$ 300,000	$ -	$ 15,248,398
Provision for loan losses	1,449,149	(427,433)	501,331	54,000	-	1,577,047
Additions to credit enhancements	126,745	208,158	23,613	-	-	358,516
Recoveries	-	-	707,532	-	-	707,532
Ending balance	$ 8,124,308	$ 3,595,392	$ 5,817,793	$ 354,000	$ -	$ 17,891,493
Collectively evaluated for impairment	$ 8,124,308	$ 3,595,392	$ 5,141,935	$ 354,000	$ -	$ 17,215,635
Individually evaluated for impairment	-	-	675,858	-	-	675,858
	$ 8,124,308	$ 3,595,392	$ 5,817,793	$ 354,000	$ -	$ 17,891,493
Notes receivable:						
Collectively evaluated for impairment	$ 151,903,168	$ 113,285,536	$ 192,031,861	$ 5,511,825	$ -	$ 462,732,390
Individually evaluated for impairment	-	-	8,947,274	-	-	8,947,274
Total	$ 151,903,168	$ 113,285,536	$ 200,979,135	$ 5,511,825	$ -	$ 471,679,664

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

	2019					
	Acquisition/Pre-Development	Construction	Term	EQT	CSTI	Total
Allowance for loan losses:						
Beginning balance	$ 4,370,887	$ 4,385,175	$ 3,596,461	$ 300,000	$ -	$ 12,652,523
Provision for loan losses	2,170,259	(617,642)	1,202,319	-	-	2,754,936
Additions (reductions) to credit enhancements	7,268	47,134	(213,463)	-	-	(159,061)
Ending balance	$ 6,548,414	$ 3,814,667	$ 4,585,317	$ 300,000	$ -	$ 15,248,398
Collectively evaluated for impairment	$ 6,548,414	$ 3,508,417	$ 4,191,784	$ 300,000	$ -	$ 14,548,615
Individually evaluated for impairment	-	306,250	393,533	-	-	699,783
	$ 6,548,414	$ 3,814,667	$ 4,585,317	$ 300,000	$ -	$ 15,248,398
Notes receivable:						
Collectively evaluated for impairment	$ 136,150,365	$ 124,071,625	$ 167,839,729	$ 4,725,171	$ -	$ 432,786,890
Individually evaluated for impairment	-	4,375,000	4,919,161	-	-	9,294,161
Total	$ 136,150,365	$ 128,446,625	$ 172,758,890	$ 4,725,171	$ -	$ 442,081,051

LIIF considers the performance of the notes receivable portfolio and its impact on the allowance for loan losses. In addition to this, LIIF also considers qualitative factors, including economic conditions and the segments in which LIIF operates in calculating the allowance. 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:

	2020					
	Acquisition/Pre-Development	Construction	Term	EQT	CSTI	Total
Pass	$ 144,637,919	$ 89,709,329	$ 180,145,518	$ 5,511,825	$ -	$ 420,004,591
Below expectation	7,265,249	23,576,207	11,886,343	-	-	42,727,799
Substandard	-	-	8,947,274	-	-	8,947,274
Total	$ 151,903,168	$ 113,285,536	$ 200,979,135	$ 5,511,825	$ -	$ 471,679,664

	2019					
	Acquisition/Pre-Development	Construction	Term	EQT	CSTI	Total
Pass	$ 131,994,090	$ 100,889,802	$ 151,721,923	$ 4,725,171	$ -	$ 389,330,986
Below expectation	4,156,275	23,181,823	16,117,806	-	-	43,455,904
Substandard	-	4,375,000	4,919,161	-	-	9,294,161
Total	$ 136,150,365	$ 128,446,625	$ 172,758,890	$ 4,725,171	$ -	$ 442,081,051

As of June 30, 2020 and 2019, LIIF had three term loans totaling $10.7 million and no loans, respectively, that were past due 30 days or longer. Nonaccrual loans totaled $0 at June 30, 2020 and 2019. There were no accruing loans past due greater than 90 days at June 30, 2020 and 2019. Nonaccrual cash basis interest recognized for the years ended June 30, 2020 and 2019 was $0 for both years. Interest foregone on nonaccrual loans for the both years ended June 30, 2020 and 2019 was $0.

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

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

	2020				
Description	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With an allowance recorded:					
Term	$ 8,271,416	$ 8,947,274	$ 675,858	$ 12,376,664	$ 587,964

	2019				
Description	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With an allowance recorded:					
Construction	$ 4,068,750	$ 4,375,000	$ 306,250	$ 4,300,836	$ 228,011
Term	4,525,628	4,919,161	393,533	4,252,506	253,016
	$ 8,594,378	$ 9,294,161	$ 699,783	$ 8,553,342	$ 481,027

Troubled debt restructurings

No loans receivable were modified during the years ended June 30, 2020 and 2019 as TDRs. For the years ended June 30, 2020 and 2019, LIIF had 0 and 1 acquisition/pre-development loan of $0 and $12,525 identified as TDRs, respectively. LIIF has allocated $0 and $1,010 of specific reserves to loans whose notes receivable terms have been modified in TDRs as of June 30, 2020 and 2019, 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, 2020 and 2019. 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, 2020 and 2019.

In April 2020, the Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, National Credit Union Administration, Office of the Comptroller of the Currency, and Consumer Financial Protection Bureau issued a revised Interagency Statement on Loan Modifications by Financial Institutions Working with Customers Affected by the Coronavirus, which had previously been issued in March 2020. The revised statement provides guidance that modifications meeting certain criteria do not need to be classified as TDRs. Such criteria includes payment deferrals or extensions of repayment terms, of six months or less that are insignificant. As of June 30, 2020, there were three loans with a total outstanding principal balance of $8,673,413 with payment deferrals of four months. All three loans have resumed paying in accordance with modified terms subsequent to June 30, 2020. These deferrals are considered to be insignificant and do not meet the criteria to be classified as TDRs.

The terms of certain other notes receivable were modified during the years ended June 30, 2020 and 2019 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:

	2020	2019
Equipment and leasehold improvements	$ 1,645,636	$ 3,586,893
Less accumulated depreciation and amortization	(517,801)	(1,982,564)
	$ 1,127,835	$ 1,604,329

In June 2020, LIIF vacated leased office space in San Francisco and wrote off tenant improvements with a net book value of $906,034 and certain office furniture with a net book value of $269,035.

Depreciation and amortization expense totaled $286,977 and $299,328 for the years ended June 30, 2020 and 2019, respectively.

Note 12 – Notes payable, net

Notes payable, net, with the exception of the Bond Guarantee Program (BGP) debt, FHLB-SF, 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:

	2020	2019
To private foundations, at annual interest rates of 1.0% to 2.5%, notes mature in calendar years 2020 to 2028.	$ 4,020,000	$ 4,150,000
To financial institutions, including lines of credit, at annual interest rates of 0% to 5.5%, notes mature in calendar years 2020 to 2029.	129,222,248	212,916,525
Sustainability bonds, at annual interest rates of 3.39% to 3.71%, notes mature in calendar years 2026 to 2029.	100,000,000	-
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.	126,301,715	110,269,675
To individuals and other organizations, at annual interest rates of 0% to 3.0%, notes mature in calendar years 2020 to 2024.	23,435,434	23,792,455
	386,479,397	354,628,655
Less unamortized debt issuance costs	(2,011,248)	(1,062,402)
Less current portion of notes payable, net of unamortized debt issuance costs	(68,158,945)	(90,613,653)
	$ 316,309,204	$ 262,952,600
Current portion of unamortized debt issuance costs	$ 222,067	$ 97,877
Long-term portion of unamortized debt issuance costs	1,789,181	964,525
Total unamortized debt issuance costs	$ 2,011,248	$ 1,062,402

Note 12 – Notes payable, net (continued)

Annual maturities of notes payable are as follows:

Years ending June 30:	
2021	$ 68,158,945
2022	29,276,026
2023	17,885,850
2024	45,390,532
2025	44,544,679
Thereafter	181,223,365
	$ 386,479,397

In July 2019, LIIF issued $25 million 3.386% Serial Bonds and $75 million of 3.711% Term Bonds Series 2019 (Sustainability Bonds), “Sustainability Bonds”. The proceeds of the issuance were used to refinance certain fixed and floating rate debt obligations and to pay costs of issuance of the Sustainability Bonds. Interest on the Sustainability 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.

LIIF has $56,563,071 and $50,163,001 of notes payable from financial institutions, government agencies, and other organizations 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, 2020 and 2019, respectively. An equal amount of notes receivable is also recorded on LIIF’s consolidated statements 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.

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% of the bond loan and to fund an additional 3% in cash of the bond loan amount to a risk share pool account. As of June 30, 2020 and 2019, LIIF has pledged $92,484,454 and $81,840,785, respectively, of notes receivable under this arrangement and has $83,947,662 and $78,935,749, respectively, of outstanding debt from government agencies. 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.

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, 2020 and 2019, LIIF was in compliance with all covenants.

Note 12 – Notes payable, net (continued)

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 $245,000,000 and $275,000,000 at June 30, 2020 and 2019, respectively, at interest rates that vary with market conditions. At June 30, 2020 and 2019, commitments totaling $160,000,000 and $109,000,549 were available to be drawn on such lines. Lines of credit balances at June 30, 2020 and 2019 include $25,000,000 and $30,000,000, respectively, with the FHLB-SF, which requires the pledging of eligible assets as collateral in order to draw on the line. As of June 30, 2020 and 2019, LIIF has pledged investments of $6,366,000 and $0, respectively, as collateral under the FHLB-SF line of credit. All remaining lines of credit are unsecured.

In addition to these lines of credit, LIIF has available credit on term loans of $38,970,000 and $46,920,000 as of June 30, 2020 and 2019, all of which require pledging notes receivable and cash as collateral.

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

	2020	2019
Lines of credit, excluding Bond Guarantee Program	$ 85,000,000	$ 141,832,784
Bond Guarantee Program	83,947,662	78,935,749
Sustainability bonds	100,000,000	-
Term loans	89,689,632	115,549,573
Participation loans not meeting sale criteria, net of allowance	54,521,723	48,480,169
Subordinated notes payable	(26,679,620)	(30,169,620)
	$ 386,479,397	$ 354,628,655

Note 13 – Subordinated notes payable

Subordinated notes payable include notes payable to financial institutions in the amount of $26,679,620 and $30,169,620 at June 30, 2020 and 2019, respectively, with maturities in 2021 through 2029, with some facilities permitting renewals in perpetuity. The notes bear interest at rates of 0.0% to 3.0% per annum and interest, where applicable, is payable annually. The notes are unsecured and are subordinate to all other liabilities.

Annual maturities of subordinated notes payable are as follows:

Years ending June 30:	
2021	$ -
2022	5,000,000
2023	-
2024	-
2025	4,000,000
Thereafter	17,679,620
	$ 26,679,620

Note 14 – Funds held in trust

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

	2020	2019
Funds received from borrowers and funders	$ 5,267,867	$ 5,020,200
Funds received from City of New York	2,164,341	7,102,428
	$ 7,432,208	$ 12,122,628

Note 15 – Investment income, net

Investment income, net for the years ended June 30 consists of the following:

	2020	2019
Interest income, net of bank fees	$ 880,453	$ 1,182,087
Income from equity investments	123,133	55,948
Gain on related-party equity investments	58,963	114,546
Net realized and unrealized gains and losses	272,702	578,067
	$ 1,335,251	$ 1,930,648

Note 16 – Net assets with donor restrictions

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

	2020	2019
Time restrictions:		
Subsequent years' operations	$ -	$ 50,000
Purpose restrictions:		
Program operations	5,144,906	2,153,337
Time and purpose restrictions:		
Revolving Loan Fund	11,584,209	13,023,484
Education Fund	16,672,843	16,448,164
Healthy Foods Fund	16,162,223	15,233,508
SPARCC	6,626,010	948,710
Healthy Communities Innovation Fund	2,800,000	1,250,000
Child care operating support	1,071,756	-
Total time and purpose restrictions	54,917,041	46,903,866
Total donor restricted net assets	$ 60,061,947	$ 49,107,203

Note 16 – Net assets with donor restrictions (continued)

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 these 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 all; (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; (6) Child care operating support represents pass-through grants to support the operations of child care centers servicing low-income households that have been impacted by the coronavirus pandemic.

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:

	2020	2019
Qualified program expenses	$ 4,192,701	$ 4,104,949
Provision for loan losses, commitments and credit enhancements	1,677,930	2,515,167
Capital grants	4,192,118	11,598,612
	$ 10,062,749	$ 18,218,728

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 2030. Future minimum annual lease payments are as follows:

Years ending June 30:	
2021	$ 920,467
2022	1,073,273
2023	1,197,844
2024	1,161,497
2025	1,184,200
Thereafter	6,649,598
	$ 12,186,879

Note 18 – Leases (continued)

In November 2014, LIIF entered into a 10-year lease agreement for office space for its San Francisco, California, corporate offices. The lease required monthly payments with annual increases over the term and rent commencing in April 2015. In June 2020, LIIF and the landlord of this office space mutually agreed to terminate the lease agreement.

In October 2019, LIIF agreed to a substitution of leased space within the same building of its current New York office. The substitute 10-year lease agreement for new leased space commenced in September 2020. Under terms of the lease, the landlord has agreed to cancel the original lease upon lease commencement date of the substituted lease.

Rent expense, net of sublease receipts, for the years ended June 30, 2020 and 2019 was $1,671,913 and $1,691,982, respectively, and is included in occupancy costs on the consolidated statements of functional expenses.

Note 19 – Other commitments and contingencies

Cash, cash equivalents and investments

Demand deposits held in banks are insured by the FDIC. At June 30, 2020, LIIF had insured balances which totaled $1,250,000 and uninsured balances which totaled $79,739,476. At June 30, 2019, LIIF has insured balance which totaled $1,153,364 and uninsured balance which totaled $71,842,075.

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, 2020, LIIF had deposits and securities with insured balances which totaled $670,831 and uninsured balances which totaled $15,666,601. Another $2,723,765 of investments are not held by a broker and are also uninsured. At June 30, 2019, LIIF had 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. Loans related to affordable housing projects and education facilities represented 47% and 29%, respectively, of notes receivable as of June 30, 2020. Loans related to affordable housing projects and education facilities represented 44% and 33%, 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.

Note 19 – Other commitments and contingencies (continued)

Contingencies, continued

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.

As part of LIIF's NMTC business, as of June 30, 2020, LIIF has assumed a contingent liability of approximately $119,168,000 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.

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 $15,543,000 as of June 30, 2020. 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, 2020 and 2019 totaled $28,060,667 and $27,445,886, respectively. Amounts related to loan approvals and/or loan commitments at June 30, 2020 and 2019 totaled $19,278,587 and $30,107,533, 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 $370,439 and $391,495 to the Plan in 2020 and 2019, 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 on 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.

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, 2020 and 2019:

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

	2020			
Description	Fair Value	Level 1	Level 2	Level 3
U.S. Treasury notes	$ 786,743	$ 786,743	$ -	$ -
Corporate bonds	5,778,910	-	5,778,910	-
Asset-backed securities (including CMOs)	9,600,949	-	9,600,949	-
Equity investments	162,365	-	162,365	-
	$ 16,328,967	$ 786,743	$ 15,542,224	$ -

Note 21 – Fair value measurements (continued)

Description	2019 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	-
	$ 15,753,490	$ 1,065,474	$ 14,688,016	$ -

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.

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.

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, 2020 and 2019. See Note 2, Allowance for loan losses and credit enhancements, for measurement of impaired loans.

Description	2020 Fair Value	Level 1	Level 2	Level 3
Impaired loans:				
Term	$ 8,271,416	$ -	$ -	$ 8,271,416
Total assets measured at fair value on a nonrecurring basis	$ 8,271,416	$ -	$ -	$ 8,271,416

Description	2019 Fair Value	Level 1	Level 2	Level 3
Impaired loans:				
Construction	$ 4,068,750	$ -	$ -	$ 4,068,750
Term	4,525,628	-	-	4,525,628
Total assets measured at fair value on a nonrecurring basis	$ 8,594,378	$ -	$ -	$ 8,594,378

Note 21 – Fair value measurements (continued)

Changes in Level 3 assets measured at fair value for the year ended June 30, 2020 were as follows:

Fair Value Measurements Using Significant Unobservable Inputs	2020 Equity Investments	2020 Impaired Loans	2019 Equity Investments	2019 Impaired Loans
Beginning balance as of June 30, 2019	$ -	$ 9,294,161	$ 590,000	$ 123,492
Deterioration of credit quality	-	8,450,631	-	9,294,161
Gain on change in valuation	-	-	9,289	-
Less collections of principal	-	(8,797,518)	-	(123,492)
Sale of investment	-	-	(599,289)	-
Ending balance as of June 30, 2020	$ -	$ 8,947,274	$ -	$ 9,294,161

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 signed a loan agreement to fund up to $8,500,000 to BATOAH as a participant in loans LIIF originates for BATOAH. Under this agreement, LIIF loaned $754,621 and $765,746 at June 30, 2020 and 2019, 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, 2020 and 2019, LIIF earned management and loan servicing fees from BATOAH totaling $27,991 and $37,409, respectively. Additionally, BATOAH is a variable interest entity under the guidance in ASC 810, Consolidation. As of June 30, 2020, BATOAH's statement of financial position included approximately $7,200,000 in cash and cash equivalents, $3,600,000 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 $730,000. Total liabilities and members' equity was approximately $10,700,000. 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 for total assets of $10,700,000. In addition, there was approximately $10,000,000 in notes payable while members' equity was approximately $650,000. Total liabilities and members' equity was approximately $10,700,000.

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% of the principal amount. Loans underwritten and originated totaled $7,433,019 and $5,836,970 as of June 30, 2020 and 2019, respectively. LIIF receives a management fee from GSAF, LLC. For the years ended June 30, 2020 and 2019, LIIF earned a management fee totaling $205,048 and $180,085, respectively. As of June 30, 2020 and 2019, GSAF, LLC owed LIIF $4,287 and $7,963, 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, 2020 and 2019, LIIF earned administrative and loan servicing fees totaling $1,611,890 and $1,728,509, 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, 2020 and 2019, LIIF earned management fees totaling $29,929 and $28,234, respectively. As of June 30, 2020 and 2019, MATCH, LLC owed LIIF $8,929 and $14,750, respectively.

LIIF entered into a partnership in 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 years ended June 30, 2020 and 2019, LIIF earned loan origination and loan servicing fees from LHPF totaling $72,017 and $246,757, respectively. As of June 30, 2020 and 2019, LHPF owed LIIF $5,927 and $8,332, respectively.

LIIF entered into a partnership in LHPF II on November 22, 2019. LIIF provides administrative support and loan servicing to LHPF II under a loan and security agreement. LIIF receives an origination and servicing fee on loans and agrees to fund as a loan a top-loss account held by LHPF II. For the years ended June 30, 2020 and 2019, LIIF earned loan origination and loan servicing fees from LHPF II totaling $1,740 and $0, respectively. As of June 30, 2020 and 2019, LHPF II owed LIIF $25,014 and $0, 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:

	2020	2019
Notes payable	$ 64,018,913	$ 74,120,116
Cash deposits	9,364,477	1,364,477
Notes receivable	86,942,255	81,728,380
Grants receivable	-	750,000
Accounts receivable	678,653	278,696
Investments	691,302	342,357

Note 22 – Related-party transactions (continued)

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:

	2020	2019
Interest income	$ 3,835,070	$ 4,146,989
Grant income	300,750	2,006,070
Administrative and support services income	1,948,705	2,025,340
Interest expense	2,085,812	1,926,244
Rent income	10,200	10,200

Note 23 – COVID-19

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a "Public Health Emergency of International Concern" and on March 11, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the novel coronavirus include restrictions on travel, quarantines in certain areas, and forced closures for certain types of public places and businesses. The coronavirus and actions taken to mitigate the spread of it have had and are expected to continue to have an adverse impact on the economies and financial markets of many countries, including the United States of America where LIIF operates. On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was enacted to amongst other provisions, provide emergency assistance for individuals, families and businesses affected by the coronavirus pandemic.

It is unknown how long the adverse conditions associated with the coronavirus will last and what the complete financial effect will be to LIIF. The impact of this on LIIF, its borrowers, grantors, funding sources, and other constituents cannot be determined at this time. These impacts may include, but are not limited to, the ability of borrowers to repay their outstanding balances as they become due as well as the ability of others such as lenders, investors, grantors or grantees in any of the sectors in which LIIF operates to honor their commitments. Depending on how long the coronavirus pandemic lasts, LIIF could in the future see increased delinquencies and loan losses, which could have negative implications over net income.

Additionally, it is reasonably possible that estimates made in the consolidated financial statements, such as the allowance for loan losses and bad debts and the fair value of investments may materially differ in the near term as a result of these conditions. LIIF is currently analyzing the potential impact, if any, of the CARES Act on its consolidated financial statements for the year ending June 30, 2021. The consolidated financial statements do not include any adjustments that may a result from these conditions.

Note 24 – Subsequent events

All events occurring from June 30, 2020 through March 31, 2021, the date the consolidated financial statements were issued, have been reviewed.

On September 30, 2020, LIIF executed a Restructuring and Contribution Agreement and certain ancillary documents with the Stewards of Affordable Housing for the Future (SAHF) under which LIIF acquired a controlling interest in National Affordable Housing Trust (NAHT). NAHT's primary business activity is as a syndicator of Low Income Housing Tax Credits (LIHTC), the management of partnerships that form LIHTC investments and the provision of development advisory services. Management believes that the acquisition price of this membership interest is not significant to the consolidated financial statements.