COMMUNITY REINVESTMENT FUND, INC.
AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2019 AND 2018

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CliftonLarsonAllen LLP
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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Community Reinvestment Fund, Inc. and SubsidiariesCommunity 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, 2019 and 2018, and the related consolidated statements of activities and cash flows for the years then ended, the consolidated statement of functional expenses for the year ended June 30, 2019, 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, 2019 and 2018, 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

Minneapolis, Minnesota
September 17, 2019

COMMUNITY REINVESTMENT FUND, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2019 AND 2018

	2019			2018		
	Net Assets without Donor Restrictions	Net Assets with Donor Restrictions	Total	Net Assets without Donor Restrictions	Net Assets with Donor Restrictions	Total
ASSETS						
Cash and Cash Equivalents	$ 11,657,669	$ 2,851,214	$ 14,508,883	$ 14,156,639	$ 1,858,489	$ 16,015,128
Funds Held for Others	10,694,729	-	10,694,729	12,110,042	-	12,110,042
Loans Receivable:						
Loans Held for Sale	999,815	-	999,815	5,317,578	-	5,317,578
Investment Loan, Net	34,694,180	-	34,694,180	35,435,006	-	35,435,006
Total Loans Receivable	35,693,995	-	35,693,995	40,752,584	-	40,752,584
Retained Interest in Securitized Loans	5,555,182	-	5,555,182	6,597,345	-	6,597,345
Interest Receivable	349,740	-	349,740	230,054	-	230,054
Grants Receivable	248,500	379,666	628,166	413,000	515,917	928,917
Furniture and Equipment, Net	938,516	-	938,516	1,178,967	-	1,178,967
Intangible Asset	1,406,196	-	1,406,196	1,406,196	-	1,406,196
Servicing Asset	2,184,269	-	2,184,269	2,111,776		2,111,776
Other Asset	4,227,605	-	4,227,605	5,077,709	-	5,077,709
	14,910,008	379,666	15,289,674	17,015,047	515,917	17,530,964
Total Assets	$ 72,956,401	$ 3,230,880	$ 76,187,281	$ 84,034,312	$ 2,374,406	$ 86,408,718
LIABILITIES AND NET ASSETS						
LIABILITIES						
Accounts Payable and Accrued Expenses	$ 1,946,091	$ -	$ 1,946,091	$ 2,457,903	$ -	$ 2,457,903
Funds Due to Others	10,694,729	-	10,694,729	12,110,042	-	12,110,042
Collateralized Borrowings	-	-	-	500,000	-	500,000
Subordinated Notes Payable	22,000,000	-	22,000,000	22,250,000	-	22,250,000
Notes Payable	26,150,074	-	26,150,074	33,113,491	-	33,113,491
Total Liabilities	60,790,894	-	60,790,894	70,431,436	-	70,431,436
NET ASSETS	12,165,507	3,230,880	15,396,387	13,602,876	2,374,406	15,977,282
Total Liabilities and Net Assets	$ 72,956,401	$ 3,230,880	$ 76,187,281	$ 84,034,312	$ 2,374,406	$ 86,408,718

See accompanying Notes to Consolidated Financial Statements.

COMMUNITY REINVESTMENT FUND, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2019 AND 2018

	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
INTEREST INCOME						
Interest Income	$ 4,093,945	$ -	$ 4,093,945	$ 3,752,492	$ -	$ 3,752,492
Accreted Interest Income	372,700	-	372,700	426,727	-	426,727
Total Interest Income	4,466,645	-	4,466,645	4,179,219	-	4,179,219
INTEREST EXPENSE	1,691,430	-	1,691,430	1,933,330	-	1,933,330
Net Interest Income	2,775,215	-	2,775,215	2,245,889	-	2,245,889
PROVISION FOR LOAN LOSSES	914,276	-	914,276	395,030	-	395,030
Net Interest Income After Provision for Loan Losses	1,860,939	-	1,860,939	1,850,859	-	1,850,859
OTHER REVENUE (EXPENSE)						
Realized Gains on Loan Sales	2,301,240	-	2,301,240	1,459,877	-	1,459,877
Loan Servicing, Management and Transaction Fees	5,469,469	-	5,469,469	6,942,758	-	6,942,758
Grants	821,071	3,052,193	3,873,264	2,763,446	2,417,617	5,181,063
Change in Retained Interest Fair Value	9,970	-	9,970	(22,635)	-	(22,635)
Other	20,937		20,937	10,084		10,084
Total Other Revenue (Expense)	8,622,687	3,052,193	11,674,880	11,153,530	2,417,617	13,571,147
Net Assets Released from Restrictions	2,195,719	(2,195,719)	-	3,450,622	(3,450,622)	-
Total Other Revenue	10,818,406	856,474	11,674,880	14,604,152	(1,033,005)	13,571,147
Total Net Revenue	12,679,345	856,474	13,535,819	16,455,011	(1,033,005)	15,422,006
OTHER EXPENSE						
Financial Services and Administrative	10,751,164	-	10,751,164	11,380,391	-	11,380,391
Professional and Consulting Services	2,392,864	-	2,392,864	2,925,612	-	2,925,612
Depreciation	393,108	-	393,108	499,724	-	499,724
Amortization of Servicing Rights	579,578	-	579,578	531,177	-	531,177
Total Other Expenses	14,116,714	-	14,116,714	15,336,904	-	15,336,904
CHANGE IN NET ASSETS	(1,437,369)	856,474	(580,895)	1,118,107	(1,033,005)	85,102
Net Assets - Beginning of Year	13,602,876	2,374,406	15,977,282	12,484,769	3,407,411	15,892,180
NET ASSETS - END OF YEAR	$ 12,165,507	$ 3,230,880	$ 15,396,387	$ 13,602,876	$ 2,374,406	$ 15,977,282

See accompanying Notes to Consolidated Financial Statements.

COMMUNITY REINVESTMENT FUND, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
JUNE 30, 2019 AND 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	$ (580,895)	$ 85,102
Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities:		
Depreciation	393,108	499,724
Amortization of Servicing Rights	579,578	531,177
Accreted Interest Income on Retained Interest	(372,700)	(426,727)
Provision for Loan Losses	914,276	395,030
Change in Retained Interest Fair Value	(9,970)	22,635
Realized Gains on Loan Sales	(2,301,240)	(1,459,877)
Accreted Interest Income on Loan Discount	(589,188)	(569,820)
Originations of Loans Held for Sale	(22,157,071)	(19,305,332)
Proceeds from Sales of Loans Held for Sale	28,989,834	18,589,599
Payments on Loans Held for Sale	257,762	862,350
Change in Operating Assets and Liabilities:		
Funds Held for Others	1,415,313	(3,500,263)
Grants Receivable	300,751	(89,875)
Interest Receivable	(119,686)	25,130
Other Assets	669,627	(1,600,820)
Accounts Payable and Accrued Expenses	(749,436)	(803,725)
Funds Due to Others	(1,415,313)	3,500,263
Net Cash Provided (Used) by Operating Activities	5,224,750	(3,245,429)
CASH FLOWS FROM INVESTING ACTIVITIES		
Origination of Loans	(8,225,203)	(7,198,406)
Loan Receivable Payments and Other	7,935,449	8,785,014
Purchase of Loans Receivable	-	(781,512)
Purchase of Retained Interest in Securitized Loans	-	(44,295)
Payments on Retained Interest in Securitized Loans	1,424,833	1,337,421
Purchase of Furniture and Equipment	(152,657)	(964,399)
Net Cash Provided by Investing Activities	982,422	1,133,823
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Note Payable	-	9,325,000
Payments on Notes Payable	(963,417)	(14,261,491)
Proceeds from Revolving Credit Lines	6,000,000	10,000,000
Payments on Revolving Credit Lines	(12,000,000)	(10,000,000)
Payments on Collateralized Borrowings	(500,000)	-
Proceeds from Subordinated Notes Payable	1,000,000	5,000,000
Payments on Subordinated Notes Payable	(1,250,000)	(200,000)
Net Cash Used by Financing Activities	(7,713,417)	(136,491)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,506,245)	(2,248,097)
Cash and Cash Equivalents - Beginning of Year	16,015,128	18,263,225
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 14,508,883	$ 16,015,128
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash Paid for Interest	$ 1,700,522	$ 1,908,859
Transfers from Loans Receivable to OREO	$ 95,104	$ -

COMMUNITY REINVESTMENT FUND, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
JUNE 30, 2019

	2019				2018
	Program Services	Management & General	Fundraising	Total	Total
EXPENSES					
Salary	$ 6,150,877	$ 2,237,862	$ 609,352	$ 8,998,091	$ 9,358,330
Interest Expense	1,691,430	-	-	1,691,430	1,933,330
Professional and Consulting Services	1,253,642	586,518	72,515	1,912,675	2,371,634
Provision for Loan Losses	914,276	-	-	914,276	395,030
Rent	206,452	83,343	11,496	301,291	278,884
Amortization of Servicing Rights	579,578	-	-	579,578	531,117
Depreciation	324,729	60,091	8,288	393,108	499,724
Insurance	147,442	49,840	10,383	207,665	177,162
Legal Fees	195,411	91,339	-	286,750	369,400
Travel	148,490	69,851	62,229	280,570	322,137
Technology Services	111,260	80,806	5,692	197,758	236,013
Other	573,731	380,290	5,207	959,228	1,192,503
Total	$ 12,297,318	$ 3,639,940	$ 785,162	$ 16,722,420	$ 17,665,264

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 the 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), 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, 2019. 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:

Without Donor Restrictions – Net assets that are not subject to donor-imposed and/or the passage of time restrictions.

With Donor Restrictions – Net assets subject to donor-imposed restrictions that will be met by actions of CRF and/or the passage of time.

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 $10,117,000 and $11,547,000 at June 30, 2019 and 2018, respectively, at three different institutions.

Funds Held for (Due to) Others

As of June 30, 2019 and 2018, respectively, CRF had approximately $10,690,000 and $12,110,000 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, 2019 and 2018.

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 $411,729 and a purchase price of $237,624. 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 $2,322,092 and $2,032,508 at June 30, 2019 and 2018, 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 six and two loans with an outstanding recorded investment of $549,971 and $234,834 considered TDRs as of June 30, 2019 and 2018, respectively.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Advertising Costs

The Organization expenses advertising costs as incurred. Advertising costs were approximately $24,000 and $305,000 for the years ended June 30, 2019 and 2018, 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 $44,141 and $50,066 of impairment on servicing rights for the years ended June 30, 2019 and 2018, 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 specifically in grant agreement or documented by the donor. Donor-restricted contributions are reported in with donor restrictions net assets. When the restrictions expire, assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as Net Assets Released from Restrictions. Management believes all grants receivable are collectible at June 30, 2019 and 2018. 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. Items over $2,500 are capitalized in accordance with the Organizations policies.

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,	2019	2018
Servicing Fees	$ 1,870,400	$ 1,801,565
Management Fees	3,268,440	3,079,501
Transactions Fees	330,629	2,061,692
Total	$ 5,469,469	$ 6,942,758

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

Salaries and related expenses are allocated based on employees' direct time spent on program or support activities or the best estimate of time spent. Third party costs directly attributable to a program or support activity are directly allocated. Rent, depreciation, and insurance expense are allocated based on employee time estimates. Expenses which are not directly identifiable by program or support services are allocated based on the best estimates of management.

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, 2019 and 2018.

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
2019	$ 4,760,786	$ 32,731,591	14.54%	10.00%
2018	$ 4,773,924	$ 31,503,417	15.15%	10.00%

Change in Accounting Principal

The Organization adopted Financial Accounting Standards Board (FASB) ASU 2016-04, Not-for-Profit Entities (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities* in 2019. These changes were applied retrospectively to ensure comparability with the priot year presented herein with the exception of the consolidated statement of functional expenses and liquidity footnote, which have been presented only for the year ended June 30, 2019.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Liquidity and Availability of Resources

The Organization regularly monitors liquidity required to meet its annual operating needs and other contractual commitments while also striving to balance risk and returns to prioritize capital preservation. A capital plan is formulated annually with forecasting of capital needs at 1 and 3 years to ensure proper capital type and availability. The capital plan includes stress scenarios along with contingency plans and is reviewed annually by the Board. Per liquidity management policies, the Organization maintains cash without donor restrictions of no less than one-half annual operating expenses.

Cash balances are monitored on a daily basis along with future cash needs for contractual commitments including loan fundings. The organization maintains available liquidity resources for the funding of loan balances held for sale so as to match asset and liability characteristics.

The balances of financial assets and available liquidity resources as of June 30, 2019 are as follows:

Financial Assets		
Cash without Donor Restrictions	$	11,657,669
Current Portion of Loans Receivable, net		364,612
Interest Receivable		349,740
Grants Receivable		248,500
Loan Servicing Fees Receivable		337,868
Other Accounts Receivable less reserves		355,003
Total Financial Assets available within one year		13,313,392
Available Liquidity Resource		
Undrawn lines of credit without restriction		20,000,000
Total Financial Assets and Available Liquidity Resources	$	33,313,392

Subsequent Events

The Organization evaluated its June 30, 2019 consolidated financial statements for subsequent events through September 17, 2019, 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 that have not been disclosed herein.

NOTE 2 LOANS RECEIVABLE

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

	2019	2018
Unpaid Principal Balance	$ 1,174,439	$ 5,404,601
Valuation Allowance	(174,624)	(87,023)
Loans Held for Sale	$ 999,815	$ 5,317,578

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

	2019	2018
Balance - Beginning of Year	$ 87,023	$ 87,023
Change in Lower Cost or Estimated Fair Value	-	-
Less: Discounts on Sold Loans	-	-
Less: Loans transferred from HFS to HFI	-	-
Plus: Loans Purchased at Discount	87,601	-
Balance - End of Year	$ 174,624	$ 87,023

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

	2019	2018
Investment Loans		
SBA 7(a) Loans	$ 32,731,591	$ 31,503,417
Business Loans	6,699,430	8,316,182
Affordable Housing Loans	551,522	565,955
Unearned Discount	(3,143,587)	(3,081,676)
	36,838,956	37,303,878
Allowance for Loan Losses	(2,144,776)	(1,868,872)
Total	$ 34,694,180	$ 35,435,006

The carrying value of impaired loans was $3,092,612 and $2,384,951 as of June 30, 2019 and 2018, respectively. There is $4,100 and $-0- of interest income accrued on these loans as of June 30, 2019 and 2018, and $93,581 and $128,016 interest income recognized during fiscal year 2019 and 2018, 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:

	2019	2018
Balance - Beginning of Year	$ 1,868,872	$ 2,028,303
Provision for Loan Losses	914,276	395,030
Charge Offs	(761,432)	(674,192)
Recoveries	123,060	119,731
Balance - End of Year	$ 2,144,776	$ 1,868,872

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

	2019		2018	
	Investment Loans	Allowance for Loan Losses	Investment Loans	Allowance for Loan Losses
Collectively Evaluated for Impairment:				
Affordable Housing	$ 551,522	$ -	$ 565,955	$ -
Business	33,194,822	1,121,808	34,352,972	1,449,966
Individually Evaluated for Impairment:				
Business	3,092,612	1,022,968	2,384,951	418,906
Total	$ 36,838,956	$ 2,144,776	$ 37,303,878	$ 1,868,872

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, 2019	SBA 7(a)	Business	Affordable Housing	Total
Pass	$ 27,553,217	$ 5,756,199	$ 551,522	$ 33,860,938
Substandard	343,854	489,868	-	833,722
Doubtful	1,808,439	267,379	-	2,075,818
Loss	1,207	67,271	-	68,478
Total	$ 29,706,717	$ 6,580,717	$ 551,522	$ 36,838,956

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

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.

	2019				
	Current	30-59 Days Past Due and Accruing	60-89 Days Past Due and Accruing	Non-Accrual	Total
Investment Loans					
Affordable Housing	$ 551,522	$ -	$ -	$ -	$ 551,522
SBA 7(a)	27,569,507	239,470	190,724	1,707,016	29,706,717
Business	5,965,641	-	-	615,076	6,580,717
Total Investment Loans	$ 34,086,670	$ 239,470	$ 190,724	$ 2,322,092	$ 36,838,956

	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

NOTE 3 TROUBLED DEBT RESTRUCTURINGS (TDRS)

The following table summarizes TDRs as of June 30:

	2019			
	Number of Loans	Outstanding Recorded Investment	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
SBA 7(a)	6	$ 549,971	$ 614,355	$ 614,355

	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

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 2019 and 2018, the Organization received approximately $158,000 and $246,000 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:

	2019	2018
Retained Interest - Beginning of Year	$ 6,597,345	$ 7,454,977
Retained Interest in Securitized Loans		75,697
Investment Returns:		
Accreted Interest Income	372,700	426,727
Change in Retained Interest Fair Value	9,970	(22,635)
Cash Payments Received	(1,424,833)	(1,337,421)
Retained Interest - End of Year	$ 5,555,182	$ 6,597,345

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

Retained Interest Sensitivity

As of June 30, 2019, 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.

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.

	2019		
	Business Loans	Affordable Housing Loans	Total
Principal Balance of Underlying Loans (Held with SPEs)	$ 3,257,730	$ 45,138,632	$ 48,396,362
Carrying Amount of Retained Interest (at Fair Value)	-	5,555,182	5,555,182

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, 2019 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, 2019.

Affordable Housing Loans

Weighted Base Assumptions Used to Obtain Fair Value of Affordable Housing Loans:	
Average Annual Prepayment Rate	
During Yield Maintenance Period	7.66%
During Prepayment Penalty Period	57.42%
During No Penalty Period	57.42%
Cumulative Future Loss Rate	0.02%
Discount Rate	6.16%

Impact on Fair Value (Decrease) Increase:		
Annual prepayment rate during yield maintenance period of 5.74%	$	(2,438)
Annual prepayment rate during yield maintenance period of 9.57%		(255)
Annual prepayment rate during prepayment penalty period of 43.07%		26,297
Annual prepayment rate during prepayment penalty period of 71.78%		(40,550)
Cumulative future loss rate of 200% of base (0.04%)		(1,131)
Discount rate of 4.6%		437,038
Discount rate of 7.7%		(411,945)

NOTE 5 PARTICIPATING INTEREST

During the years ended June 30, 2019 and 2018, CRF SBLC sold SBA 7(a) loans with an original principal balance of approximately $26,363,000 and $22,295,000, 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 $8,404,000 and $5,439,000 during the years ended June 30, 2019 and 2018, respectively. The Organization recognized servicing rights resulting from these transactions during the fiscal years 2019 and 2018 of approximately $546,000 and $393,000, 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:

	2019	2018
Balance - Beginning of Year	$ 2,111,776	$ 2,250,445
Additions	652,071	392,508
Impairment	(62,407)	(52,135)
Amortization	(517,171)	(479,042)
Balance - End of Year	$ 2,184,269	$ 2,111,776

The fair value of servicing rights is approximately $2,184,000 and $2,112,000 as of June 30, 2019 and 2018, respectively, which was determined using a weighted-average discount rate of 11.50% and 10.41% and a weighted-average constant prepayment rate of 13.12% and 9.67% respectively.

NOTE 7 FURNITURE AND EQUIPMENT

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

	2019	2018
Leasehold Improvements	$ 625,452	$ 625,452
Furniture, Fixtures and Equipment	2,111,592	1,995,731
Computer Hardware and Software	4,435,924	4,399,128
Subtotal	7,172,968	7,020,311
Less: Accumulated Depreciation	(6,234,452)	(5,841,344)
Total	$ 938,516	$ 1,178,967

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 was paid in full on March 21, 2019.

Borrowings under the agreement were collateralized by certain eligible loans owned by CRF. The balance outstanding under the term loan was $-0- and $500,000 as of June 30, 2019 and 2018, respectively.

NOTE 9 NOTES PAYABLE AND SUBORDINATED NOTES PAYABLE

Notes payable consist of the following as of June 30:

Description	2019	2018
Notes Payable, fixed term Maturities from fiscal 2020 to fiscal 2025	$ 24,705,000	$ 25,678,000
Notes Payable, revolving Maturities from fiscal 2020 to fiscal 2023	1,500,000	7,500,000
Debt Issuance Costs	(54,926)	(64,509)
Total	$ 26,150,074	$ 33,113,491

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 2020 through fiscal year 2025. Outstanding notes payable are with financial institutions totaling $7,000,000, foundations totaling $2,085,000, insurance companies totaling $7,500,000, and investment funds totaling $8,120,000, all on an unsecured basis.

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 2020 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 $20,000,000 and $16,000,000 as of June 30, 2019 and 2018, respectively.

As of July 17, 2019, the Organization received an advance of $2,500,000 from available capacity on an unsecured term note payable signed June 15, 2018. As of the date of the advance, the term note bore an interest rate of 4.80%, with a maturity date of June 15, 2023.

Certain note payable agreements require CRF to meet certain financial and other covenants of which they were in compliance at June 30, 2019.

NOTE 9 NOTES PAYABLE AND SUBORDINATED NOTES PAYABLE (CONTINUED)

Subordinated notes payable consist of notes to various financial institutions, with interest from 2.00% to 4.00% payable quarterly, and principal due September 2019 through March 2028. The balance of these notes was $22,000,000 and $22,250,000 as of June 30, 2019 and 2018, 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
2020	$ 2,125,000	$ 6,300,000	$ 8,425,000
2021	1,175,000	200,000	1,375,000
2022	930,000	5,000,000	5,930,000
2023	2,225,000	5,000,000	7,225,000
2024	14,750,000	500,000	15,250,000
Thereafter	5,000,000	5,000,000	10,000,000
Total	$ 26,205,000	$ 22,000,000	$ 48,205,000

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 $301,000 and $279,000 for the years ended June 30, 2019 and 2018, respectively.

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

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

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, 2019 and 2018, 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 NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consist of the following as of June 30:

	2019	2018
Restricted for Specific Purposes:		
Lending Operations	$ 741,032	$ 725,000
Technology Platforms	1,032,905	450,000
Lending Funds	1,012,443	1,117,048
Community Solutions	444,500	82,358
Total	$ 3,230,880	$ 2,374,406

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

	2019	2018
Program Release	$ 2,195,719	$ 3,450,622
Time Release	-	-
Total	$ 2,195,719	$ 3,450,622

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 sale: The fair value of loans held for sale 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:

	2019			
	Level 1	Level 2	Level 3	Total
Retained Interest in Securitized Loans	$ -	$ -	$ 5,555,182	$ 5,555,182
Total	$ -	$ -	$ 5,555,182	$ 5,555,182

	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

See Note 4 for changes in retained interest for the years ended June 30, 2019 and 2018.

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:

	2019			
	Level 1	Level 2	Level 3	Total
Loans Held for Sale[1]	$ -	$ -	$ 304,771	$ 304,771
Servicing Asset	-	-	2,184,269	2,184,269
Impaired Loans[2]	-	-	3,092,612	3,092,612
Total	$ -	$ -	$ 5,581,652	$ 5,581,652

	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

[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 $83,000 and $102,000 for the years ended June 30, 2019 and 2018, respectively. The balance outstanding under these facilities was $2,000,000 and $2,500,000 as of June 30, 2019 and 2018. 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 no sub-allocation fees from these NMTC transactions in fiscal years 2019 and 2018. 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 $179,000 and $227,000 for the years ended June 30, 2019 and 2018, 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 $253,000 and $273,000 for the years ended June 30, 2019 and 2018, respectively.