COMMUNITY REINVESTMENT FUND, INC.
AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2018 AND 2017

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CliftonLarsonAllen LLP
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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Community Reinvestment Fund, Inc. and Subsidiaries
Minneapolis, Minnesota

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Community Reinvestment Fund, Inc. and Subsidiaries (a Minnesota corporation), which comprise the consolidated statements of financial position as of June 30, 2018 and 2017, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Community Reinvestment Fund, Inc. and Subsidiaries as of June 30, 2018 and 2017, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Minneapolis, Minnesota
September 24, 2018

COMMUNITY REINVESTMENT FUND, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2018 AND 2017

	2018			2017		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
ASSETS						
Cash and Cash Equivalents	$ 14,156,639	$ 1,858,489	$ 16,015,128	$ 15,630,481	$ 2,632,744	$ 18,263,225
Funds Held for Others	12,110,042	-	12,110,042	8,609,779	-	8,609,779
Loans Receivable:						
Loans Held for Sale	5,317,578	-	5,317,578	3,709,806	-	3,709,806
Investment Loan, Net	35,435,006	-	35,435,006	36,631,755	-	36,631,755
Total Loans Receivable	40,752,584	-	40,752,584	40,341,561	-	40,341,561
Retained Interest in Securitized Loans	6,597,345	-	6,597,345	7,454,977	-	7,454,977
Interest Receivable	230,054	-	230,054	255,184	-	255,184
Grants Receivable	413,000	515,917	928,917	64,375	774,667	839,042
Furniture and Equipment, Net	1,178,967	-	1,178,967	714,292	-	714,292
Intangible Asset	1,406,196	-	1,406,196	1,406,196	-	1,406,196
Servicing Asset	2,111,776		2,111,776	2,250,445		2,250,445
Other Asset	5,077,709	-	5,077,709	3,628,868	-	3,628,868
	17,015,047	515,917	17,530,964	15,774,337	774,667	16,549,004
Total Assets	$ 84,034,312	$ 2,374,406	$ 86,408,718	$ 80,356,158	$ 3,407,411	$ 83,763,569
LIABILITIES AND NET ASSETS						
LIABILITIES						
Accounts Payable and Accrued Expenses	$ 2,457,903	$ -	$ 2,457,903	$ 3,261,628	$ -	$ 3,261,628
Funds Due to Others	12,110,042	-	12,110,042	8,609,779	-	8,609,779
Collateralized Borrowings	500,000	-	500,000	500,000	-	500,000
Subordinated Notes Payable	22,250,000	-	22,250,000	17,450,000	-	17,450,000
Notes Payable	33,113,491	-	33,113,491	38,049,982	-	38,049,982
Total Liabilities	70,431,436	-	70,431,436	67,871,389	-	67,871,389
NET ASSETS	13,602,876	2,374,406	15,977,282	12,484,769	3,407,411	15,892,180
Total Liabilities and Net Assets	$ 84,034,312	$ 2,374,406	$ 86,408,718	$ 80,356,158	$ 3,407,411	$ 83,763,569

See accompanying Notes to Consolidated Financial Statements.

COMMUNITY REINVESTMENT FUND, INC.
CONSOLIDATED STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2018 AND 2017

	2018			2017		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
INTEREST INCOME						
Interest Income	$ 3,752,492	$ -	$ 3,752,492	$ 3,935,029	$ -	$ 3,935,029
Accreted Interest Income	426,727	-	426,727	418,028	-	418,028
Total Interest Income	4,179,219	-	4,179,219	4,353,057	-	4,353,057
INTEREST EXPENSE	1,933,330	-	1,933,330	2,294,809	-	2,294,809
Net Interest Income	2,245,889	-	2,245,889	2,058,248	-	2,058,248
PROVISION FOR LOAN LOSSES	395,030	-	395,030	852,151	-	852,151
Net Interest Income After Provision for Loan Losses	1,850,859	-	1,850,859	1,206,097	-	1,206,097
OTHER REVENUE (EXPENSE)						
Realized Gains on Loan Sales	1,459,877	-	1,459,877	2,731,844	-	2,731,844
Loan Servicing, Management and Transaction Fees	6,942,758	-	6,942,758	8,300,561	-	8,300,561
Grants	2,763,446	2,417,617	5,181,063	304,605	3,926,000	4,230,605
Change in Lower of Cost or Estimated Fair Value	-	-	-	18,562	-	18,562
Change in Retained Interest Fair Value	(22,635)	-	(22,635)	189,315	-	189,315
Other	10,084		10,084	257,081		257,081
Total Other Revenue (Expense)	11,153,530	2,417,617	13,571,147	11,801,968	3,926,000	15,727,968
Net Assets Released from Restrictions	3,450,622	(3,450,622)	-	3,739,672	(3,739,672)	-
Total Other Revenue	14,604,152	(1,033,005)	13,571,147	15,541,640	186,328	15,727,968
Total Net Revenue	16,455,011	(1,033,005)	15,422,006	16,747,737	186,328	16,934,065
OTHER EXPENSE						
Financial Services and Administrative	11,380,391	-	11,380,391	11,874,035	-	11,874,035
Professional and Consulting Services	2,925,612	-	2,925,612	2,484,767	-	2,484,767
Depreciation	499,724	-	499,724	658,498	-	658,498
Amortization of Servicing Rights	531,177	-	531,177	503,869	-	503,869
Total Other Expenses	15,336,904	-	15,336,904	15,521,169	-	15,521,169
CHANGE IN NET ASSETS	1,118,107	(1,033,005)	85,102	1,226,568	186,328	1,412,896
Net Assets - Beginning of Year	12,484,769	3,407,411	15,892,180	11,258,201	3,221,083	14,479,284
NET ASSETS - END OF YEAR	$ 13,602,876	$ 2,374,406	$ 15,977,282	$ 12,484,769	$ 3,407,411	$ 15,892,180

See accompanying Notes to Consolidated Financial Statements.

COMMUNITY REINVESTMENT FUND, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
JUNE 30, 2018 AND 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	$ 85,102	$ 1,412,896
Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities:		
Depreciation	499,724	658,498
Amortization of Servicing Rights	531,177	503,869
Accreted Interest Income on Retained Interest	(426,727)	(418,028)
Provision for Loan Losses	395,030	852,151
Change in Retained Interest Fair Value	22,635	(189,315)
Realized Gains on Loan Sales	(1,459,877)	(2,731,844)
Accreted Interest Income on Loan Discount	(569,820)	(496,114)
Change in Lower of Cost or Estimated Fair Value	-	(18,562)
Originations of Loans Held for Sale	(19,305,332)	(22,542,655)
Proceeds from Sales of Loans Held for Sale	18,589,599	29,081,521
Payments on Loans Held for Sale	862,350	2,223,021
Change in Operating Assets and Liabilities:		
Funds Held for Others	(3,500,263)	(1,387,642)
Grants Receivable	(89,875)	1,552,922
Interest Receivable	25,130	(27,912)
Other Assets	(1,600,820)	(1,240,456)
Accounts Payable and Accrued Expenses	(803,725)	10,771
Grants Payable	-	(130,000)
Funds Due to Others	3,500,263	1,387,642
Net Cash Provided (Used) by Operating Activities	(3,245,429)	8,500,763
CASH FLOWS FROM INVESTING ACTIVITIES		
Origination of Loans	(7,198,406)	(7,748,204)
Loan Receivable Payments and Other	8,785,014	7,850,268
Purchase of Loans Receivable	(781,512)	-
Purchase of Retained Interest in Securitized Loans	(44,295)	-
Payments on Retained Interest in Securitized Loans	1,337,421	1,185,133
Purchase of Furniture and Equipment	(964,399)	(352,769)
Net Cash Provided by Investing Activities	1,133,823	934,428
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Note Payable	9,325,000	3,210,500
Payments on Notes Payable	(14,261,491)	(9,823,925)
Proceeds from Revolving Credit Lines	10,000,000	-
Payments on Revolving Credit Lines	(10,000,000)	(4,250,000)
Payments on Collateralized Borrowings	-	(3,999,666)
Proceeds from Subordinated Notes Payable	5,000,000	5,049,836
Payments on Subordinated Notes Payable	(200,000)	-
Net Cash Used by Financing Activities	(136,491)	(9,813,255)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(2,248,097)	(378,064)
Cash and Cash Equivalents - Beginning of Year	18,263,225	18,641,289
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 16,015,128	$ 18,263,225
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash Paid for Interest	$ 1,908,859	$ 2,334,086
Transfers from Loans Receivable to OREO	$ -	$ 105,745

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Community Reinvestment Fund, Inc. and subsidiaries (CRF or the Organization) is a nonprofit, mission-driven organization, which provides services and otherwise unavailable loan capital to communities, small businesses, entrepreneurs, non-profit organizations and housing organizations. CRF has three general purposes: structuring financial transactions related to small business and affordable housing economic development loans to increase the flow of capital to economically distressed or declining areas, disadvantaged persons, neighborhoods or communities; originating new development loans that support job creation and economic growth; and providing services that support community-based organizations and their lending activities. The Community Development Financial Institution Fund of the U.S. Treasury Department has designated CRF as a Community Development Financial Institution ("CDFI"). CRF is headquartered in Minneapolis, Minnesota, and operates through the United States.

CRF is classified as a supporting organization under the Internal Revenue Code and is governed by representatives of the organizations it serves. Accordingly, a majority of CRF's board of trustees is comprised of representatives from its class of supported organizations, which can include governmental and nonprofit clients.

The Organization has a wholly-owned subsidiary, CRF Small Business Loan Company, LLC (CRF SBLC), whose sole purpose is to conduct U.S. Small Business Administration (SBA) 7(a) lending activity.

The Organization has formed the following wholly-owned special purpose entities (SPEs): CRF 18, LLC; CRF 19, LLC; CRF Affordable Housing No. 1, LLC; CRF Affordable Housing No. 2, LLC; CRF Affordable Housing No. 3 LLC, and CRF Detroit Home Mortgage Fund (2016), LLC. The SPEs are not consolidated with CRF under Accounting Standards Codification (ASC) 958-810-25, Not for Profits – Consolidation - Recognition, as the Organization lacks a control to dictate the activities that significantly impact the economic performance of these SPEs. The SPEs were created to purchase loans or rights to certain future expected cash flows. The SPEs then issue or issued notes or rights to certain future expected cash flows to various third parties and in some cases with a residual interest to the Organization. Following the purchase of development loans and the issuance of the notes, the SPEs' only activity is the ownership of the development loans and repayment of the notes. While the notes are serviced by CRF, the noteholders and the trustee associated with each SPE have significant substantive rights to the control the servicing of the development loans.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CRF receives New Market Tax Credit (NMTC) allocations from time to time. The structure of the NMTC transactions (each a BLC) includes the set-up of two wholly-owned subsidiaries for each anticipated transaction: (1) each BLC - a two member LLC where the two members are CRF and National New Markets Tax Credit Fund, Inc. ("NNMTCF" – itself a wholly-owned subsidiary of CRF); and (2) a new LLC entity wholly-owned by CRF and formed solely to own .01% of the corresponding BLC (each a GP). Upon formation, and until the transaction is funded, CRF owns 100% of the BLC indirectly through affiliates and the entity is dormant with no assets. Once a NMTC transaction is funded, a single institutional investor purchases 99.99% of the equity interest in the BLC entity and CRF owns the remainder through the GP. Investor-owned BLCs are not consolidated with CRF under Accounting Standards Codification (ASC) 958-810-25, Not for Profits – Consolidation – Recognition, as the Organization lacks control to dictate the activities that significantly impact the economic performance of the BLC.

A summary of significant accounting policies consistently applied in the preparation of the accompanying consolidated financial statements follows:

Consolidation

The consolidated financial statements include the accounts of CRF and its following wholly-owned subsidiaries; CRF SBLC, National New Markets Tax Credit Fund, Inc. (NNMTCF), ML BLC, LLC (MLBLC – dissolved in fiscal year 2018), CRF Charter School Investor, LLC, CRF DHM Developer Program, LLC, CRF Fund Management Services, LLC, CRF Holdings, LLC, CRF Affordable Housing No. 3 Guarantor, LLC, CRF NNMTCF I GP, LLC, CRF NNMTCF II GP, LLC, all other GPs CRF NNMTCF XIII through CRF NNMTCF XL GP, LLC, and CRF QI, LLC. All significant intercompany balances and transactions have been eliminated.

National New Markets Tax Credit Fund Subsidiary

The Federal National New Markets Tax Credit (NMTC) program fosters development in Low-Income Communities. NNMTCF has been awarded allocations to purchase loans under this program totaling $869.5 million of New Markets Tax Credits as of June 30, 2018. NNMTCF generally sub-allocates its New Market Tax Credits to its affiliated BLC entities, each certified as a Community Development Entity (CDE). The CDE funds loans to Qualified Active Low-Income Businesses. CRF receives compensation in the form of origination, servicing and management fees related to this program. The fees earned are reflected on the consolidated statements of activities.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation

The accompanying consolidated financial statements include net assets and revenues, expenditures, gains, and losses which are classified based on the existence or absence of donor-imposed restrictions, as follows:

Unrestricted – Net assets that are not subject to donor-imposed and/or the passage of time restrictions.

Temporarily Restricted – Net assets subject to donor-imposed restrictions that will be met by actions of CRF and/or the passage of time. As restrictions are fulfilled, the amounts are transferred to unrestricted net assets and shown as net assets released from restrictions within the consolidated statement of activities.

Permanently Restricted – Net assets subject to donor-imposed stipulations that they be maintained permanently by CRF. CRF currently has no permanently restricted net assets.

Cash and Cash Equivalents

The Organization maintains its cash in cash deposit accounts, which at times may exceed federally insured limits. Cash equivalents consist of highly liquid investments having original maturities, when purchased, of three months or less, and are stated at cost. Cash equivalents consisted of three money market funds of approximately $11,547,000 and $10,688,000 at June 30, 2018 and 2017, respectively, at three different institutions.

Funds Held for (Due to) Others

As of June 30, 2018 and 2017, CRF had approximately $12,110,000 and $8,610,000 of amounts held for others for funds collected for loan servicing functions. CRF has a corresponding due to others as a liability as of June 30, 2018 and 2017.

Loans Held for Sale

Loans held for sale are loans originated or purchased with the intent to be sold and are carried at the lower of cost, equal to the amount of unpaid principal, net of unearned discounts and deferred fees, or estimated fair value. Unearned discounts and deferred fees are not accreted or amortized when the loan is classified as held for sale.

The estimated fair value of loans held for future note issuances is determined on an individual loan basis, and includes estimates of current rates of return required by investors for similar assets, loan prepayment rates and loan specific credit risk characteristics. The change in the lower of cost or estimated fair value throughout the period is recorded within the consolidated statement of activities.

Gains on sales of loans are recognized based on the difference between the selling price and the carrying value of the related loans sold. Interest on loans held for sale is accrued to income as earned.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investment Loans

Investment loans are loans that were either obtained through acquisition or origination or loans previously classified as loans held for sale but have been transferred to investment loans because the Organization does not have the intent or ability to sell the loan. A loan held for sale is transferred to an investment loan at the lower of cost, equal to the amount of unpaid principal, net of unearned discounts and deferred fees, or estimated fair value.

During fiscal year 2019, CRF SBLC purchased a portfolio of loans with a total unpaid principal balance of $1,033,923 and a purchase price of $744,425. Loans acquired with deteriorated credit quality are accounted for in accordance with ASC 310-30.

In accordance with ASC 310-30, the difference between contractually required payments at acquisition and the cash flows expected to be collected from purchased loans is referred to as the non-accretable difference. This amount is not recognized as a yield adjustment or as a loss accrual or a valuation allowance. Further, any excess of cash flows expected at acquisition over the estimated fair value is referred to as the accretable yield and is recognized into interest income over the remaining life of the loan when there is a reasonable expectation about the amount and timing of such cash flows.

Increases in expected cash flows subsequent to the initial investment are recognized prospectively through adjustment of the yield on the loan over its remaining estimated life. Decreases in expected cash flows are recognized immediately as impairment. If the Company does not have the information necessary to reasonably estimate cash flows to be expected, it may use the cost recovery method or cash basis method of income recognition. Valuation allowances on these impaired loans reflect only losses incurred after the acquisition (meaning the present value of all cash flows expected at acquisition that ultimately are not to be received).

Allowance for Loan Losses for Investment Loans

The allowance for loan losses for investment loans is established as losses are estimated to have occurred through a provision charged to expense. Loan losses are charged against the allowance for loan losses when management believes the future collection of principal is unlikely. The allowance for loan losses is an amount that management believes will be adequate to provide for inherent losses on existing loans that may become uncollectible, based on evaluations of the collectability of loans and prior loan loss experience. This evaluation takes into consideration such factors as changes in the nature and volume of the loan portfolio, overall portfolio quality, review of specific loans, and regional or local economic conditions that may affect the borrower’s ability to pay.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Loan Losses for Investment Loans (Continued)

A loan is impaired when based on current information and events, it is probable the Organization will be unable to collect all contractual principal and interest payments due in accordance with the terms of the loan agreement. Cash collections on impaired loans are credited to the loan receivable balance and no interest income is recognized on those loans until the principal balance is current.

Impaired loans are measured based on the present value of expected future cash flows discounted at the loan's effective interest rate or, as a practical expedient, at the loan's observable market price or the fair value of the collateral if the loan is collateral dependent.

Non-Accrual and Past Due Loans

Loans are generally placed on non-accrual basis for recognition of interest income when principal and interest is past due 90 days or more, and in the opinion of management, there is reasonable doubt as to the collectibility of interest or principal. All interest accrued but not collected for loans that are placed on non- accrual basis is reversed against interest income. The non-recognition of interest income does not constitute forgiveness of the interest. Non-accrual loans are returned to accrual status when the principal and interest amounts contractually due are brought current and future payments are reasonably assured. Subsequent cash payments received on non-accrual loans that do not bring the loan current are recorded on a cash basis. The carrying value of non-accrual loans was $2,032,508 and $1,063,881 at June 30, 2018 and 2017, respectively.

Troubled Debt Restructuring (TDR)

In situations where for economic or legal reasons related to a borrower's financial difficulties, the Organization may grant a concession for other than an insignificant period of time to the borrower that they would not otherwise consider, the related loan is classified as a TDR. These modified terms may include rate reductions, principal forgiveness, term extensions, payment forbearance and other actions intended to minimize the Organization's economic loss and to avoid foreclosure or repossession of the collateral. For modifications where the principal is forgiven, the entire amount of such principal forgiveness is immediately charged off. Loans classified as TDRs are considered impaired loans. The organization had two loans with an outstanding recorded investement of $234,834 considered TDRs as of June 30, 2018 and no loans considered TDRs as of June 30, 2017.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Advertising Costs

The Organization expenses advertising costs as incurred. Advertising costs were approximately $305,000 and $28,000 for the years ended June 30, 2018 and 2017, respectively.

Securitization Accounting

The Organization accounts for its securitization accounting under the provisions of ASC 860 which requires an entity to recognize the financial and servicing assets it controls and the liabilities it has incurred and to derecognize financial assets when control has been surrendered. The proceeds of securitized financial assets are allocated to the assets sold, the servicing asset or liability, and retained interest based on their relative estimated fair values at the transfer date in determining the gain or loss on the securitization transaction.

ASC 860 requires an entity to recognize a servicing asset or servicing liability each time it undertakes an obligation to service financial assets that have been securitized and amortize it over the period of estimated future net servicing income or loss. The Organization receives adequate compensation for a significant portion of its servicing of securitized loans.

Valuation of Servicing Rights

The Organization recognizes assets for the rights to service loans for others that result from the sale of loans it originates (asset transfers) at fair value in accordance with ASC 860. Servicing rights from asset transfers are initially capitalized and recorded at fair value. The Organization determines the fair value of servicing rights using a valuation model that calculates the present value of estimated future net servicing income. The model incorporates assumptions that market participants use in estimating future net servicing income, including estimates of prepayment speeds (including housing price volatility), discount rate, default rates, cost to service (including delinquency and foreclosure costs), contractual servicing fee income, ancillary income and late fees. Servicing rights are subsequently expensed using the amortization method which requires servicing rights to be amortized in proportion to, and over the period of, the estimated future net servicing income of the underlying loans. The carrying value of servicing rights is included within other assets in the consolidated statements of financial position.

Servicing rights are evaluated for impairment based upon the fair value of the rights as compared to carrying amount. The fair values of servicing rights are subject to significant fluctuations as a result of changes in estimated and actual prepayment speeds and default rates and losses. Impairment is determined by stratifying servicing assets into groupings based on predominant risk characteristics, such as interest rate, and loan type. The Organization recognized $50,066 and $2,726 of impairment on servicing rights for the years ended June 30, 2018 and 2017, respectively.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Retained Interest in Securitized Loans

Retained interest in securitized loans is treated as a debt security, and accordingly, is carried at fair value. The Organization estimates fair value based upon the present value of anticipated future loan cash flows. This estimate requires management to perform on-going evaluations of the estimated credit losses, prepayment factors, discount rates and other factors that impact the value of retained interests. Adjustments to fair value are included in the consolidated statements of activities.

Interest income on the retained interest is accreted based on the effective interest rate applied to its fair value at the beginning of the reporting period adjusted for cash received. The effective interest rate is the rate of return determined based on the actual timing and amounts received in the current reporting period and anticipated future cash flows from the underlying securitized loans.

Transfer of Financial Assets

The Organization accounts for its securitization accounting under the provisions of ASC 860. Transfers of an entire financial asset, a group of entire financial assets, or a participating interest in an entire financial asset 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 the Organization, (2) the transferee obtains the right to pledge or exchange the transferred assets, and (3) the Organization does not maintain effective control over the transferred assets.

During the normal course of business, the Organization may transfer a portion of a financial asset, for example, a participation loan or the government guaranteed portion of a loan. In order to be eligible for sales treatment, the transfer of the portion of the loan must meet the criteria of a participating interest. If it does not meet the criteria of a participating interest, the transfer must be accounted for as a secured borrowing. In order to meet the criteria for a participating interest, all cash flows from the loan must be divided proportionately, the rights of each loan holder must have the same priority, the loan holders must have no recourse to the transferor other than standard representations and warranties, and no loan holder has the right to pledge or exchange the entire loan. See Note 5 for disclosure of transfers of financial assets.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Grants and Grants Receivable

Contributions, unconditional promises to give, and other assets are recognized at fair values and are recorded as made. All contributions are considered to be without donor restriction unless specificaly in grant agreement or documented by the donor. Donor-restricted contributions are reported in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When the restrictions expire, temporarily restricted assets are reclassified to unrestricted net assets and reported in the statement of activities as Net Assets Released from Restrictions. Management believes all grants receivable are collectible at June 30, 2018 and 2017. Accordingly, no allowance for doubtful accounts has been recorded.

Furniture and Equipment

Furniture and equipment is stated at cost, less accumulated depreciation. Depreciation is computed using principally the straight-line method over the equipment and furniture's estimated useful lives, generally three to seven years. Software costs incurred to develop new systems have been capitalized and are being amortized over three years. Maintenance and repairs are charged to expense as incurred. Replacements and improvements are capitalized and recorded at cost.

Derivative Instruments

The Organization may use financial derivative instruments to manage overall exposure to fluctuations in interest rates on loan transactions and debt. The Organization records its interest rate hedges, under the provisions of ASC 815, Derivative and Hedging, as amended, at fair value and records changes in fair value within the consolidated statements of activities.

In 2016, the Organization unwound all derivative positions as it no longer has exposure to interest rate risk on fixed rate loans.The Organization had no interest rate hedge balance as of June 30, 2018 and June 30, 2017.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Loan Servicing, Management and Transaction Fees

Fees from contract loan servicing are recognized when earned, generally as services are performed for portfolios originated and held by economic development lenders. Management and transaction fees are either deferred and recognized over the life of the transaction or recognized at the time of the transaction, as applicable.

Year Ended June 30,	2018	2017
Servicing Fees	$ 1,801,565	$ 1,827,406
Management Fees	3,079,501	3,257,709
Transactions Fees	2,061,692	3,215,446
Total	$ 6,942,758	$ 8,300,561

Intangible Asset

CRF SBLC holds a SBA 7(a) Lending Authority certificate (certificate) which was originally purchased from an unrelated financial institution with approval from the SBA and which allows the Organization to fund (originate) and purchase SBA 7(a) loans. The certificate is recorded as an indefinite lived intangible asset, totaling approximately $1,406,000, and not amortized as the certificate is valid for an indefinite period of time. The certificate is subject to annual impairment testing, unless there is an indicator of impairment, which would require an interim impairment analysis. The Organization performs its annual evaluation for impairment on June 30 of each fiscal year using a qualitative analysis based on a discounted cash flow model to estimate the fair value of the certificate. Upon completing the annual impairment test, the Organization determined that the carrying value of its recorded intangible assets had not been impaired and no impairment charge was recorded.

Income Taxes

The Internal Revenue Service has determined that CRF is exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code. Similar exemptions exist under Minnesota statutes. NNMTCF, a for-profit subsidiary of CRF, files tax returns as a for-profit entity; however, its current activities have not generated taxable income. Accordingly, no provision for income taxes is included in the consolidated financial statements.

Functional Expenses Allocation

The costs of providing various programs and other activities have been summarized below.

	2018	2017
Program	$ 13,055,516	$ 13,776,680
Management and General	3,731,759	3,649,464
Fundraising	877,989	1,241,985
Total	$ 17,665,264	$ 18,668,129

Costs are allocated based on identifiable cost items in addition to employee time allocations.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates

The preparation of the Organization's consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Material estimates that are particularly susceptible to significant change in the near term relate to the allowance for loan losses, and the fair value of financial instruments. Actual results could differ from those estimates used by management.

Capital Requirements

The Organization is authorized by the SBA to make loans as a Non-Federally Regulated Lender (NFRL) through CRF SBLC. As an NFRL, the consolidated Organization must meet its state capital requirement. As a Minnesota Regulated Lender, the Organization must maintain minimum liquid assets of at least $50,000. The Organization met these requirements as of June 30, 2018 and 2017.

As an SBA regulated entity, CRF SBLC is required to maintain minimum unencumbered capital of at least $1,000,000 or 10% of the aggregate of its share of all outstanding loans, whichever is more. For purposes of complying with this requirement, capital consists of: common stock, additional paid in capital, retained earnings, and capital contributions not subject to repayment.

The capital levels at CRF SBLC as of June 30 are:

	Capital	Aggregate Share of Outstanding Loans	Current Capital Ratio	Minimum Capital Required
2018	$ 4,774,336	$ 28,589,323	16.70%	10.00%
2017	$ 5,639,081	$ 27,466,866	20.53%	10.00%

Subsequent Events

The Organization evaluated its June 30, 2018 consolidated financial statements for subsequent events through September 24, 2018, the date the consolidated financial statements were available to be issued. The Organization is not aware of any subsequent events, which would require recognition or disclosure in the consolidated financial statements.

NOTE 2 LOANS RECEIVABLE

Components of loans held for sale are as follows as of June 30:

	2018	2017
Unpaid Principal Balance, Net of Discount and Deferred Fees	$ 5,404,601	$ 3,796,829
Valuation Allowance	(87,023)	(87,023)
Loans Held for Sale	$ 5,317,578	$ 3,709,806

Activity in the valuation allowance is as follows for the years ended June 30:

	2018	2017
Balance - Beginning of Year	$ 87,023	$ 1,335,966
Change in Lower Cost or Estimated Fair Value	-	(18,562)
Less: Discounts on Sold Loans	-	(1,057,328)
Less: Loans transferred from HFS to HFI	-	(173,053)
Balance - End of Year	$ 87,023	$ 87,023

Components of investment loans are as follows as of June 30:

	2018	2017
Investment Loans		
SBA 7(a) Loans	$ 31,503,417	$ 30,121,972
Business Loans	8,316,182	10,744,026
Affordable Housing Loans	565,955	703,881
Unearned Discount	(3,081,676)	(2,909,821)
	37,303,878	38,660,058
Allowance for Loan Losses	(1,868,872)	(2,028,303)
Total	$ 35,435,006	$ 36,631,755

The carrying value of impaired loans was $2,384,951 and $1,063,881 as of June 30, 2018 and 2017, respectively. There is no interest income accrued on these loans as of June 30, 2018 and 2017, and $128,016 and $74,045 interest income recognized during fiscal year 2018 and 2017, respectively.

NOTE 2 LOANS RECEIVABLE (CONTINUED)

Activity in the allowance for loan losses for investment loans is as follows for the years ended June 30:

	2018	2017
Balance - Beginning of Year	$ 2,028,303	$ 2,296,794
Provision for Loan Losses	395,030	852,151
Charge Offs	(674,192)	(1,257,761)
Recoveries	119,731	137,119
Balance - End of Year	$ 1,868,872	$ 2,028,303

The Organization's investment loans and allowance for credit losses by impairment evaluation methodology for the year ending June 30, are as follows:

	2018		2017	
	Investment Loans	Allowance for Loan Losses	Investment Loans	Allowance for Loan Losses
Collectively Evaluated for Impairment:				
Affordable Housing	$ 565,955	$ -	$ 703,881	$ -
Business	34,352,972	1,449,966	36,892,296	1,755,831
Individually Evaluated for Impairment:				
Business	2,384,951	418,906	1,063,881	272,472
Total	$ 37,303,878	$ 1,868,872	$ 38,660,058	$ 2,028,303

From a credit risk standpoint, the Organization classifies its investment loans in one of the following categories: pass, substandard, doubtful, or loss.

Pass rated loans have no well-defined weakness and are currently performing. Characteristics can vary greatly but loans rated pass tend to have positive cash flow and proper collateral coverage. Loans payments are current or past due no more than 30 days.

Substandard loans have a well-defined weakness or weaknesses which may jeopardize the liquidation of the debt. The primary source of repayment no longer provides satisfactory support and repayment of the loan is dependent upon secondary repayment sources. There remains reasonable assurance the loan may be repaid in full.

Doubtful loans have all of the weaknesses inherent in substandard loans with the added characteristic that they contain the probability of some principal loss.

Loss rated loans are considered uncollectible and it is likely that CRF will not receive the principal amount due, and any recovery related to this credit will be through liquidation of collateral, negotiated lien release, sale of loan, suing guarantors, or other means

NOTE 2 LOANS RECEIVABLE (CONTINUED)

The following tables summarize the Organization’s internal ratings of its loans for the year ending June 30:

June 30, 2018	SBA 7(a)	Business	Affordable Housing	Total
Pass	$ 25,445,408	$ 7,289,986	$ 565,955	$ 33,301,349
Substandard	1,969,258	748,628	-	2,717,886
Doubtful	1,174,657	93,705	-	1,268,362
Loss	-	16,281	-	16,281
Total	$ 28,589,323	$ 8,148,600	$ 565,955	$ 37,303,878

June 30, 2017	SBA 7(a)	Business	Affordable Housing	Total
Pass	$ 24,787,336	$ 10,256,521	$ 703,881	$ 35,747,738
Substandard	2,250,110	147,764	-	2,397,874
Doubtful	429,420	45,956	-	475,376
Loss	-	39,070	-	39,070
Total	$ 27,466,866	$ 10,489,311	$ 703,881	$ 38,660,058

The Organization’s key credit quality indicator for its investment loans is the status of the loan, defined as accruing or non-accruing. Investment loans that are accruing generally are less than 90 days past due and are considered to have a lower risk of loss. Non-accrual loans generally are greater than 90 days past due and there is a reasonable doubt as to the collectability of interest or principal. The following tables set forth information regarding the Organization’s accruing and non-accruing loans. Past due balances are determined based on the contractual terms of the loan.

	2018				
	Current	30-59 Days Past Due and Accruing	60-89 Days Past Due and Accruing	Non-Accrual	Total
Investment Loans					
Affordable Housing	$ 565,955	$ -	$ -	$ -	$ 565,955
SBA 7(a)	26,334,567	158,574	380,785	1,715,397	28,589,323
Business	7,413,950	351,743	65,796	317,111	8,148,600
Total Investment Loans	$ 34,314,472	$ 510,317	$ 446,581	$ 2,032,508	$ 37,303,878

	2017				
	Current	30-59 Days Past Due and Accruing	60-89 Days Past Due and Accruing	Non-Accrual	Total
Investment Loans					
Affordable Housing	$ 703,881	$ -	$ -	$ -	$ 703,881
SBA 7(a)	25,152,046	901,004	389,005	1,024,811	27,466,866
Business	10,218,927	231,314	-	39,070	10,489,311
Total Investment Loans	$ 36,074,854	$ 1,132,318	$ 389,005	$ 1,063,881	$ 38,660,058

NOTE 3 TROUBLED DEBT RESTRUCTURINGS (TDRS)

The following table summarizes TDRs as of June 30, 2018:

	Number of Loans	Outstanding Recorded Investment	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
SBA 7(a)	2	$ 234,834	$ 291,304	$ 291,304

No loans had been modified as TDRs prior to June 30, 2017. None of the loans modified as TDRs have defaulted following modification.

NOTE 4 SECURITIZATION AND GAIN ON SALES OF LOANS

Other SPE Cash Receipts

During fiscal years 2018 and 2017, the Organization received approximately $246,000 and $245,000 of cash from SPEs for loan servicing fees.

Retained Interest

The following summarizes the changes in the balance of the Organization's retained interest reported at fair value for the years ended June 30:

	2018	2017
Retained Interest - Beginning of Year	$ 7,454,977	$ 8,032,767
Retained Interest in Securitized Loans	75,697	-
Investment Returns:		
Accreted Interest Income	426,727	418,028
Change in Retained Interest Fair Value	(22,635)	189,315
Cash Payments Received	(1,337,421)	(1,185,133)
Retained Interest - End of Year	$ 6,597,345	$ 7,454,977

Retained Interest Sensitivity

As of June 30, 2018, key economic assumptions used in measuring the fair value of retained interests in securitizations and the sensitivity of the current fair value of residual cash flows to changes in those assumptions are stated below. The sensitivities are hypothetical and should be used with caution. As the amounts indicate, changes in fair value based on variations in assumptions generally cannot be extrapolated because the relationship of the change in assumption to the change in fair value may not be linear. Also, in this table, the effect of a variation in a particular assumption on the fair value of the retained interest is calculated without changing any other assumption. In reality, changes in one factor may result in changes in another, which might magnify or counteract the sensitivities.

NOTE 4 SECURITIZATION AND GAIN ON SALES OF LOANS (CONTINUED)

Retained Interest Sensitivity (Continued)

Retained interest information is segmented by the type of the underlying loan product securing the retained interest.

Business loans and affordable housing loans perform differently due to different borrower characteristics, collateral, loan terms and underwriting criteria.

The business loans are generally made to small business owners and are secured by first and second liens on the business real estate and/or equipment. Prepayment penalties are generally assessed through year ten of the note and become less significant as the loan approaches ten years outstanding.

The affordable housing loans are made to investors wanting to take advantage of governmental low income multifamily incentive tax credits. The loans have significant yield maintenance penalties during the first several years (yield maintenance period) and smaller various levels of prepayment penalties (penalty period) thereafter with a period of no penalty (no penalty period) until final maturity. Investors risk significant financial penalties through the recapture of tax credits should the loan default during the first 10 years of the loan.

	2018		
	Business Loans	Affordable Housing Loans	Total
Principal Balance of Underlying Loans (Held with SPEs)	$ 4,781,696	$ 64,729,948	$ 69,511,644
Carrying Amount of Retained Interest (at Fair Value)	-	6,597,345	6,597,345

NOTE 4 SECURITIZATION AND GAIN ON SALES OF LOANS (CONTINUED)

The following represents the assumptions used to determine fair value of retained interest as of June 30, 2018 related to affordable housing loans. The following disclosure also includes the impact of fair value based on hypothetical changes of 125% and 75% to the base assumptions as of June 30, 2018.

Affordable Housing Loans

Weighted Base Assumptions Used to Obtain Fair Value of Affordable Housing Loans:		
Average Annual Prepayment Rate		
During Yield Maintenance Period		8.00%
During Prepayment Penalty Period		59.50%
During No Penalty Period		59.50%
Cumulative Future Loss Rate		0.02%
Discount Rate		6.19%
Impact on Fair Value (Decrease) Increase:		
Annual prepayment rate during yield maintenance period of 8%	$	2,878
Annual prepayment rate during yield maintenance period of 13%		(3,361)
Annual prepayment rate during prepayment penalty period of 56%		34,184
Annual prepayment rate during prepayment penalty period of 94%		(46,761)
Cumulative future loss rate of 200% of base (0.04%)		(2,594)
Discount rate of 6.0%		28,062
Discount rate of 10.0%		(1,140,332)

NOTE 5 PARTICIPATING INTEREST

During the years ended June 30, 2018 and 2017, CRF SBLC sold SBA 7(a) loans with an original principal balance of approximately $22,295,000 and $30,783,000, respectively, to third-party investors. The Organization sells a 75% or 85% participating interest in certain SBA 7(a) loans to these third-party investors and retains the remaining 25% or 15% participating interest. The retained portion of the original principal balance of these loans was approximately $5,439,000 and $7,407,000 during the years ended June 30, 2018 and 2017, respectively. The Organization recognized servicing rights resulting from these transactions during the fiscal years 2018 and 2017 of approximately $393,000 and $518,000, respectively.

The transfers of participating interests were accounted for as sales in accordance with ASC 860. The Organizations participating interests in these loan transfers is included within investment loans on the consolidated statements of financial position. All cash flows from the loans are divided proportionately based on each participating interests' percentages after servicing fees are paid.

NOTE 6 SERVICING RIGHTS

Activity for servicing rights under the amortization method is as follows for the years ended June 30:

	2018	2017
Balance - Beginning of Year	$ 2,250,445	$ 1,976,002
Additions	392,508	778,312
Impairment	(52,135)	(2,726)
Amortization	(479,042)	(501,143)
Balance - End of Year	$ 2,111,776	$ 2,250,445

The fair value of servicing rights is approximately $2,112,000 and $2,325,000 as of June 30, 2018 and 2017, respectively, which was determined using a weighted-average discount rate of 10.41% and 9.4% and a weighted-average constant prepayment rate of 9.67% and 7.66% respectively.

NOTE 7 FURNITURE AND EQUIPMENT

Furniture and equipment consists of the following as of June 30:

	2018	2017
Leasehold Improvements	$ 625,452	$ 64,122
Furniture, Fixtures and Equipment	1,995,731	1,944,146
Computer Hardware and Software	4,399,128	4,383,208
Subtotal	7,020,311	6,391,476
Less: Accumulated Depreciation	(5,841,344)	(5,677,184)
Total	$ 1,178,967	$ 714,292

NOTE 8 COLLATERALIZED BORROWINGS

On July, 21, 2016, the Organization amended the line of credit and term loan agreement. Under this amendment the maximum borrowings outstanding was decreased to $11,250,000 which included a $6,250,000 term loan and a $5,000,000 line of credit. The line of credit matured on January 29, 2018 and was not renewed. The term loan is set to mature January 2020. The amended agreement bears interest at 4.08% for the term loan at June 30, 2018 and 2017.

Borrowings under the agreement are collateralized by certain eligible loans owned by CRF. The balance outstanding under the term loan was $500,000 as of June 30, 2018 and 2017. Under the provisions of this agreement, CRF is required to maintain certain financial and other covenants of which they were in compliance.

NOTE 9 NOTES PAYABLE AND SUBORDINATED NOTES PAYABLE

Notes payable consist of the following as of June 30:

Description	2018	2017
Notes Payable, fixed term Maturities from fiscal 2019 to fiscal 2025	$ 25,678,000	$ 28,129,075
Notes Payable, revolving Maturities from fiscal 2019 to fiscal 2023	7,500,000	10,000,000
Debt Issuance Costs	(64,509)	(79,093)
Total	$ 33,113,491	$ 38,049,982

The term notes payable bear interest at rates between 2.00% and 4.00%, payable on a quarterly, semi-annual, or annual basis, with scheduled principal payments at various amounts due in fiscal year 2019 through fiscal year 2025. Outstanding notes payable are with financial institutions totaling $7,500,000, foundations totaling $2,085,000, insurance companies totaling $7,500,000, and investment funds totaling $8,593,000, all on an unsecured basis.

During the year ending June 30, 2018, the Organization signed credit agreements for undrawn term notes totaling $5,750,000. The notes bear interest between 3.00% and 4.59% with scheduled maturities ranging from fiscal year 2023 to five years from the full draw of the facilities. The organization had a total undrawn capacity on term notes of $5,750,000 as of June 30, 2018.

NOTE 9 NOTES PAYABLE AND SUBORDINATED NOTES PAYABLE (CONTINUED)

The revolving notes payable bear interest at rates between 2.00% and 4.94%, payable semi-annual or quarterly with maturity dates between fiscal year 2019 and fiscal year 2023. The revolving facilities support the lending activities on an unsecured basis with six financial institutions. The amount of available capacity above the current outstanding amount was $16,000,000 and $13,500,000 as of June 30, 2018 and 2017, respectively.

Certain note payable agreements require CRF to meet certain financial and other covenants of which they were in compliance at June 30, 2018.

Subordinated notes payable consist of notes to various financial institutions, with interest from 2.00% to 4.00% payable quarterly, and principal due in June 2018 through March 2028. The balance of these notes was $22,250,000 and $17,450,000 as of June 30, 2018 and 2017, respectively. Subordinated notes payable are subordinate to all current and future senior debt including instances when payment on subordinated notes would result in failure to meet covenants on senior debt.

Scheduled future maturities are as follows for the years ending June 30:

Year Ending June 30,	Notes Payable	Subordinated Notes Payable	Total
2019	$ 1,533,000	$ 1,150,000	$ 2,683,000
2020	2,125,000	6,100,000	8,225,000
2021	1,175,000	1,000,000	2,175,000
2022	370,000	3,500,000	3,870,000
2023	8,225,000	5,000,000	13,225,000
Thereafter	19,750,000	5,500,000	25,250,000
Total	$ 33,178,000	$ 22,250,000	$ 55,428,000

NOTE 10 COMMITMENTS AND CONTINGENCIES

Leases

Operating lease payments, including minimum scheduled rent increases, are recognized as rent expense on a straight-line basis over the lease term, including any option periods considered in the lease term and any periods during which the Organization has use of the property but is not charged rent by a landlord. Rent expense on operating leases for office space and equipment totaled approximately $279,000 and $305,000 for the years ended June 30, 2018 and 2017, respectively.

Approximate future minimum rentals under non-cancelable operating leases are as follows for the years ending June 30:

Year Ending June 30,	Amount
2019	$ 193,542
2020	199,703
2021	205,863
2022	212,024
2023	218,184
2024	18,482

Servicing

CRF is the master servicing agent for most loans which collateralize outstanding bonds, loans in a participating interest arrangement, securitized loans and is a sub-servicer for others. CRF is also the servicing agent for loans held by unrelated organizations. In both situations, CRF receives a servicing fee and is obligated to perform certain loan servicing procedures in accordance with the loan servicing agreements. Under such agreements, CRF has contractual responsibility for certain damages resulting from specific breaches of the responsibilities contained in those agreements. As of June 30, 2018 and 2017, no contingent liabilities have been recorded related to CRF's servicing agreements.

Legal Proceedings

From time to time, CRF 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 management, would not have a material adverse effect on the Organization's business operations or financial position.

NOTE 11 TEMPORARILY RESTRICTED NET ASSETS

Net assets temporarily restricted consist of the following as of June 30:

	2018	2017
Restricted for Specific Purposes:		
Lending Operations	$ 425,000	$ 359,500
Technology Platforms	750,000	1,522,656
Lending Funds	1,112,238	1,335,255
Other Programs	87,168	190,000
Total	$ 2,374,406	$ 3,407,411

Net assets were released during the years ended June 30 for the following purposes:

	2018	2017
Program Release	$ 3,450,622	$ 2,739,672
Time Release	-	1,000,000
Total	$ 3,450,622	$ 3,739,672

NOTE 12 FAIR VALUE MEASUREMENTS

The Organization accounts for fair value measurements in accordance with ASC 820, Fair Value Measurements and Disclosures, which defines fair value as the price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC 820 establishes three levels of inputs that may be used to measure fair value:

- Level 1 – inputs utilizing quoted prices (unadjusted) in active markets for identical assets and liabilities.
- Level 2 – observable inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly, including quoted prices for similar assets or liabilities in active markets, or quoted prices for identical or similar assets in markets that are not active.
- Level 3 – unobservable inputs in which there is little or no market data available, which require the reporting entity to develop its own assumptions.

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.

NOTE 12 FAIR VALUE MEASURMENTS (CONTINUED)

The following methods were used by the Organization in estimating fair value under ASC 820:

Retained interest: The fair value of retained interests is estimated based on the present value of anticipated future loan cash flows. Key assumptions used in this valuation are estimated credit losses, prepayment factors, and discount rates (see Note 4).

Loans held for future note issuances: The fair value of loans held for future note issuances is estimated by discounting future cash flows using current rates of return required by investors in similar assets.

Servicing asset: The fair value of servicing rights is based on a valuation model which calculates the present value of estimated future net servicing income. The model incorporates assumptions that market participants use in estimating future net servicing income, including estimates of prepayment speeds, discount rate, default rates, cost to service, contractual servicing fee income, ancillary income and late fees.

Impaired loans: The fair value of impaired loans is based on the lower of cost or estimated fair value of the collateral securing the loan at the time the loan is identified as impaired and on an on-going basis, when applicable. The fair value of collateral is based on appraisals, adjusted for various factors including age of the appraisal and known changes in the market or the collateral.

The following tables present the hierarchy level for each of the Organization's assets and (liabilities) that are measured at fair value on a recurring basis:

	2018			
	Level 1	Level 2	Level 3	Total
Retained Interest in Securitized Loans	$ -	$ -	$ 6,597,345	$ 6,597,345
Total	$ -	$ -	$ 6,597,345	$ 6,597,345

	2017			
	Level 1	Level 2	Level 3	Total
Retained Interest in Securitized Loans	$ -	$ -	$ 7,454,977	$ 7,454,977
Total	$ -	$ -	$ 7,454,977	$ 7,454,977

See Note 4 for changes in retained interest for the years ended June 30, 2018 and 2017.

NOTE 12 FAIR VALUE MEASURMENTS (CONTINUED)

Nonrecurring fair value measurements typically involve assets that are periodically evaluated for impairment and for which any impairment is recorded in the period in which the remeasurement is performed. The following tables present the hierarchy level for each of the Organization's assets and (liabilities) that are measured at fair value on a nonrecurring basis for year ending June 30:

	2018			
	Level 1	Level 2	Level 3	Total
Loans Held for Sale[1]	$ -	$ -	$ 169,999	$ 169,999
Servicing Asset	-	-	2,111,776	2,111,776
Impaired Loans[2]	-	-	2,384,951	2,384,951
Total	$ -	$ -	$ 4,666,726	$ 4,666,726

	2017			
	Level 1	Level 2	Level 3	Total
Loans Held for Sale[1]	$ -	$ -	$ 182,192	$ 182,192
Servicing Asset	-	-	2,250,445	2,250,445
Impaired Loans[2]	-	-	1,063,881	1,063,881
Total	$ -	$ -	$ 3,496,518	$ 3,496,518

[1] Loans recorded at market (fair value) within loans held for sale within the consolidated statements of financial position where market is below cost.

[2] Loans written down to net realizable value within investment loans within the consolidated statements of financial position.

NOTE 13 RELATED PARTY TRANSACTIONS

Certain credit facilities of the Organization are held by an institution which employs a member of CRF's board of trustees. Total interest payments under these credit facilities were approximately $102,000 and $269,000 for the years ended June 30, 2018 and 2017, respectively. The balance outstanding under these facilities was approximately $2,500,000 as of June 30, 2018 and 2017. In the opinion of management, the costs and revenues resulting from these transactions approximate the amounts that would result from transactions conducted with unrelated third parties.

CRF has entered into certain new markets tax credit (NMTC) transactions in which an institution which employs a member of CRF's board of trustees is an investor. These NMTC transactions are treated as arms-length transactions because they are subject to government requirements, and only allow specific fee amounts based on total principal value of the tax credit allocation. CRF recognized sub-allocation fees from these NMTC transactions totaling $-0- and $450,000 in fiscal years 2018 and 2017, respectively. CRF also acts as the program manager and servicer for all NMTC transactions. Program management and servicing fees, from those transaction in which the institution is an investor, totaled approximately $227,000 and $864,000 for the years ended June 30, 2018 and 2017, respectively.

The Organization's federal income tax exemption under 501(c)(3) of the Internal Revenue Code is premised in part upon the Organization providing support to governmental and public charities engaged in community development, and requires a majority of CRF's board of trustees to be representatives of such organizations. As a result, from time to time CRF may enter into transactions with organizations who employ a member of the CRF board of trustees.

The CRF Board of Trustees has adopted a conflict of interest policy that requires disclosure of any conflict of interest and recusal in appropriate circumstances, which is reviewed and approved by the board annually.

NOTE 14 EMPLOYEE BENEFIT PLANS

The Organization sponsors a 403(b) Plan covering all eligible employees. Participants may elect to contribute a portion of their compensation, as defined, up to the maximum amount allowed by law. The Organization may elect annually to make discretionary matching contributions of up to 5% of the employees' annual compensation to the Plan. The Organization made contributions of approximately $273,000 and $213,000 for the years ended June 30, 2018 and 2017, respectively.