

LOCAL INITIATIVES SUPPORT CORPORATION
(Parent Only)

Financial Statements and Supplementary Information on
Federal Awards Programs

December 31, 2016
(with comparative financial information
as of and for the year ended December 31, 2015)

(With Independent Auditor's Report
and Reports on Internal Control and Compliance Thereon)

LOCAL INITIATIVES SUPPORT CORPORATION

(Parent-Only)

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Independent Auditor's Report

The Board of Directors
Local Initiatives Support Corporation

Report on the Financial Statements

We have audited the accompanying financial statements of Local Initiatives Support Corporation, which comprise the statement of financial position as of December 31, 2016, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Local Initiatives Support Corporation as of December 31, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis of Opinion

We draw attention to note 1(b) of the financial statements, which describes the basis of accounting. The financial statements are prepared by the Organization for the purpose of reporting under the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Our opinion is not modified with respect to this matter. We have audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated financial statements of Local Initiatives Support Corporation and Affiliates, which comprise the consolidated statement of financial position as of December 31, 2016, and the related consolidated statements of activities and cash flows for the year then ended (none of which is presented herein), and we expressed an unmodified opinion on those consolidated financial statements. Such consolidated financial statements are the general-purpose financial statements of Local Initiatives Support Corporation and Affiliates, and the financial statements of Local Initiatives Support Corporation (Parent Only) presented herein are not a valid substitute for those consolidated financial statements.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying schedule of indirect cost rate is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Report on Prior Period Summarized Comparative Information

The financial statements of Local Initiatives Support Corporation as of and for the year ended December 31, 2015, of which the summarized comparative financial information presented herein as of and for the year ended December 31, 2015, were audited by other auditors whose report dated April 25, 2016, expressed an unmodified opinion on those financial statements.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 30, 2017, on our consideration of Local Initiatives Support Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Local Initiatives Support Corporation's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "CohnReznick LLP". The signature is written in black ink and is positioned above the typed name and date.

Bethesda, Maryland
June 30, 2017

LOCAL INITIATIVES SUPPORT CORPORATION
(Parent-Only)

Statement of Financial Position

December 31, 2016

(With summarized comparative financial information as of December 31, 2015)

Assets	Operating funds		Loan funds		2016 Total	2015 Total
	Unrestricted	Temporarily Restricted	Unrestricted	Temporarily Restricted		
Cash and cash equivalents (note 3 and 11)	\$ 67,840,722	\$ 71,458,801	\$ 7,430,735	\$ 8,283,294	\$ 155,013,552	\$ 78,100,717
Investments (note 3 and 11)	16,017,747	43,002,549	25,020,675	47,576,053	131,617,024	129,696,796
Investment in affiliates (notes 1, 14, and 15)	65,869,468	-	-	-	65,869,468	66,361,791
Accrued interest receivable	1,711,707	-	-	-	1,711,707	1,770,073
Contributions receivable, net (note 4)	84,518	21,754,145	-	-	21,838,663	21,078,942
Government grants and contracts receivable (note 5)	663,795	26,111,288	-	11,133,334	37,908,417	28,984,213
Other assets	653,116	23,392	-	-	676,508	930,883
Due (to)/from affiliates (note 15)	2,485,894	-	-	-	2,485,894	2,812,046
Loans to Community Development Projects (CDPs) and affiliates projects (notes 6, 9, and 15)	-	-	283,116,957	4,706,934	287,823,891	203,917,988
Allowance for uncollectible loans (note 6)	-	-	(18,611,880)	-	(18,611,880)	(13,457,681)
Total loans, net	-	-	264,505,077	4,706,934	269,212,011	190,460,307
Recoverable grants to CDPs, net (note 6, 11 and 15)	6,690,992	3,641,302	-	150,000	10,482,294	7,169,659
Prepaid expenses and deposits	1,840,584	-	-	-	1,840,584	1,981,879
Fixed assets, net (note 8)	1,533,641	-	-	-	1,533,641	1,612,043
Total assets	<u>\$ 165,392,184</u>	<u>\$ 165,991,477</u>	<u>\$ 296,956,487</u>	<u>\$ 71,849,615</u>	<u>\$ 700,189,763</u>	<u>\$ 530,959,349</u>
Liabilities and Net Assets						
Accounts payable and accrued expenses (note 13)	\$ 9,921,897	\$ 209,552	\$ -	\$ -	\$ 10,131,449	\$ 11,994,207
Government contracts & loan-related advances (note 1)	10,456,482	15,267,475	-	-	25,723,957	9,225,955
Grants payable (note 7)	-	76,008,680	-	-	76,008,680	27,715,109
Loans and bond payable (note 9)	4,750,000	-	304,568,367	-	309,318,367	221,908,413
Total liabilities	25,128,379	91,485,707	304,568,367	-	421,182,453	270,843,684
Commitments and contingencies (note 9, 10, 11, and 13)	-	-	-	-	-	-
Board designated net assets for loan fund activity	-	-	11,000,000	-	11,000,000	10,000,000
Net assets not board designated (notes 1 and 2)	140,263,805	74,505,770	(18,611,880)	71,849,615	268,007,310	250,115,665
Total net assets	140,263,805	74,505,770	(7,611,880)	71,849,615	279,007,310	260,115,665
Total liabilities and net assets	<u>\$ 165,392,184</u>	<u>\$ 165,991,477</u>	<u>\$ 296,956,487</u>	<u>\$ 71,849,615</u>	<u>\$ 700,189,763</u>	<u>\$ 530,959,349</u>

See accompanying notes to financial statements.

LOCAL INITIATIVES SUPPORT CORPORATION
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Statement of Activities

Year ended December 31, 2016

(With summarized comparative financial information for the year ended December 31, 2015)

	Operating funds		Loan funds		2016 Total	2015 Total
	Unrestricted	Temporarily restricted	Unrestricted	Temporarily restricted		
Support and revenues:						
Contributions	\$ 4,716,046	\$ 115,853,938	\$ -	\$ 250,000	\$ 120,819,984	\$ 58,961,626
Government grants and contracts (note 5)	3,824,449	29,533,929	-	8,800,000	42,158,378	39,679,355
Interest income on investments	1,304,759	-	-	14,486	1,319,245	1,106,657
Interest income on loans to CDPs (notes 6)	14,178,431	-	-	-	14,178,431	11,341,743
Other income	6,512,982	-	-	-	6,512,982	5,406,715
Equity in earnings of affiliates (note 1, 14, and 15)	10,729,299	-	-	-	10,729,299	11,912,674
Net assets released from restrictions	140,408,989	(137,519,440)	-	(2,889,549)	-	-
Total support and revenues	181,674,955	7,868,427	-	6,174,937	195,718,319	128,408,770
Expenses:						
Program services:						
Project development and other program activities	45,545,778	-	-	-	45,545,778	41,864,764
Project grants (note 7)	95,047,838	-	-	-	95,047,838	42,113,508
Project loans:						
Interest on loans and bonds payable	6,825,192	-	-	-	6,825,192	5,554,290
Increase in allowance for uncollectible loans to CDPs (note 6)	290,892	-	5,154,199	-	5,445,091	2,305,562
Provision for uncollectible recoverable grants to CDPs	3,381,364	-	-	-	3,381,364	1,073,337
Total program services	151,091,064	-	5,154,199	-	156,245,263	92,911,461
Supporting services:						
Management and general	14,759,157	-	-	-	14,759,157	13,718,472
Fund-raising	6,526,733	-	-	-	6,526,733	6,203,899
Total supporting services	21,285,890	-	-	-	21,285,890	19,922,371
Total expenses	172,376,954	-	5,154,199	-	177,531,153	112,833,832
Changes in net assets before transfers, and realized and unrealized gain(loss) on investments	9,298,001	7,868,427	(5,154,199)	6,174,937	18,187,166	15,574,938
Transfers: Board designated net assets for loan fund activities	(1,000,000)	-	1,000,000	-	-	-
Realized gain (loss) on investments and derivatives	(775,449)	-	-	-	(775,449)	(101,127)
Unrealized gain (loss) on investments and derivatives	1,479,928	-	-	-	1,479,928	(749,243)
Realized and unrealized gain (loss) on investments and derivatives	704,479	-	-	-	704,479	(850,370)
Change in net assets	9,002,480	7,868,427	(4,154,199)	6,174,937	18,891,645	14,724,568
Net assets (deficit), beginning of year	131,261,325	66,637,343	(3,457,681)	65,674,678	260,115,665	245,391,097
Net assets (deficit), end of year	\$ 140,263,805	\$ 74,505,770	\$ (7,611,880)	\$ 71,849,615	\$ 279,007,310	\$ 260,115,665

See accompanying notes to financial statements.

LOCAL INITIATIVES SUPPORT CORPORATION
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Statement of Cash Flows

Year ended December 31, 2016

(With comparative financial information for the year ended December 31, 2015)

	2016	2015
Cash flows from operating activities:		
Change in net assets	\$ 18,891,645	\$ 14,724,568
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Equity in earnings of affiliates	(10,729,299)	(11,912,674)
Distributions from investments in affiliates	11,221,622	6,721,167
Realized and unrealized (gain)/loss on investments and derivatives	(704,479)	850,370
Depreciation and amortization	631,501	631,368
Increase in allowance for uncollectible loans to CDPs	5,445,091	2,305,562
Provision for uncollectible recoverable grants to CDPs	3,381,364	1,073,337
Change in operating assets and liabilities:		
Accrued interest receivable	58,366	(397,470)
Contributions receivable	(759,721)	(330,314)
Government grants receivable	(8,924,204)	1,270,704
Other assets	254,375	1,658,390
Due to/from affiliates	326,152	(1,446,419)
Prepaid expenses and deposits	141,295	122,662
Accounts payable & accrued expenses	(2,250,259)	(150,849)
Government contracts & loan-related advances	16,498,002	5,564,942
Grants payable	48,293,571	3,078,553
Net cash provided by operating activities	81,775,022	23,763,897
Cash flows from investing activities:		
Purchase of investments	(2,338,606)	(3,949,757)
Proceeds from sale and maturities of investments	1,122,857	594,018
Purchase of fixed assets	(553,099)	(172,720)
Recoverable grants made to CDPs	(9,657,626)	(4,712,378)
Repayments received on recoverable grants to CDPs	3,351,128	2,425,630
Loans to CDPs and affiliated projects	(179,238,722)	(120,483,445)
Repayments received on loans to CDPs and affiliated projects	95,041,927	88,004,543
Net cash used in investing activities	(92,272,141)	(38,294,109)
Cash flows from financing activities:		
Proceeds from loans and bonds payable	130,294,150	78,866,123
Repayments of loans and bonds payable	(42,884,196)	(52,328,752)
Net cash provided by financing activities	87,409,954	26,537,371
Net increase in cash and cash equivalents	76,912,835	12,007,159
Cash and cash equivalents, beginning of year	78,100,717	66,093,558
Cash and cash equivalents, end of period	\$ 155,013,552	\$ 78,100,717
 Supplemental cash flow information		
Cash paid during the period for:		
Interest in indebtedness	\$ 6,682,817	\$ 5,589,306
 Significant noncash investing activities		
Fixed assets of \$387,260 and \$844,196, respectively, resulting in book value of \$0 written off during both of the years ended December 31, 2016 and 2015, respectively	\$ 387,260	\$ 844,196

See accompanying notes to financial statements.

LOCAL INITIATIVES SUPPORT CORPORATION
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Notes to Financial Statement

December 31, 2016

(With comparative financial information
as of and for the year ended December 31, 2015)

(1) Organization and Summary of Significant Accounting Policies

(a) Corporate Purposes

Local Initiatives Support Corporation (LISC or the Organization), a New York not-for-profit corporation, was incorporated in 1979 to assist local community organizations throughout the United States in their efforts to transform distressed neighborhoods into healthy communities by marshaling private and public sector resources, extending financial assistance in the form of loans, lines of credit, grants, and loan guarantees, and providing technical support.

(b) Basis of Accounting

The accompanying financial statements include the assets, liabilities, revenues, and expenses of LISC parent only and were prepared for the purpose of reporting under the requirements of Title 2 U.S. Code of Federal Regulations, Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). A not-for-profit entity is permitted to include its interest in net assets of its controlled affiliates in its parent only financial statements, but it is not required. LISC includes its interest in net assets of controlled affiliates as LISC believes it better reflects the operations and financial position of LISC. LISC's controlled affiliates consist of National Equity Fund, Inc. (NEF), Local Initiatives Managed Assets Corporation (LIMAC), The Retail Initiative, Inc. (TRI), New Markets Support Company, LLC (NMSC), LISC Louisiana Loan Fund, LLC (LLLF), Neighborhood Properties, LLC, (NP), LISC Cook County, LLC (LCC), and Neighborhood Revitalization NYC, LLC (NRNYC).

NEF and NMSC are the controlled affiliates who have significant activity. NEF was organized as an Illinois not-for-profit corporation to create a national investment pool to aggregate and channel Low Income Housing Tax Credit equity investments into affordable housing developments. NMSC, a Delaware limited liability company, was formed in 2003 to manage the New Markets Tax Credit (NMTC) activities of LISC.

All statement of activities interaffiliate transactions have been eliminated.

These financial statements are not intended to present the financial position and change in net assets of LISC in conformity with U.S. generally accepted accounting principles as the accounts of the controlled affiliates have not been consolidated and such consolidated financial statements have yet not been issued. The consolidated financial statements are expected to be issued by June 30, 2017.

(c) Tax Status

LISC is exempt from federal income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code (the Code). LISC has been classified as an organization that is not a private foundation and has been designated a "publicly supported" organization of the type described in Sections 170(b)(1)(A)(VI) and 509(a)(1) of the Code.

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The Organization recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Income generated from activities unrelated to the Organization's exempt purpose is subject to tax under Internal Revenue Code Section 511. The Organization did not recognize any unrelated business income tax liabilities for the periods ended December 31, 2016 and 2015. Income tax returns filed by the Organization are subject to examination by the Internal Revenue Service for a period of three years. While no income tax returns are currently being examined by the Internal Revenue Service, tax years since 2013 remain open.

(d) Financial Statement Presentation

The accompanying financial statements are prepared on the accrual basis of accounting. The Organization reports its financial information in the following categories:

Unrestricted Funds

The unrestricted operating fund is used to record activities supported by resources that have been received without restriction over which management and the board of directors have discretionary control.

The unrestricted loan fund is used to record loans and bonds payable proceeds provided to the Organization by financial institutions, insurance companies, foundations, and other nonprofits with lender-imposed restrictions that may include making loans to Community Development Projects (CDPs) in certain geographic areas. In some instances, loans payable proceeds are provided to fund recoverable grants to CDPs. These funds as well as the related recoverable grant activities are recorded in the unrestricted operating fund.

In March 2016, the board designated \$1 million to fund the non-Small Business Administration guaranteed portion of Community Advantage loans. Accordingly, a transfer of \$1 million to the unrestricted loan fund is reported on the accompanying statement of activities for the year ended December 31, 2016. During 2015, the board designated \$10 million of unrestricted operating funds for making loans to CDPs. As of December 31, 2016 and 2015, unrestricted net assets consist of \$11 million and \$10 million, respectively, of board designated net assets.

Principal repayments received on loans provided to CDPs funded from loan funds, as well as the provision for loan losses, are recorded in the loan fund. Impairment losses are charged to the unrestricted operating fund.

Temporary Restricted Funds

The temporary restricted funds are used to record contributions received with donor-imposed temporary restrictions. Contributions are recorded as temporarily restricted support if they are received with donor stipulations that limit their use. When a donor's restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

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Specifically, the temporary restricted loan fund is used to record contributions received with donor-imposed temporary restrictions for lending and/or credit enhancement activities. The temporary restricted operating fund is used to record assets received with donor-imposed temporary restrictions for all other activities, excluding lending and/or credit enhancement activities.

(e) *Furniture, Software, Equipment, and Leasehold Improvements*

Furniture, software, equipment, and leasehold improvements are stated at cost less accumulated depreciation or amortization, computed using the straight-line method. Furniture, software, and equipment are depreciated over their estimated useful lives of three to five years. Leasehold improvements are amortized over the lease term or the life of the asset, whichever is shorter.

(f) *Cash and Cash Equivalents*

Cash and cash equivalents include cash in banks and on hand and highly liquid debt instruments that have maturities of three months or less from the date of purchase by the Organization, except for those amounts held by the Organization's investment managers, which are classified as investments.

(g) *Investments*

Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at fair value in the statement of financial position. Fair value of such equity securities is based on quoted market prices. Fair values of fixed maturity securities, other than those based on quoted market prices, are based on prices provided by the Organization's custodian banks. The custodian banks use a variety of pricing sources to determine market valuations. Each designates specific pricing services or indexes for each sector of the market upon the provider's expertise. The fair values of alternative investments, as a practical expedient, are based on the net asset value provided by the investment managers or general partners. Those estimated net asset values may differ significantly from the values that would have been used had a ready market for these securities existed.

(h) *Contributions and Government Grants and Contracts*

Contributions, including unconditional promises to give (pledges), are recorded as revenue at fair value on the date received or pledged. Contributions are recorded as temporarily restricted support if they are received with donor stipulations that limit their use as to purpose or time. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Fair value is estimated giving consideration to anticipated future cash receipts (after allowance is made for uncollectible contributions) and discounting such amounts at a risk-adjusted rate commensurate with the duration of the donor's payment plan. These inputs to the fair value estimate are considered Level 3 in the fair value hierarchy. Amortization of the discount is recorded as additional contribution revenue in accordance with the donor-imposed restrictions, if any, on the contributions.

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Contributed goods are recognized as revenue at their estimated fair value at date of receipt and expensed when used. Contributed services are recognized as revenue if the services create or enhance nonfinancial assets or require a specialized skill, are provided by individuals possessing those skills, and typically need to be purchased if not provided by donation. Contributed services that do not meet the above criteria are not recognized as revenues and are not reported in the accompanying financial statements.

LISC also receives government grants and contracts from a number of sources including federal, state and local governments. These agreements are evaluated as to whether they qualify as contributions or exchange transactions as defined by U.S. generally accepted accounting principles. Government grants and contracts that are considered contributions are recognized as revenue when it is probable that the conditions surrounding the terms of the grant commitments are met. Government grants and contracts that are considered exchange transactions are recognized as revenue when services have been provided in accordance with the terms of the agreements and are reported in other income in the statement of activities.

(i) Risks and Uncertainties

The Organization invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position.

(j) Fair Value

Fair value is defined as the exchange 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 at the measurement date. The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that a reporting entity has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability.

(k) Estimates

The preparation of the financial statements in conformity with U.S. generally accepted accounting principles 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 expenses during the reporting period. The significant estimates made in the preparation of these financial statements include the fair value of

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alternative investments, the allowance for uncollectible loans, the allowance for uncollectible recoverable grants, and the allowance for uncollectible contributions receivable. Actual results could differ from those estimates.

(l) Allowance for Uncollectible Loans

The allowance for uncollectible loans is maintained at a level that, in management's judgment, is adequate to provide for potential losses. The amount of the allowance is based on management's evaluation of the collectability of the loans. Large loans are evaluated individually for impairment and an allowance for impairment is established using the methodology under Accounting Standards Codification (ASC) 310, *Accounting by Creditors for Impairment of a Loan*. An allowance is established when the discounted cash flows of an impaired loan are lower than the carrying value of the loan. For the remainder of the portfolio, an allowance is established based on historical loan loss experience and management's evaluation of the collectability of the loans, taking into consideration project characteristics and trends.

(m) Recoverable Grants

Recoverable grants are early project investments provided to CDPs that contractually require repayment without interest. Recoverable grants receivable are recorded when these amounts are disbursed and an allowance has been established based on historical recoverability experience that, in management's judgment, is adequate to cover potential losses.

(n) Government Contracts and Loan Related Advances

Government contracts and loan related advances consists of amounts received in advance from government agencies and other organizations for the purpose of providing loans, recoverable grants and project grants to CDPs in accordance with the terms of respective contractual agreements.

(o) Comparative Financial Information

The accompanying statement of activities is presented with prior year summarized financial information in total, but not by net asset class. Such information does not include sufficient detail to constitute a complete presentation; accordingly, such information should be read in conjunction with the Organization's December 31, 2015 financial statements, from which the summarized information was derived.

(p) New Accounting Pronouncements

In January 2016, the FASB issued ASU No. 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities, which amends the guidance on the classification and measurement of financial instruments. The Guidance amends certain disclosure requirements associated with the fair value of financial instruments. ASU No. 2016-01 is effective for fiscal years beginning after December 15, 2018, and interim periods in fiscal years beginning after December 15, 2019. Entities that are not public business entities may early adopt the provisions of the standard that eliminate certain previously required disclosures. The Organization has chosen to early adopt this standard to

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simply the reporting for financial instruments and as such is no longer required to provide the disclosures related to the fair value of financial instruments. The adoption of this standard did not have an impact on the remainder of the financial statements.

In August 2016, the FASB issued ASU No. 2016-14, Not-for-Profit Entities (Topic 958) (“ASU 2016-14”), which improves the presentation of financial statements of not-for-profit entities. The change is intended to provide more useful information to donors, grantors and other users. The ASU impacts all not-for-profit entities within the scope of Topic 958. The ASU addresses the following key qualitative and quantitative matters: 1) net asset classes, 2) investment return, 3) expenses, 4) liquidity and 5) availability of resources and presentation of operating cash flows. ASU 2016-14 is effective for fiscal years beginning after December 15, 2017, with early adoption permitted. The Organization is currently evaluating the effect ASU 2016-14 will have on its financial statements.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842) (“ASU 2016-02”), which requires lessees to recognize on the balance sheet the assets and liabilities for the rights and obligations created by leases with lease terms of more than 12 months. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee will continue to primarily depend on its classification as a finance or operating lease. However, unlike current U.S. GAAP, which requires only capital leases to be recognized on the balance sheet, ASU 2016-02 will require both types of leases to be recognized on the balance sheet. ASU 2016-02 also requires disclosures about the amount, timing and uncertainty of cash flows arising from leases. These disclosures include qualitative and quantitative requirements, providing additional information about the amounts recorded in the financial statements. ASU 2016-02 is effective for fiscal years beginning after December 15, 2019 with early adoption permitted. The Organization is currently evaluating the effect that ASU 2016-02 will have on its financial statements.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606) (“ASU 2014-09”), which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. ASU 2014-09 will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. Additionally, ASU No. 2015-14, Revenue from Contracts with Customers, Deferral of the Effective Date (“ASU 2015-14”), was issued by the FASB in August 2015. ASU 2015-14 amended the effective date of ASU 2014-09 and, accordingly, the provisions of ASU 2014-09 are effective for the Organization on January 1, 2019. Early adoption is permitted, but not before the original effective date for private business entities (i.e. January 2017). ASU 2014-09 permits the use of either the retrospective or cumulative effect transition method. While the Organization is continuing to evaluate the impact of ASU 2014-09, it does not expect the adoption of ASU 2014-09 to have a material impact on its financial statements.

(q) *Reclassifications*

Certain reclassifications have been made to the 2015 comparative information to conform to the current year presentation.

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(2) Temporarily Restricted Net Assets

Temporarily restricted net assets, which are restricted for the Organization’s thirty local/regional offices, rural programs, and several other national programs, are to be used in future years for program services, such as project grants, recoverable grants, lending-related activity, technical support, and operating support to CDPs.

As of December 31, 2016, temporarily restricted net assets were \$146,355,385 (\$74,505,770 temporarily restricted operating funds and \$71,849,615 temporarily restricted loan funds) and included the following components: (1) *Educational Facilities Financing Center* – approximately \$51 million of donor-restricted funds are available to support quality public charter and alternative schools in low-income neighborhoods. Included in this amount is \$45 million related to grants awarded by the U.S. Department of Education to LISC to provide credit enhancement on loans made by financial institutions to stimulate the financing of charter schools and \$6 million related to lending activities; (2) *Specific Project Funds* – approximately \$67 million of donor-restricted funds available to support a multitude of specifically defined projects in the local/regional offices and national programs (of which \$21 million is specifically for lending activities) and (3) *General operating and programmatic support* – approximately \$28 million of donor-restricted funds that are for use by specific local/regional offices and national programs for both general operating and programmatic support.

(3) Cash, Cash Equivalents, and Investments

At December 31, 2016 and 2015, the Organization’s total portfolio of cash, cash equivalents, and investments consisted of the following:

	2016	2015
	Fair value	Fair value
Cash and cash equivalents	\$ 155,013,552	\$ 78,100,717
Investments:		
Cash and cash equivalents held for investment	37,101,746	36,450,594
Corporate bonds and fixed-income funds	37,088,520	36,604,878
U.S. government agencies	35,907,384	35,767,262
Certificates of deposit	5,169,859	5,147,847
Alternative investments:		
Real estate investment trust	2,500,960	2,287,040
Hedge funds	13,848,555	13,439,175
	131,617,024	129,696,796
Total cash, cash equivalents, and investments	\$ 286,630,576	\$ 207,797,513

The Organization invests in certain alternative investments, through “funds of funds” investments, which employ multiple investment strategies via a variety of investment managers to provide diversification and control risk. These investments create indirect exposure to the Organization through short sales of securities, trading in future and forward contracts, and other derivative products. Derivatives are tools used

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to maintain asset mix or manage portfolio risk exposure. While these financial instruments may contain varying degrees of risk, the Organization's risk with respect to such transactions is limited to its capital balance in each investment.

At December 31, 2016, cash and cash equivalents include approximately \$9.8 million held in escrow-like arrangements with loan participants and \$163,493 in loss reserves required by specific programs. This includes \$112,597 in loan loss reserve requirements for the Small Business Administration 7(a) Community Advantage (SBA CA) Program. LISC is in compliance with the loan loss reserve requirements for the SBA CA Program.

The limitations and restrictions on the Organization's ability to redeem or sell its alternative investments vary by investment. As of December 31, 2016, the following table summarizes the composition of such investments by the various redemption provisions:

	<u>Fair value</u>	<u>Redemption frequency</u>	<u>Redemption notice period</u>
Alternative investments:			
Real estate investment trust (A)	\$ 2,500,960	Lock-up	Not applicable
Multi-strategy hedge funds (B)	13,607,910	Quarterly	61 Calendar days
Credit-focused hedge funds (C)	240,645	Lock-up	Not applicable
	<u>\$ 16,349,515</u>		

As of December 31, 2016 and 2015, the Organization has no unfunded commitments on its alternative investments.

Information with respect to the strategies of those investment funds, which are reported at estimated fair value based upon net asset value per share (or its equivalent), is as follows:

- (A) *Real estate investments trust* – of which the Organization is a minority shareholder, principal business activities are to invest in affordable multifamily residential mortgage loans, which are subsequently syndicated to institutional investors, and to acquire equity interests in affordable multifamily residential real estate assets.
- (B) *Multi-strategy hedge funds* – includes investments in fund of funds that invest across multiple hedge fund strategies and styles, including equity long/short, event driven, relative value, tactical trading, and multi-strategy hedge funds styles.
- (C) *Credit-focused hedge funds* – comprised of an investment in a hedge fund that seeks to achieve attractive total returns through both capital appreciation and current income. The fund seeks to achieve its investment objective through a portfolio of investments in publicly traded and privately held securities, loans, derivatives, and other instruments, primarily in the corporate credit sector of the fixed income and related markets.

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(4) Contributions Receivable

At December 31, 2016 and 2015, the Organization had contributions receivable with expected receipts as follows:

	2016	2015
Due within one year	\$ 15,248,784	\$ 16,619,537
Due in one to five years	7,359,781	5,189,634
	22,608,565	21,809,171
Less discount (0.12%–5.00%)	(120,902)	(56,229)
Less allowance for uncollectible contributions receivable	(649,000)	(674,000)
Total contributions receivable, net	\$ 21,838,663	\$ 21,078,942

At December 31, 2016 and 2015, approximately 16.6% and 17%, respectively, of the Organization's contribution receivable was from one donor.

At December 31, 2016 and 2015, approximately 64% and 29%, respectively, of the Organization's contributions revenue were from five donors.

As of December 31, 2016, LISC received approximately \$68.7 million in contributions from Morgan Stanley & Co., LLC in connection with a February 11, 2016 settlement agreement entered into between Morgan Stanley & Co., LLC and the New York Office of the Attorney General. These funds will be used by LISC to support development and preservation of affordable rental and home ownership housing throughout New York State.

(5) Government Grants and Contracts

At December 31, 2016 and 2015, LISC had grant commitments from various government agencies of approximately \$63.6 million and \$39.8 million, respectively, with expiring term dates ranging from 2016 to 2022. These grant commitments will be recognized in the accompanying financial statements when it is probable that the conditions surrounding the terms of the grant will be met.

At December 31, 2016 and 2015, government grants and contracts receivable were \$37,908,417 and \$28,984,213, respectively. Approximately \$15.2 million and \$11 million of government grants receivable at December 31, 2016 and 2015, respectively, and approximately \$14.5 million and \$19 million of government grants and contracts revenue for the periods ended December 31, 2016 and 2015, respectively, were from one government agency.

(6) Program Loans and Recoverable Grants to Community Development Projects

(a) Program Loans

In furtherance of its charitable purposes, LISC makes loans directly to CDPs and also to its affiliates, to benefit affiliate projects. In general, interest rates on loans to CDPs range from 0% to 8% and

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repayment terms range from 6 months to 29.1 years. Delinquent loans, measured as those loans whose payment is greater than 90 days past due, totaled \$2,040,786 and \$399,352, respectively, at December 31, 2016 and 2015. The portion of the allowance dedicated to the delinquent loans totaled \$382,232 and \$117,617 at December 31, 2016 and 2015, respectively. At December 31, 2016, loan principal of \$100,553,639 is due to LISC within one year, of which \$52,884,689 is due to LISC within the next six months.

Loans to CDPs and affiliates' projects as of December 31, 2016 and 2015 are comprised of the following:

	2016	2015
Loan type:		
Acquisition loans	\$ 79,151,937	\$ 34,451,676
Predevelopment loans	11,106,610	15,474,928
Construction loans	72,224,851	57,527,037
Other	125,340,493	96,464,347
Total	\$ 287,823,891	\$ 203,917,988

LISC disaggregates loan receivables by loan type when assessing and monitoring risk and performance of the entire population. The major loan types are:

- (A) Acquisition loans – to pay purchase and closing costs of a property
- (B) Predevelopment loans – to pay project predevelopment expenses
- (C) Construction loans – to pay hard and soft costs of new or rehabilitation projects
- (D) Other – includes mainly semi-permanent and permanent financing for projects, bridge loans (financing the remaining gap between projects or program costs and cash from committed or anticipated sources not yet available), and working capital line of credits to provide flexible capital to meet organizational cash flow needs.

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The following table provides an analysis of the aging of loan receivables as of December 31, 2016 and 2015:

	2016					
	<u>31-60 days past due</u>	<u>61-90 days past due</u>	<u>Greater than 90 days past due</u>	<u>Total past due</u>	<u>Current</u>	<u>Total gross loans receivable</u>
Acquisition	\$ 845,213	\$ —	\$ 1,358,826	\$ 2,204,039	\$ 76,947,898	\$ 79,151,937
Predevelopment	110,318	—	172,554	282,872	10,823,738	11,106,610
Construction	—	—	197,435	197,435	72,027,416	72,224,851
Other	130,000	—	311,971	441,971	124,898,522	125,340,493
Total	<u>\$ 1,085,531</u>	<u>\$ —</u>	<u>\$ 2,040,786</u>	<u>\$ 3,126,317</u>	<u>\$ 284,697,574</u>	<u>\$ 287,823,891</u>

	2015					
	<u>31-60 days past due</u>	<u>61-90 days past due</u>	<u>Greater than 90 days past due</u>	<u>Total past due</u>	<u>Current</u>	<u>Total gross loans receivable</u>
Acquisition	\$ —	\$ —	\$ —	\$ —	\$ 34,451,676	\$ 34,451,676
Predevelopment	—	—	172,554	172,554	15,302,374	15,474,928
Construction	1,161,931	—	226,798	1,388,729	56,138,308	57,527,037
Other	2,580,692	—	—	2,580,692	93,883,655	96,464,347
Total	<u>\$ 3,742,623</u>	<u>\$ —</u>	<u>\$ 399,352</u>	<u>\$ 4,141,975</u>	<u>\$ 199,776,013</u>	<u>\$ 203,917,988</u>

The activity in the allowance for uncollectible loans for the years ended December 31, 2016 and 2015 is as follows:

	2016				
	<u>Acquisition</u>	<u>Pre- development</u>	<u>Construction</u>	<u>Other</u>	<u>Total</u>
Allowance for uncollectible loans, beginning of the year	\$ (4,721,597)	\$ (1,829,281)	\$ (3,850,281)	\$ (3,056,522)	\$ (13,457,681)
Write-offs	362,290	—	—	—	362,290
Recoveries	(55,893)	(1,318)	(12,720)	(1,467)	(71,398)
Provision	<u>(3,614,622)</u>	<u>(750,453)</u>	<u>(848,792)</u>	<u>(231,224)</u>	<u>(5,445,091)</u>
Allowance for uncollectible loans, end of the year	<u>\$ (8,029,822)</u>	<u>\$ (2,581,052)</u>	<u>\$ (4,711,793)</u>	<u>\$ (3,289,213)</u>	<u>\$ (18,611,880)</u>

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	2015				
	Acquisition	Pre- development	Construction	Other	Total
Allowance for uncollectible loans, beginning of the year	\$ (4,628,603)	\$ (1,664,318)	\$ (3,022,966)	\$ (2,084,501)	\$ (11,400,388)
Write-offs	37,047	231,617	30,100	319,020	617,784
Recoveries	(80,394)	(137,717)	53,813	(205,217)	(369,515)
Provision	(49,647)	(258,864)	(911,228)	(1,085,823)	(2,305,562)
	<u>\$ (4,721,597)</u>	<u>\$ (1,829,282)</u>	<u>\$ (3,850,281)</u>	<u>\$ (3,056,521)</u>	<u>\$ (13,457,681)</u>

(b) Recoverable Grants

In furtherance of its charitable purposes, LISC makes recoverable grants directly to CDPs. Recoverable grant activity for 2016 and 2015 is summarized as follows:

	2016	2015
Gross recoverable grants receivable, beginning of year	\$ 14,482,887	\$ 12,686,010
New recoverable grants made	9,657,626	4,712,378
Write-offs	(1,645,178)	(489,871)
Repayments	(3,351,128)	(2,425,630)
Gross recoverable grants receivable, end of year	19,144,207	14,482,887
Allowance for uncollectible recoverable grants, end of year	(8,661,913)	(7,313,228)
Recoverable grants receivable, net, end of year	<u>\$ 10,482,294</u>	<u>\$ 7,169,659</u>

(7) Grants Payable

In furtherance of its charitable purposes, LISC makes grants to CDPs. Grant expense is recorded as an expense when the grant is approved by the Organization. Grants are generally awarded for a six-month to three-year period. The Organization's grant activity for the periods ended December 31, 2016 and 2015 is summarized below:

	2016	2015
Grants payable, beginning of year	\$ 27,715,109	\$ 24,636,556
New project grants made	95,047,838	42,113,508
Disbursements on commitments	(46,754,267)	(39,034,955)
Grants payable, end of year	<u>\$ 76,008,680</u>	<u>\$ 27,715,109</u>

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(8) Fixed Assets

Fixed assets consist of the following at December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Software	\$ 651,615	\$ 1,038,875
Equipment	173,427	179,137
Furniture	7,136	7,136
Leasehold improvements	4,116,710	4,014,840
Gross fixed assets	4,948,888	5,239,988
Less accumulated depreciation and amortization	(3,415,247)	(3,627,945)
Fixed assets, net	<u>\$ 1,533,641</u>	<u>\$ 1,612,043</u>

(9) Loans and Bonds Payable

At December 31, 2016 and 2015, loans and bond payable consisted of the following:

	<u>Maturities</u>	<u>Interest rates</u>	<u>2016</u>	<u>2015</u>
Financial institutions and insurance companies	2017-2037	0.00%–5.00%	\$ 234,618,202	\$ 169,821,488
Foundations	2017–2025	0.00%–4.50%	26,154,801	21,904,628
Public agencies/entities and retirement funds	2017–2043	0.00%–4.00%	38,736,004	22,698,254
Nonprofit and other institutions	2017–2026	0.00%–2.50%	9,809,360	7,484,043
Total			<u>\$ 309,318,367</u>	<u>\$ 221,908,413</u>

Loans and bonds principal and future interest payments as of December 31, 2016 are scheduled to be paid as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017 *	\$ 41,736,968	\$ 5,819,297	\$ 47,556,265
2018	71,609,702	4,777,996	76,387,698
2019	21,162,605	4,281,061	25,443,666
2020	16,748,951	3,882,551	20,631,502
2021	20,887,306	3,330,588	24,217,894
Thereafter	137,172,835	13,269,780	150,442,615
Total	<u>\$ 309,318,367</u>	<u>\$ 35,361,273</u>	<u>\$ 344,679,640</u>

* As of December 31, 2016, loans outstanding of \$23,751,453 and scheduled interest payments of \$3,061,392 are due in the next six months.

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At December 31, 2016, LISC had \$92,126,517 of available undrawn sources of funding with maturities ranging from 2017 to 2043. Interest rates range from 0% to 4.50% fixed rate (\$60,616,905) and floating rate range from LIBOR + 1.50% to LIBOR + 2.00% (\$14,000,000). In addition, during 2014, LISC was awarded available bond loan financing in the amount of \$50 million (Community Development Financial Institution Bond Guarantee Program (CDFI BGP) Bond Loan) by the United States Department of Treasury through the qualified issuer, the Bank of America CDFI Funding Corporation. The CDFI BGP Bond Loan proceeds are used to fund community or economic development activity in low-income or underserved urban and rural areas. CDFI BGP Bond Loan can be drawn on until August 14, 2019. The rate of each advance will be based on the current average Treasury rate for the related comparable duration of the advance +.375%. Payments of principal and interest are due quarterly with final maturity on December 15, 2043. Cumulative drawdowns as of December 31, 2016 was \$32,490,389. As of December 31, 2016, the outstanding balance was \$31,622,205 and \$17,509,611 was available for drawdown.

(a) Pledged Assets

LISC had certain assets as collateral to lenders to secure (1) non-recourse indebtedness to LISC totaling \$1,342,243 and \$3,390,660 as of December 31, 2016 and 2015, respectively, (2) and recourse indebtedness under the CDFI BGP Loan totaling \$31,622,205 and \$15,535,846 as of December 31, 2016 and 2015, respectively.

(b) Subordinated Debt

At December 31, 2016 and 2015, LISC has subordinated debt included in loans and bonds payable totaling \$10.5 million in the form of five equity equivalent investments from three financial institutions.

(c) Lines of Credit

At December 31, 2016, LISC had available bank lines of credit of \$50,000,000, which expire between June 23, 2017 and September 28, 2019 with interest rates ranging from LIBOR + 1.75% to LIBOR + 2.375%. At December 31, 2016 and 2015, the outstanding balance included in loans and bond payable was \$26,250,000 and \$21,300,000, respectively. The available undrawn balance at December 31, 2016 was \$23,750,000.

(d) Covenants

In accordance with the terms of loan agreements with certain LISC lenders, LISC is required to meet several financial covenants. LISC was in compliance with its financial covenants at December 31, 2016.

(10) Pension and Thrift Plans

LISC has a Code Section 403(b) defined-contribution pension plan covering all eligible employees. Plan contributions are computed based on formulas defined in the plan. Total pension expense for the periods ended December 31, 2016 and 2015 was \$2,111,161 and \$2,053,238, respectively.

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LISC also maintains a thrift plan under Section 401(k) of the Code covering all eligible employees. Under the plan, employee contributions are partially matched by LISC. Total thrift plan expense for the periods ended December 31, 2016 and 2015 was \$358,641 and \$350,943, respectively.

(11) Financial Instruments with Off-Balance-Sheet Risk and Fair Values

(a) Off-Balance-Sheet Risk

LISC is a party to certain financial instruments with off-balance-sheet risk to meet the financing needs of community development organizations across the United States. These financial instruments and arrangements include financial guarantees and loan commitments. These transactions and arrangements involve elements of credit risk. LISC uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

Revolving loans are agreements to lend as long as there is no violation of any condition established in the contract.

The following represents the composition of financial instruments with off-balance-sheet risk:

	2016 Contract amount	2015 Contract amount
Financial instruments whose contract amounts represent off balance sheet credit risk:		
Financial guarantees	\$ 5,448,287	\$ 5,448,287
Loan commitments outstanding	138,574,607	152,203,550
Total	\$ 144,022,894	\$ 157,651,837

LISC generally makes loans over \$50,000 on a secured basis. The collateral for such loans generally consists of mortgages, security agreements, assignment of contract receivables, and guarantees.

At December 31, 2016 and 2015, LISC has interest rate swap agreements with notional amounts aggregately of \$5,000,000 and \$9,493,377, respectively. The fair value of the interest rate swaps were immaterial to the financial statements at December 31, 2016 and 2015.

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(b) *Fair Values*

The following tables present the Organization's fair value hierarchy for those assets and liabilities measured at fair value on an annual basis as of December 31, 2016 and 2015:

	December 31, 2016		
	Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)
Cash and cash equivalents	\$ 155,013,552	\$ 155,013,552	\$ —
Investments:			
Cash and cash equivalents held for investment	\$ 37,101,746	\$ 37,101,746	\$ —
Corporate bonds and fixed-income funds	37,088,520	36,495,368	593,152
U.S. government agencies Certificates of deposit	35,907,384	28,280,578	7,626,806
	5,169,859	—	5,169,859
	115,267,509	\$ 101,877,692	\$ 13,389,817
Investments reported at net asset value or its equivalent:			
Real estate investment trust	2,500,960		
Hedge funds	13,848,555		
	16,349,515		
Total investments	\$ 131,617,024		
Interest rate swaps	\$ (1,131)	\$ —	\$ (1,131)
Loan guarantee	(498,663)	—	(498,663)

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	December 31, 2015		
Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	
Cash and cash equivalents	\$ 78,100,717	\$ 78,100,717	\$ -
Investments:			
Cash and cash equivalents held for investment	\$ 36,450,594	\$ 36,450,594	\$ -
Corporate bonds and fixed-income funds	36,604,878	35,346,093	1,258,785
U.S. government agencies	35,767,262	28,135,121	7,632,141
Certificate of deposit	5,147,847	-	5,147,847
	113,970,581	\$ 99,931,808	\$ 14,038,773
Investments reported at net asset value or its equivalent:			
Real estate investment trust	2,287,040		
Hedge funds	13,439,175		
	15,726,215		
Total investments	\$ 129,696,796		
Interest rate swaps	\$ (98,717)	-	\$ (98,717)
Loan guarantee	(498,663)	-	(498,663)

(12) Concentration of Credit Risk

LISC makes grants and loans to local community organizations throughout the United States that are primarily engaged in residential and commercial real estate development. Although LISC's portfolio is diversified as to location of borrower, the ability of local community organizations to repay their obligations on a timely basis may be affected by a downturn in the economy, a cutback in government subsidies, or the availability of other permanent financing sources, which may limit the capital available to complete projects. The Organization places its cash and cash equivalents with high credit quality financial institutions that are federally insured. At times, invested cash may exceed federally insured amounts.

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(13) Commitments and Contingencies

(a) Litigation

In the ordinary course of its activities, LISC is a party to several legal proceedings. In the opinion of management and legal counsel, the resolution of such matters will not have a material impact on LISC's operations or financial condition.

(b) Lease Commitments

Minimum rental commitments under non-cancelable operating real estate leases in effect at December 31, 2016 and expiring at various dates through July 2021 totaled \$10,576,096. These amounts exclude future escalation for real estate taxes and building operating expenses. Minimum future rental commitments as of December 31, 2016 are as follows:

2017	\$	3,521,506
2018		3,166,345
2019		2,838,213
2020		658,000
2021		209,886
Thereafter		<u>181,146</u>
Total	\$	<u><u>10,575,096</u></u>

Rental expense, inclusive of real estate taxes and operating costs, for the periods ended December 31, 2016 and 2015 totaled \$4,009,407 and \$4,209,945, respectively.

In 2009, LISC entered into a lease agreement for office space expiring August 19, 2019. In connection with the lease agreement, LISC received certain periods of free rent and other rent concessions. LISC records the lease expense on a straight-line basis. At December 31, 2016 and 2015, accounts payable and accrued expenses include \$1,525,393 and \$2,053,092, respectively, of deferred rent obligations related to the lease. In connection with the lease agreement, LISC issued a letter of credit in the amount \$750,000, which is renewed annually and has a current expiration date of November 30, 2017. A certificate of deposit in the amount of \$750,000 is being used as collateral for the letter of credit.

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(14) Investments in Affiliates

Investments in affiliates as of December 31, 2016 and 2015 consist of the following:

<u>Affiliates</u>	<u>2016</u>	<u>2015</u>
NEF	\$ 59,056,763	\$ 58,945,519
NMSC	5,797,170	6,456,860
TRI	7,982	8,038
NP	847,773	815,083
LLLF	163,744	139,175
LCC	-	-
LIMAC	(3,964)	(2,884)
NRNYC	-	-
	<u>\$ 65,869,468</u>	<u>\$ 66,361,791</u>

NEF includes net accumulated deficits of \$3,662,276 and \$2,126,225 as of December 31, 2016 and 2015 related primarily to NEF's affiliates referred to as Community Development Advocates (CDA).

At December 31, 2016 and 2015, NP did not hold any real estate assets.

The following table presents the summary of net income/change in net assets of affiliates, interaffiliate eliminations, and other adjustments, and equity in earnings of affiliates:

<u>Affiliates</u>	<u>2016</u>			<u>2015</u>		
	<u>Change in net assets of/members' equity in affiliates</u>	<u>Interaffiliate elimination and other adjustments (note 15)</u>	<u>LISC's equity in earnings of affiliates</u>	<u>Change in net assets of/members' equity in affiliates</u>	<u>Interaffiliate elimination and other adjustments (note 15)</u>	<u>LISC's equity in earnings of affiliates</u>
NEF	\$ 111,244	\$ 8,046,264	\$ 8,157,508	\$ 4,913,091	\$ 8,444,654	\$ 13,357,745
NMSC	(659,690)	3,103,511	2,443,821	58,481	3,464,636	3,523,117
TRI	(56)	—	(56)	8	—	8
NP	32,690	53,629	86,319	837	71,710	72,547
LLLF	24,569	18,218	42,787	77,650	20,292	97,942
LCC	—	—	—	141,628	(139,879)	1,749
LIMAC	(1,080)	—	(1,080)	(188)	—	(188)
NRNYC (a)	—	—	—	—	(5,140,246)	(5,140,246)
	<u>\$ (492,323)</u>	<u>\$ 11,221,622</u>	<u>\$ 10,729,299</u>	<u>\$ 5,191,507</u>	<u>\$ 6,721,167</u>	<u>\$ 11,912,674</u>

- (a) In 2015, LISC received contributions of approximately \$4.2 million, in support for NRNYC activity. In 2015, NRNYC completed its programmatic activities and fulfilled the requirements of the funders.

LOCAL INITIATIVES SUPPORT CORPORATION
(Parent-Only)

Notes to Financial Statement

December 31, 2016

(With comparative financial information
as of and for the year ended December 31, 2015)

(15) Related-Party Transactions

LISC provides various services to its affiliates. LISC earns a service fee from NEF for providing project-related services, which include project selection assistance, assistance to project partnerships, and closing and monitoring of project investments. LISC also provides office space to NEF. NEF is charged a pro rata share of the monthly lease costs, inclusive of operation costs and real estate tax escalations. In addition, LISC earns a management fee for technical and management assistance provided to LLLF, NP and NRNYC. Furthermore, certain shared expenses are reimbursed to LISC pursuant to an allocation agreement between parties.

(a) Interaffiliate Revenue and Expenses

The following table represents revenues and expenses from affiliates, net at December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
NEF service fee	\$ 392,166	\$ 789,293
NEF interest income	19,747	41,091
NEF rental income	130,770	130,770
NEF line of credit fee	62,500	62,500
NEF consulting fee	(180,651)	—
NEF grant	7,621,732	7,421,000
NMSC rental income	7,761	16,386
NMSC grant	3,500,000	3,500,000
NMSC closing fee	—	3,250
NMSC consulting fee	(404,250)	(55,000)
NP management fee	29,504	40,520
NP interest income	24,125	31,190
LISC grant to NRNYC	—	(5,406,741)
NRNYC management fee	—	266,495
LCC management fee	—	4,274
LISC forgiveness of LCC payable	—	(144,153)
LLLIF management fee	7,397	7,420
LLLIF interest income	10,821	12,872
Total	<u>\$ 11,221,622</u>	<u>\$ 6,721,167</u>

LOCAL INITIATIVES SUPPORT CORPORATION
(Parent-Only)

Notes to Financial Statement

December 31, 2016

(With comparative financial information
as of and for the year ended December 31, 2015)

(b) Due from Affiliates

Due from affiliates consisted of the following at December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
NEF	\$ 1,809,108	\$ 1,762,867
LIMAC	5,915	5,123
NMSC	(187,274)	(32,930)
LLLF, net of reserve of \$128,634	83,984	202,493
LCC	—	7,374
TRI	64	—
NP	<u>774,097</u>	<u>867,119</u>
Total	<u>\$ 2,485,894</u>	<u>\$ 2,812,046</u>

As of December 31, 2016 and 2015, due from NEF included \$95,000 and \$275,000 in service fee receivable, \$114,108 and \$87,867 in shared expenses, and \$1,600,000, and \$1,400,000 in grant receivable, respectively.

As of December 31, 2016 and 2015, LISC has an outstanding 3% loan to NP in the amount of \$750,000 and \$850,000, respectively. The full amount of unpaid principal and all accrued and unpaid interest is due and payable by June 29, 2017.

(c) Other Related-Party Activities

LISC provided NEF and NEF-related; entities a \$15,000,000 revolving line of credit to borrow monies to provide short-term secured loans to facilitate the acquisitions of project partnership investments. The maturity date is December 31, 2017. At December 31, 2016 and 2015, there was \$8 million and \$0 outstanding on the revolving line of credit. For the periods ended December 31, 2016 and 2015, LISC earned interest of \$19,747 and \$41,091 in interest income on the revolving line of credit. The loans are secured by assignments of investor notes and/or interests in project investments. LISC also provided a \$5 million working capital line of credit with a maturity date of December 31, 2017. There was no outstanding balance as of December 31, 2016 and 2015.

LISC has provided LLLF with a \$1 million revolving bridge loan, which is maturing on July 1, 2018. The proceeds of the loan were to be used only to bridge advances of loans secured by LLLF to fund acquisition and predevelopment loans to developers in the Gulf Opportunity Zone in the State of Louisiana for the rehabilitation and development of affordable and mixed-income housing. At December 31, 2016 and 2015, the balance outstanding was \$570,716.

LISC has also provided LLLF with a \$750,000, 6.75% interest-bearing revolving facility to fund project loans. The full amount of unpaid principal and all accrued and unpaid interest is due on the earlier to occur of (i) repayment of the final project loan or (ii) July 1, 2018. As of December 31, 2016 and 2015, \$86,364 was payable to LISC under this facility.

LOCAL INITIATIVES SUPPORT CORPORATION
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Notes to Financial Statement

December 31, 2016

(With comparative financial information
as of and for the year ended December 31, 2015)

LISC provided a \$7,500,000, 0% recoverable grant facility to LLLF to fund project loans. LLLF has to repay LISC all LISC recoverable grant funds disbursed to LLLF within 60 days from the maturity date of the facility (July 1, 2018). In the event that LISC is satisfied, however, that LLLF has made best efforts to seek recovery of a project loan, and if LISC and LLLF shall have mutually agreed in writing that a completed project cannot generate sufficient revenue to repay any portion of such project loan funded with the proceeds of the recoverable grant, repayment of the portion of the recoverable grant that is unable to be repaid may not be required. As of December 31, 2016 and 2015, \$918,358 was outstanding of this recoverable grant and is included in recoverable grants to CDPs.

(16) Subsequent Events

In connection with the preparation of financial statements the Organization evaluated subsequent events after the balance sheet date of December 31, 2016 through June 30, 2017, which was the date the financial statements were available to be issued, and determined that there were no additional matters that are required to be disclosed.

SUPPLEMENTARY INFORMATION

LOCAL INITIATIVES SUPPORT CORPORATION
(Parent-Only)

Schedule of Expenditures of Federal Awards

Year ended December 31, 2016

Federal grantor/pass-through grantor/program or cluster title	Federal CFDA number	Pass-through entity identifying number	Passed through to subrecipients	Total Federal expenditures
U.S. Department of Housing and Urban Development (HUD):				
CDBG - Entitlement Grants Cluster				
Community Development Block Grants/Entitlement Grants				
Pass through:				
City of Chicago Department of Family and Support Services	14.218	31352	\$ 95,958	\$ 123,209
City of Hartford	14.218	16-16.00	-	30,338
City of Hartford	14.218	17.16.00	-	35,337
City of Indianapolis	14.218	13412	179,360	129,118
City of Indianapolis	14.218	PO1300002265	-	96,595
City of Indianapolis	14.218	14231	-	94,442
City of Flint	14.218	EME2842014	-	658
City of Flint	14.218	15-4166	-	31,050
City of Kalamazoo	14.218	N/A	-	10,569
City of Detroit	14.218	B-16-MC-26-006	3,315,238	4,591,653
City of Philadelphia	14.218	1020507	-	26,817
City of Philadelphia	14.218	1620092	-	16,213
City of Philadelphia	14.218	1620217	-	76,008
City of Detroit	14.218	B-13MC-26-0006	-	(829)
City of Houston	14.218	4600013257/2015-0443	97,134	112,010
			<u>3,687,690</u>	<u>5,373,188</u>
HOPE VI Cluster				
Choice Neighborhood Implementation Grant				
Pass through:				
City of Philadelphia	14.889	1620513	-	115,688
CDBG - Disaster Recovery Grants - Pub. L. No. 113-2 Cluster				
Hurricane Sandy Community Development Block Grants - Disaster Recovery				
Pass through:				
New York City Department of Housing and Preservation Development	14.269	N/A	1,942,774	3,081,221
Section 4 Capacity Building for Community Development and Affordable Housing Program				
	14.252		9,744,445	15,540,164
HUD - Continuum of Care Program				
	14.267		-	30,894
Neighborhood Stabilization Program Technical Assistance				
	14.264		-	106,106
HUD - Emergency Solutions Grant Program				
Pass through:				
City of Kalamazoo	14.231	P-020375	-	18,327
Total HUD			<u>11,687,219</u>	<u>18,892,400</u>
Corporation for National Community Services(CNCS):				
Americorps				
	94.006		-	1,038,656
Social Innovation Fund				
	94.019		2,909,177	3,556,867
Social Innovation Fund- Pay Fund for Success				
	94.024		-	162,581
Total CNCS			<u>2,909,177</u>	<u>4,758,104</u>
U.S. Department of Justice (DOJ):				
Byrne Criminal Justice Innovation				
	16.817		44,171	1,727,475
Byrne Criminal Justice Innovation				
Pass through:				
Kansas City Metropolitan Crime Commission	16.817	2013-AJ-BX-0008	22,712	28,963
Mt. Vernon Manor	16.817	2012-AJ-BX-0003	-	4,994
Community Policing Development				
Pass through:				
Office of the Community Oriented Policing Services	16.710		11,854	11,854
Total DOJ			<u>78,737</u>	<u>1,773,286</u>

LOCAL INITIATIVES SUPPORT CORPORATION
(Parent-Only)

Schedule of Expenditures of Federal Awards

Year ended December 31, 2016

Federal grantor/pass-through grantor/program or cluster title	Federal CFDA number	Pass-through entity identifying number	Passed through to subrecipients	Total Federal expenditures
U.S. Department of Health and Human Services (HHS):				
CCDF Cluster				
Child Care and Development Block Grant:				
Pass through:				
State of Rhode Island & Providence Plantations				
Department of Human Services	93.575	CCF 14/17-01	290,000	581,625
State and Local Public Health Actions to Prevent Obesity, Diabetes, Heart Disease and Stroke				
Pass through:				
State of Rhode Island & Providence Plantations				
	93.757	US8DP005511	158,626	384,081
Assistance Programs for Chronic Disease Prevention and Control				
Pass through:				
State of Rhode Island & Providence Plantations				
	93.945	US8DP004837	-	9,811
TANF Cluster				
Temporary Assistance for Needy Families				
Pass through:				
Lucas County Department of Job and Family Services				
	93.558	48-16-TANF-22	61,659	104,912
Total HHS			510,285	1,080,429
U.S. Department of Agriculture (USDA):				
Rural Community Development Initiative:				
USDA/Rural Housing Services				
	10.446		136,698	233,522
SNAP Cluster				
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program:				
Pass through:				
State of Rhode Island & Providence Plantations				
	10.561	SNAP ET 14-01; SNAP ET 16-01; SNAP ET 14/15-01	757,923	1,174,739
Total USDA			894,621	1,408,261
U.S. Department of Education (DOE):				
Credit Enhancement for Charter School Facilities				
	84.354A		-	45,013,905
Early Learning Facilities Project:				
Pass through:				
Rhode Island Department of Education				
	84.412A	S412A120033	1,764,931	2,068,847
Total DOE			1,764,931	47,082,752
Institute of Museum and Library Services:				
Library and Museum Support for Comprehensive Community Revitalization				
	45.312		-	28,694
National Endowment for the Arts:				
Promotion of the Arts & Grants to Organizations and Individuals				
	45.024		-	40,971
U.S. Department of Treasury (DOT):				
Community Development Financial Institute - Capital Magnet				
	21.011		-	4,749,700
CDFI Cluster				
Community Development Financial Institute - InitialHFFI				
	21.020		-	2,469,456
Community Development Financial Institute - Bond Guarantee Program				
	21.014		-	32,180,997
Total DOT			-	39,400,153
Total expenditure of federal awards			\$ 21,532,660	\$ 119,838,238

LOCAL INITIATIVES SUPPORT CORPORATION
(Parent-Only)

Notes to Schedule of Expenditures of Federal Awards

Year ended December 31, 2016

Note 1 - Basis of presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the Local Initiatives Support Corporation (Parent Only) (the Organization) under programs of the federal government for the year ended December 31, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations, Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the Organization's 2016 basic financial statements.

Note 2 - Summary of significant accounting policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. The Organization has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

Note 3 - Credit Enhancement for Charter School Facilities

The U.S. Department of Education has awarded total grants of \$41,413,019 to the Organization to credit enhance the loans made by financial institutions to stimulate the financing of charter schools. The grant funds are to remain invested in separate grant reserve accounts in accordance with the requirements of the grant. Such financial assistance is considered federal awards expended based on the amounts in the reserve accounts at the beginning of the grantee fiscal year; plus any new funds received; plus investment earnings received in the grantee's fiscal year to add to the reserve account; less any payments resulting from the credit enhancements provided. There have been no withdrawals from the reserve account for losses related to credit enhancements provided. The reserve account balance as of December 31, 2016 is \$45,013,905 consisting of the grant balance of \$41,413,019 and accumulated net investment earnings of \$3,600,886, of which \$14,486 was earned in 2016.

Note 4 - Capital Magnet Fund

The U.S. Department of Treasury has awarded a total of \$5,000,000 to the Organization to support Affordable Housing Activities, Economic Development Activities, or Community Service Facilities in the following manners: to provide loan loss reserves, to capitalize a revolving loan fund, for risk sharing loans, for loan guarantees, and for the awardee's operations. The balance of loans outstanding that has continuance compliance under the Capital Magnet Fund (CFDA No. 21.011) at December 31, 2016 is \$4,749,700.

In accordance with presentation requirements, the schedule of expenditures of federal awards includes the amount outstanding at December 31, 2015 for Capital Magnet Fund of \$4,307,151, in addition to amounts disbursed in fiscal 2016 of \$442,549. There were no administrative costs claimed for the Capital Magnet Fund program in fiscal 2016.

LOCAL INITIATIVES SUPPORT CORPORATION
(Parent-Only)

Notes to Schedule of Expenditures of Federal Awards

Year ended December 31, 2016

Note 5 - Federal loan programs

The loan program listed subsequently is administered directly by the Organization, and the balance and transactions related to this program is included in the Organization's basis financial statements. Loans outstanding at the beginning of the year and loans made during the year are included in the federal expenditures presented in the Schedule. The balance of loans outstanding at December 31, 2016 consists of:

<u>CFDA Number</u>	<u>Program Name</u>	<u>Balance at December 31, 2016</u>
21.014	Bond Guarantee Program	\$ 31,622,205

LOCAL INITIATIVES SUPPORT CORPORATION
(Parent-Only)

Schedule of Indirect Cost Rate

Year ended December 31, 2016

Indirect costs :

Salaries and fringe benefits	\$ 13,990,720
Rent and utilities	1,647,936
Consultants	1,343,612
Depreciation and amortization	624,584
Staff travel and related expenses	587,867
Computer expense	580,360
Accounting and auditing fees	524,546
Conference and meeting	480,569
Telephone	278,269
Legal fees	197,373
Payroll services	169,554
Insurance	115,920
Meals	100,851
Office supplies	74,028
Contracted services	66,360
Equipment rental	60,328
Office cleaning & maintenance	48,209
Memberships & subscriptions	32,484
Postage & delivery	30,778
Other program expense	27,345
Taxes	17,519
Printing, annual report and publications	11,831
Filing/registration fees	2,882
	<hr/>
Total indirect costs (A)	\$ 21,013,925
	<hr/> <hr/>

Direct Costs :

Program services	\$ 43,551,731
Project grants (allowable)	22,286,462
Fundraising	866,518
Other activity expenses (1)	609,706
	<hr/>
Total direct costs (B)	\$ 67,314,417
	<hr/> <hr/>

Indirect cost rate = (A)/(B) 31.22%

(1) Other activity expenses represent internal staff time and other expenses devoted to lobbying activity.

See accompanying notes to schedule of indirect cost rate.

LOCAL INITIATIVES SUPPORT CORPORATION
(Parent-Only)

Notes to Schedule of Indirect Cost Rate

Year ended December 31, 2016

(1) Accounting Policies

Basis of Calculation

In preparing the accompanying schedule of indirect cost rate and the reconciliation of the statement of activities to the schedule of indirect cost rate (note 2), Local Initiatives Support Corporation (Parent Only) (the Organization) utilized Title 2 U.S. Code of Federal Regulations, Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*.

Methodology Used

Each of the Organization's major functions benefits from its indirect costs to the same approximate degree. As a result, the Organization has elected to use the simplified-allocation method to calculate its indirect cost rate. Utilizing the Organization's audited financial statements for the year ended December 31, 2016, the Organization separated its costs into either allowable direct or indirect categories, including the costs associated with certain activities not allowable as charges to federal awards (e.g., the cost of fund-raising).

Direct costs are those that can be identified specifically with a particular final cost objective, e.g., a particular award, project, or other direct activity of the Organization. Indirect costs are those that have been incurred for common or joint objectives and cannot be readily identified with a particular cost objective.

The indirect cost rate is the ratio of the total indirect costs (numerator) to the direct cost base (denominator).

LOCAL INITIATIVES SUPPORT CORPORATION
(Parent-Only)

Notes to Schedule of Indirect Cost Rate

Year ended December 31, 2016

(2) Reconciliation

The following is a reconciliation of the statement of activities to the schedule of indirect cost rate for the year ended December 31, 2016:

	Total expenses per audited financial statements	Unallowable and excludable expenses	Direct and indirect cost pool	Indirect cost pool (administration)	Indirect cost pool (facility)	Direct cost pool
Project development and other program activities	\$ 45,545,778	\$ (210,254)	\$ 45,335,524	\$ 1,783,793	\$ -	\$ 43,551,731
Project grants	95,047,838	(72,761,376)	22,286,462	-	-	22,286,462
Interest on loans and bonds payable	6,825,192	(6,825,192)	-	-	-	-
Increase (decrease) in allowance for uncollectible loans to CDP:	5,445,091	(5,445,091)	-	-	-	-
Provision for uncollectable recoverable grants to CDPs	3,381,364	(3,381,364)	-	-	-	-
Management and general	14,759,157	(537,551)	14,221,606	12,987,316	624,584	609,706
Fundraising	6,526,733	(41,983)	6,484,750	5,618,232	-	866,518
Total expenses	<u>\$ 177,531,153</u>	<u>\$ (89,202,811)</u>	<u>\$ 88,328,342</u>	<u>\$ 20,389,341</u>	<u>\$ 624,584</u>	<u>\$ 67,314,417</u>

Note: The adjustments above relating to the indirect cost pool administration and facility to arrive at the direct cost pool were made based on instructions from the funding agency.

Independent Auditor's Report on Internal Control over Financial Reporting and
on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*

To the Board of Directors
Local Initiatives Support Corporation

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Local Initiative Support Corporation, which comprise the statement of financial position as of December 31, 2016, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 30, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Local Initiative Support Corporation internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Local Initiative Support Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of Local Initiative Support Corporation's internal control.

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

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

Compliance and Other Matters

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

Purpose of this Report

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

A handwritten signature in black ink that reads "Cohn Reznick LLP". The signature is written in a cursive, flowing style.

Bethesda, Maryland
June 30, 2017

Independent Auditor's Report on Compliance for Each Major Federal Program
and on Internal Control over Compliance Required by the Uniform Guidance

To the Board of Directors
Local Initiative Support Corporation

Report on Compliance for Each Major Federal Program

We have audited Local Initiative Support Corporation's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Local Initiative Support Corporation's major federal programs for the year ended December 31, 2016. Local Initiative Support Corporation's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, Local Initiative Support Corporation complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2016.

Report on Internal Control over Compliance

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

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

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

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



Bethesda, Maryland
June 30, 2017

LOCAL INITIATIVES SUPPORT CORPORATION
(Parent-Only)

Schedule of Findings and Questioned Costs

December 31, 2016

A. Summary of Auditor's Results

1. The auditor's report expresses an unmodified opinion on whether the financial statements of Local Initiative Support Corporation (Parent-Only) were prepared in accordance with generally accepted accounting principles.
2. No material weaknesses related to the audit of the financial statements were reported in the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*. No significant deficiencies were reported.
3. No instances of noncompliance material to the financial statements of Local Initiative Support Corporation (Parent-Only), which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No material weaknesses in internal control over the major federal award programs were disclosed during the audit and reported in the Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control over Compliance Required by the Uniform Guidance. No significant deficiencies were reported.
5. The auditor's report on compliance for the major federal award programs for Local Initiative Support Corporation expresses an unmodified opinion on each major federal program.
6. There are no audit findings required to be reported in accordance with 2 CFR Section 200.516(a) in this Schedule.
7. The programs tested as major programs were:
 - U.S. Department of Housing and Urban Development – Community Development Block Grant (CFDA No. 14.218)
 - Community Development Financial Institution - Bond Guarantee Program (CFDA No. 21.014)
8. The threshold for distinguishing between Type A and Type B programs was: \$3,000,000.
9. Local Initiative Support Corporation was determined to be a low-risk auditee.

B. Findings - Financial Statement Audit

None

C. Findings and Questioned Costs - Major Federal Awards Programs Audit

None