



AND AFFILIATES

**CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

BLUEHUB CAPITAL, INC. AND AFFILIATES

Contents
December 31, 2019 and 2018

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Independent Auditor's Report

To the Board of Directors of
BlueHub Capital, Inc. and Affiliates:

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of BlueHub Capital, Inc. and Affiliates (collectively, the Corporation) (see Note 1), which comprise the consolidated statements of financial position as of December 31, 2019 and 2018, and the related consolidated statements of activities, changes in net assets and non-controlling interests, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated 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 consolidated 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 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 audits 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 auditor's 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 BlueHub Capital, Inc. and Affiliates as of December 31, 2019 and 2018, and the changes in their net assets and non-controlling interests and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As disclosed in Note 2 to the consolidated financial statements, during 2019, the Corporation changed the manner in which it presents restricted deposits as a result of the adoption of the Financial Accounting Standards Board's (FASB) Accounting Standards Update (ASU) No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*.

As disclosed in Note 2 to the consolidated financial statements, during 2019, the Corporation also adopted FASB's ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*.

As disclosed in Note 2 to the consolidated financial statements, during 2019, the Corporation also adopted FASB's Accounting Standards Codification (ASC) Topic 606, *Revenue from Contracts with Customers*, with respect to its revenue recognition policies.

Our opinion on the consolidated financial statements was not modified with respect to these matters.

Report on Supplemental Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplemental information on pages 61 through 64 as of and for the years ended December 31, 2019 and 2018, 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

AAFCPA, Inc.

Boston, Massachusetts

April 3, 2020

BLUEHUB CAPITAL, INC. AND AFFILIATES

 Consolidated Statements of Financial Position
 December 31, 2019 and 2018

| Assets | 2019 | 2018 |
|---|----------------|----------------|
| Current Assets: | | |
| Cash and cash equivalents | \$ 82,458,137 | \$ 64,273,633 |
| Cash and cash equivalents - escrow funds and other | 5,950,771 | 8,403,334 |
| Cash and cash equivalents - loan loss reserves | 4,832,548 | 5,044,011 |
| Current portion of restricted deposits | 2,186,401 | 6,441,489 |
| Short-term investments | 2,081,168 | 6,568,057 |
| Current portion of loans and interest receivable, net | 50,785,294 | 37,653,267 |
| Current portion of affiliate loans and fees receivable | 637,692 | 1,809,013 |
| Grants and other accounts receivable | 3,079,367 | 2,714,187 |
| Other current assets | 480,298 | 396,275 |
| Total current assets | 152,491,676 | 133,303,266 |
| Restricted Deposits, net of current portion | 11,194,952 | 10,522,456 |
| Loans Receivable, net of current portion and allowance for loan losses | 270,764,299 | 240,965,693 |
| Affiliate Fees Receivable, net of current portion | 2,933,133 | 3,502,947 |
| Investments in Affiliates | 371,156 | 361,793 |
| Property, Equipment and Interests in Real Property, net | 13,375,211 | 15,563,945 |
| Total assets | \$ 451,130,427 | \$ 404,220,100 |
| Liabilities, Net Assets and Non-Controlling Interests | | |
| Current Liabilities: | | |
| Current portion of loans and bond payable | \$ 47,939,716 | \$ 8,930,449 |
| Current portion of permanent loan capital - subordinated loans payable | 81,606 | 4,517,162 |
| Interest and accounts payable | 2,064,048 | 1,805,666 |
| Escrow funds and other | 5,950,771 | 8,403,334 |
| Conditional advances | 3,095,000 | 3,313,000 |
| Liabilities related to discontinued operations | - | 255,690 |
| Total current liabilities | 59,131,141 | 27,225,301 |
| Loans and Bond Payable, net | 226,330,639 | 225,489,985 |
| Deferred Revenue | 4,287,786 | 6,131,963 |
| Permanent Loan Capital - Subordinated Loans Payable, net of current portion | 23,772,889 | 22,854,495 |
| Total liabilities | 313,522,455 | 281,701,744 |
| Net Assets and Non-Controlling Interests: | | |
| Without donor restrictions: | | |
| General | 94,033,194 | 84,846,124 |
| Board designated for permanent loan capital and special programs | 3,132,500 | 3,132,500 |
| Board designated for loan loss reserves | 10,133,797 | 8,168,792 |
| Total without donor restrictions | 107,299,491 | 96,147,416 |
| With donor restrictions: | | |
| Revolving loan capital | 19,063,810 | 14,012,811 |
| Other purpose restrictions | 496,531 | 1,476,531 |
| Total with donor restrictions | 19,560,341 | 15,489,342 |
| Total net assets | 126,859,832 | 111,636,758 |
| Non-controlling interests | 10,748,140 | 10,881,598 |
| Total net assets and non-controlling interests | 137,607,972 | 122,518,356 |
| Total liabilities, net assets and non-controlling interests | \$ 451,130,427 | \$ 404,220,100 |

* See accompanying supplemental Combining and Consolidating Statements of Financial Position on pages 61 and 62.

BLUEHUB CAPITAL, INC. AND AFFILIATES

 Consolidated Statements of Activities
 For the Years Ended December 31, 2019 and 2018

| | <u>2019</u> | <u>2018</u> |
|--|----------------------|----------------------|
| Changes in Net Assets Without Donor Restrictions: | | |
| Operating revenues: | | |
| Financial and earned revenue: | | |
| Interest on loans, net | \$ 19,188,569 | \$ 15,610,992 |
| Program revenue and fees | 6,064,070 | 7,811,265 |
| Net loan loss recoveries | 2,648,311 | 2,648,022 |
| Net gains on shared appreciation agreements and sales of real estate and tax credit notes | 2,503,704 | 1,137,172 |
| Investment income | 859,850 | 432,913 |
| Less - interest expense | <u>(9,316,643)</u> | <u>(6,945,274)</u> |
| Net financial and earned revenue | 21,947,861 | 20,695,090 |
| Grants and contributions | <u>84,575</u> | <u>490,936</u> |
| Total operating revenues | <u>22,032,436</u> | <u>21,186,026</u> |
| Operating expenses: | | |
| Personnel | 7,808,429 | 7,206,836 |
| Office operations | 1,662,575 | 1,775,697 |
| Program expenses | 1,046,485 | 997,131 |
| Consultants | 616,410 | 905,699 |
| Insurance and other | 414,215 | 268,631 |
| Professional fees | 385,503 | 659,716 |
| Marketing | 364,341 | 651,752 |
| Interest | <u>156,721</u> | <u>204,472</u> |
| Total operating expenses before depreciation and amortization | 12,454,679 | 12,669,934 |
| Depreciation and amortization | <u>2,209,614</u> | <u>2,334,126</u> |
| Total operating expenses | <u>14,664,293</u> | <u>15,004,060</u> |
| Changes in net assets without donor restrictions from operations | 7,368,143 | 6,181,966 |
| Other changes in net assets without donor restrictions: | | |
| Grants for loan capital | 2,625,000 | 1,507,505 |
| Net assets released from restrictions for loan capital | 1,000,000 | - |
| Share of income of affiliate | <u>25,474</u> | <u>55,404</u> |
| Changes in net assets without donor restrictions | <u>11,018,617</u> | <u>7,744,875</u> |
| Changes in Net Assets With Donor Restrictions: | | |
| Grants and contributions | 5,038,000 | 3,266,225 |
| Interest income | 32,999 | 37,060 |
| Net assets released from restrictions for loan capital | <u>(1,000,000)</u> | <u>-</u> |
| Changes in net assets with donor restrictions | <u>4,070,999</u> | <u>3,303,285</u> |
| Changes in net assets before discontinued operations | 15,089,616 | 11,048,160 |
| Changes in Net Assets from Discontinued Operations | <u>-</u> | <u>13,168,078</u> |
| Changes in net assets | 15,089,616 | 24,216,238 |
| Changes in Net Assets Attributable to Non-Controlling Interests | <u>133,458</u> | <u>157,865</u> |
| Changes in net assets attributable to BlueHub Capital, Inc. and Affiliates | <u>\$ 15,223,074</u> | <u>\$ 24,374,103</u> |

* See accompanying supplemental Combining and Consolidating Statements of Activities on pages 63 and 64.

BLUEHUB CAPITAL, INC. AND AFFILIATES

 Consolidated Statements of Changes in Net Assets and Non-Controlling Interests
 For the Years Ended December 31, 2019 and 2018

| | Without Donor Restrictions | Without Donor Restrictions - Board Designated | | With Donor Restrictions | | Non- Controlling Interests | Total Net Assets and Non-Controlling Interests |
|--|----------------------------------|--|-----------------------|------------------------------|----------------------------------|----------------------------------|---|
| | General | Permanent Loan Capital and Special Programs | Loan Loss Reserves | Revolving Loan Capital | Other Purpose Restrictions | | |
| Net Assets and Non-Controlling Interests, December 31, 2017 | \$ 64,721,279 | \$ 3,132,500 | \$ 5,453,280 | \$ 11,283,751 | \$ 902,306 | \$ 12,809,608 | \$ 98,302,724 |
| Changes in net assets | 21,070,818 | - | - | 2,729,060 | 574,225 | (157,865) | 24,216,238 |
| Transfer of non-controlling interest | 1,769,539 | - | - | - | - | (1,769,539) | - |
| Distributions | - | - | - | - | - | (606) | (606) |
| Transfers of net assets without donor restrictions | <u>(2,715,512)</u> | <u>-</u> | <u>2,715,512</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Net Assets and Non-Controlling Interests, December 31, 2018 | 84,846,124 | 3,132,500 | 8,168,792 | 14,012,811 | 1,476,531 | 10,881,598 | 122,518,356 |
| Changes in net assets | 11,152,075 | - | - | 5,050,999 | (980,000) | (133,458) | 15,089,616 |
| Transfers of net assets without donor restrictions | <u>(1,965,005)</u> | <u>-</u> | <u>1,965,005</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Net Assets and Non-Controlling Interests, December 31, 2019 | <u>\$ 94,033,194</u> | <u>\$ 3,132,500</u> | <u>\$ 10,133,797</u> | <u>\$ 19,063,810</u> | <u>\$ 496,531</u> | <u>\$ 10,748,140</u> | <u>\$ 137,607,972</u> |

The accompanying notes are an integral part of these consolidated statements.

BLUEHUB CAPITAL, INC. AND AFFILIATES

 Consolidated Statements of Cash Flows
 For the Years Ended December 31, 2019 and 2018

| | <u>2019</u> | <u>2018</u> |
|--|-----------------------|----------------------|
| Cash Flows from Operating Activities: | | |
| Changes in net assets before discontinued operations | \$ 15,089,616 | \$ 11,048,160 |
| Adjustments to reconcile changes in net assets before discontinued operations to net cash provided by operating activities: | | |
| Depreciation and amortization | 2,209,614 | 2,334,126 |
| Interest - amortization | 56,909 | 46,739 |
| Net loan loss recoveries | (2,648,311) | (2,648,022) |
| Realized gains on sale of real estate and tax credit notes | (365,960) | (69,797) |
| Share of income in affiliate | (25,474) | (55,404) |
| Grants for loan capital, credit enhancement and investment uses | (7,663,000) | (5,199,505) |
| Changes in operating assets and liabilities: | | |
| Due to affiliates | 521,203 | 402,313 |
| Interest receivable | (297,459) | (795,563) |
| Affiliate fees receivable | 1,192,862 | 721,422 |
| Grants and other accounts receivable | (365,180) | (228,177) |
| Other current assets | (84,023) | (46,059) |
| Interest and accounts payable | 258,382 | (709,924) |
| Deferred revenue | (1,844,177) | (1,376,746) |
| Deferred loan fees | (35,236) | 148,366 |
| Net cash provided by operating activities | <u>5,999,766</u> | <u>3,571,929</u> |
| Cash Flows from Investing Activities: | | |
| Issuance of loans receivable | (72,893,717) | (76,450,604) |
| Principal payments of loans receivable | 48,489,334 | 31,950,577 |
| Purchase of property and equipment | (15,901,277) | (15,234,677) |
| Proceeds from sale of property | 949,026 | 641,852 |
| Redemption of (purchase of) short-term investments | 4,025,116 | (6,106,284) |
| Sales (purchase) of marketable securities | 461,773 | (451,444) |
| Escrow funds and other | (2,452,563) | 3,010,599 |
| Purchase of deferred compensation investments and reinvested income | (663,130) | - |
| Net cash used in investing activities | <u>(37,985,438)</u> | <u>(62,639,981)</u> |
| Cash Flows from Financing Activities: | | |
| Grants for revolving capital and investment uses | 7,663,000 | 5,199,505 |
| Proceeds from loans payable | 47,133,978 | 42,399,928 |
| Proceeds from bond payable | 8,000,000 | 10,000,000 |
| Principal payments on subordinated loans payable | (4,517,162) | (105,041) |
| Principal payments on loans payable | (15,660,905) | (8,879,026) |
| Distributions to equity members | - | (606) |
| Proceeds from subordinated loans payable | 1,000,000 | 2,000,000 |
| Conditional advances | (218,000) | 1,208,000 |
| Cash paid for debt issuance costs | (140,483) | (35,540) |
| Net cash provided by financing activities | <u>43,260,428</u> | <u>51,787,220</u> |
| Cash Flows from Discontinued Operations: | | |
| Net cash used in operating activities | - | (3,347,334) |
| Net cash provided by investing activities | - | 15,488,894 |
| Net cash used in financing activities | - | (7,221,726) |
| Net cash provided by discontinued operations | <u>-</u> | <u>4,919,834</u> |
| Net Change in Cash, Cash Equivalents and Restricted Deposits | 11,274,756 | (2,360,998) |
| Cash, Cash Equivalents and Restricted Deposits: | | |
| Beginning of year | <u>94,684,923</u> | <u>97,045,921</u> |
| End of year | <u>\$ 105,959,679</u> | <u>\$ 94,684,923</u> |
| Reconciliation of Cash, Cash Equivalents and Restricted Deposits Reported Within the Consolidated Statements of Financial Position: | | |
| Cash and cash equivalents | \$ 82,458,137 | \$ 64,273,633 |
| Cash and cash equivalents - escrow funds and other | 5,950,771 | 8,403,334 |
| Cash and cash equivalents - loan loss reserves | 4,832,548 | 5,044,011 |
| Restricted deposits | 13,381,353 | 16,963,945 |
| Less - amounts classified as investments | (663,130) | - |
| Total cash, cash equivalents and restricted deposits shown in the consolidated statements of cash flows | <u>\$ 105,959,679</u> | <u>\$ 94,684,923</u> |
| Supplemental Disclosure of Cash Flow Information: | | |
| Cash paid for interest | <u>\$ 9,882,167</u> | <u>\$ 7,197,494</u> |

BLUEHUB CAPITAL, INC. AND AFFILIATES

Notes to Consolidated Financial Statements
December 31, 2019 and 2018

1. OPERATIONS AND RELATED ENTITIES

OPERATIONS

BlueHub Capital, Inc. (the Holding Company), a Massachusetts nonprofit corporation, was organized in September 1994 to create and preserve healthy communities where low-income people live and work. The Holding Company manages and develops community development financial initiatives which directly or indirectly benefit low-income or disadvantaged people or communities.

The Holding Company operates cooperatively with three other affiliated Massachusetts nonprofit corporations:

- **BlueHub Loan Fund, Inc.** (the Loan Fund) was formed in 1984 to provide below market rate capital to community-based organizations for the development of affordable housing.
- **BCLF Managed Assets Corporation d/b/a BlueHub Managed Assets** (Managed Assets) was formed in 1994 to manage, design, implement, and evaluate programs on behalf of third parties that provide loan underwriting, management, servicing, and financial and managerial technical assistance services.
- **BCLF Ventures, Inc. d/b/a BlueHub Venture Fund** (the Venture Fund) was formed in 1994 to assist small community-based businesses and entrepreneurs to start, grow, and expand businesses which strengthen the low-income business community.

The four affiliated nonprofit corporations are collectively referred to as the Corporation. To carry out its mission, the Corporation provides capital for sustainable community-based projects. These projects increase or preserve low-income housing or provide jobs or services for low-income or disadvantaged people or communities. The Corporation receives the money it invests in community-based projects from socially concerned investors, which include individuals, religious organizations, banks, and other financial intermediaries, foundations and corporations. A significant portion of the Corporation's projects are in New England and the Mid-Atlantic states.

Nonprofit Status

The four affiliated nonprofit corporations are individually exempt from Federal income taxes as organizations formed for charitable purposes under Section 501(c)(3) of the Internal Revenue Code (the Code). Donors may deduct contributions made to the Corporation within the requirements of the Code. Managed Assets is classified as a private non-operating foundation and is subject to an excise tax on net investment income, as defined under Section 4949(e) of the Code. Managed Assets is also subject to the Code's regulations governing required minimum expenditures for charitable purposes. The other three nonprofit corporations are classified as publicly supported organizations. The Corporation is also exempt from state income taxes.

Community Development Financial Institutions

The Loan Fund, the Venture Fund, and Aura Mortgage have been granted status as Community Development Financial Institutions (CDFIs) by the U.S. Department of the Treasury (the Treasury), qualifying each for certain awards and support from the Treasury. The Loan Fund has received a permanent loan capital - subordinated loans payable from the Treasury (see Note 8) which was repaid in 2019. The Loan Fund received Capital Magnet Fund awards of \$4,800,000 and \$3,900,000 in 2019 and 2018, respectively. The Loan Fund also received Healthy Foods Financing Initiative funds of \$5,036,203 and \$2,507,505 in 2019 and 2018, respectively. During 2017, Aura Mortgage entered into a \$100 million loan under the CDFI Bond Guarantee Program (see Note 7).

BLUEHUB CAPITAL, INC. AND AFFILIATES

Notes to Consolidated Financial Statements
December 31, 2019 and 2018

1. OPERATIONS AND RELATED ENTITIES (Continued)

OPERATIONS (Continued)

Community Development Financial Institutions (Continued)

In connection with the assistance received from the Treasury, the Corporation is generally required to adhere to specific performance goals and requirements as outlined in each agreement with the Treasury and affordability requirements of the Capital Magnet funds. Failure to adhere to these requirements may result in discontinued Federal assistance from the Treasury, repayment of Federal assistance received, and ineligibility to receive future funding.

RELATED ENTITIES

Consolidated Affiliates

The nonprofits comprising the Corporation and the following affiliates of the Corporation have been consolidated within the accompanying consolidated financial statements.

BCC REO, LLC

In 2011, the Loan Fund formed BCC REO LLC (BCC REO), a Massachusetts limited liability company, to hold real and personal property. The Loan Fund is the sole member of BCC REO, which has elected to be treated as a disregarded entity for tax purposes. BCC REO's activities are included with those of the Loan Fund in these consolidated financial statements. There was no activity in BCC REO during 2019 and 2018.

BCC NMTC Manager, LLC

During 2011, Managed Assets formed BCC NMTC Manager, LLC (NMTC Manager), a Massachusetts limited liability company, to manage certain aspects of its New Markets Tax Credit programs (see page 14). Managed Assets is the sole member of NMTC Manager, which has elected to be treated as a disregarded entity for tax purposes. The activities of NMTC Manager are included with those of Managed Assets in these consolidated financial statements.

WegoWise, Inc.

The Holding Company and two unrelated entities formed a joint venture company, WegoWise, Inc. (WegoWise), a Delaware corporation, in March 2010 for the purpose of creating and commercializing a web-based energy tracking tool for home and business owners. The Holding Company and Venture Fund collectively held a controlling ownership interest in WegoWise as of December 31, 2018 (see Note 3). During 2018, the assets of WegoWise were sold to an outside party and WegoWise ceased business operations (see page 8). The net proceeds of the asset sale were distributed to the Venture Fund and the Holding Company in partial satisfaction of their preferred stock redemption priorities.

BLUEHUB CAPITAL, INC. AND AFFILIATES

Notes to Consolidated Financial Statements
December 31, 2019 and 2018

1. OPERATIONS AND RELATED ENTITIES (Continued)

RELATED ENTITIES (Continued)

WegoWise, Inc. (Continued)

Discontinued Operations

During 2018, WegoWise's assets were sold to an unaffiliated buyer. The buyer purchased substantially all of the assets of WegoWise and the consideration paid for the assets was the assumption of certain liabilities plus \$15,000,000 in cash. WegoWise recognized a gain on sale of \$15,423,144. Approximately \$2,000,000 of the proceeds were held in an escrow account (see Note 14) as recourse for indemnity claims under the sale agreement. Release and payment of these funds to the Venture Fund and the Holding Company occurred in August 2019, at which time WegoWise was dissolved. As of December 31, 2018, the only liability related to discontinued operations was accounts payable which were settled in 2019.

Revenue and expenses related to the discontinued operations for the year ended December 31, 2018, are as follows:

| | |
|--|----------------------|
| Operations: | |
| Program revenue and fees | \$ 2,419,816 |
| Operating expenses | <u>4,674,882</u> |
| Net loss from operations | (2,255,066) |
| Gain on sale of assets | <u>15,423,144</u> |
| Changes in net assets from discontinued operations | <u>\$ 13,168,078</u> |

Solar Energy Programs

The Corporation operates its Solar Energy Programs through the following consolidated affiliates noted below:

BCC Solar Energy Advantage, Inc. and BCC SEA Fund Manager, LLC

The Corporation formed BCC Solar Energy Advantage, Inc. (SEA), a Massachusetts for-profit corporation, to facilitate the delivery of solar energy to affordable housing projects and others. The Holding Company owns 100% of SEA's common stock and all members of SEA's Board of Directors are employees of the Corporation. As of December 31, 2019 and 2018, SEA had completed construction of solar panels at twelve sites in Massachusetts (see Note 6) and entered into long-term contracts with the owners to provide electricity to the sites.

In 2011, SEA also formed BCC SEA Fund Manager, LLC (SEA Fund Manager), a Massachusetts single member limited liability company, to administer aspects of its solar energy development programs. SEA Fund Manager has elected to be a disregarded entity of SEA for tax purposes.

BLUEHUB CAPITAL, INC. AND AFFILIATES

Notes to Consolidated Financial Statements
December 31, 2019 and 2018

1. OPERATIONS AND RELATED ENTITIES (Continued)

RELATED ENTITIES (Continued)

Solar Energy Programs (Continued)

Kinzer Drive Solar, LLC

The Corporation formed Kinzer Drive Solar, LLC (Kinzer Drive), a Massachusetts single member limited liability company, whose sole member is SEA. Kinzer Drive has elected to be a disregarded entity of SEA for tax purposes. Kinzer Drive was created to hold a solar energy project located in Gardner, Massachusetts.

BCC NMTC CDE X, LLC

During 2011, the Corporation activated BCC NMTC CDE X, LLC (CDE X), a Massachusetts limited liability corporation, to provide investment capital through the New Markets Tax Credit (NMTC) program (see page 14) to businesses in low-income communities that are not served by conventional forms of financing or equity.

CDE X is related to the following entities (the CDE X entities):

BCC 481 NMTC Investment Fund, LLC (the 481 Investment Fund), a Maine limited liability company, was formed in January 2011 for the purpose of making a qualified equity investment (QEI) in CDE X. The 481 Investment Fund's equity interests were transferred to SEA as of December 31, 2018.

On April 30, 2018, at the conclusion of the NMTC compliance period, the 481 Investment Fund and SEA entered into a membership interest transfer agreement for SEA to acquire the 481 Investment Fund's interest in CDE X at a price equal to the outstanding balance of the loan payable to the Loan Fund plus \$1 (see Note 4). This transfer effectively moved 481 Fund's non-controlling interest to SEA (see Note 2). Subsequently, CDE X transferred its interest in SEA QALICB to SEA and CDE X was dissolved as of December 31, 2018.

BCC SEA QALICB I, LLC (SEA QALICB), a Delaware limited liability company, was formed in January 2008 to facilitate the delivery of solar energy to affordable housing projects and other facilities. SEA is the Manager Member of SEA QALICB with a .01% direct interest. CDE X made an equity qualified low-income community investment (QLICI) to SEA QALICB in 2011 to fund construction of six solar energy projects in Massachusetts. Through the QLICI, CDE X acquired a 99.99% interest in SEA QALICB. As a result of the transfers mentioned above, SEA acquired 100% of SEA QALICB's member interest as of December 31, 2018.

The 481 Investment Fund is a disregarded entity of its investor and was eliminated from the consolidated financial statements in 2018 because of the transfer agreement with SEA. CDE X and SEA QALICB were partnerships for tax purposes, but CDE X was dissolved in 2018 and SEA QALICB became a disregarded entity of SEA.

BLUEHUB CAPITAL, INC. AND AFFILIATES

Notes to Consolidated Financial Statements
December 31, 2019 and 2018

1. OPERATIONS AND RELATED ENTITIES (Continued)

RELATED ENTITIES (Continued)

Solar Energy Programs (Continued)

BCC NMTC CDE XVI, LLC

During 2013, the Corporation activated BCC NMTC CDE XVI, LLC (CDE XVI), a Massachusetts limited liability corporation, to provide investment capital through the NMTC program (see page 14) to businesses in low-income communities that are not served by conventional forms of financing or equity.

CDE XVI is related to the following entities (the CDE XVI entities):

BCC Solar USB Investment Fund, LLC (the USB Investment Fund), a Missouri limited liability company, was formed in October 2013 for the purpose of making a QEI in CDE XVI. The USB Investment Fund's equity interests are owned by an outside investor, but its activities are controlled by SEA Fund Manager as a non-member manager.

The USB Investment Fund entered into an option agreement with the Loan Fund and the investor member of the USB Investment Fund, whereby the investor member has the option to sell its investor interest in the USB Investment Fund to the Loan Fund for a purchase price of \$1,000, reduced by all distributions made by the USB Investment Fund to the investor member. The investor member has the right to exercise this option at any time during a four-month period beginning at the end of the seven-year NMTC compliance period which ends in 2020. In the event that the investor member does not elect to exercise the put option, the Loan Fund has a call option to purchase the interest from the investor member at fair market value as determined by a mutual agreement among the parties, at any time during the four-month period following the put option period expiration.

BCC SEA QALICB II, LLC (SEA QALICB II), a Delaware limited liability company, was formed in December 2012 to facilitate the delivery of solar energy to affordable housing projects and other facilities. SEA is the Manager Member of SEA QALICB II with a .01% interest. CDE XVI made a QLICI to SEA QALICB II during 2013 to fund construction of nine solar energy projects located in Massachusetts. Through the QLICI, CDE XVI acquired a 99.99% interest in SEA QALICB II.

The USB Investment Fund is a disregarded entity of its investor. CDE XVI and SEA QALICB II are partnerships for tax purposes.

BCC NMTC CDE XXII, LLC

During 2015, the Corporation activated BCC NMTC CDE XXII, LLC (CDE XXII), a Massachusetts limited liability corporation, to provide investment capital through the NMTC program (see page 14) to businesses in low-income communities that are not served by conventional forms of financing or equity.

BLUEHUB CAPITAL, INC. AND AFFILIATES

Notes to Consolidated Financial Statements
December 31, 2019 and 2018

1. OPERATIONS AND RELATED ENTITIES (Continued)

RELATED ENTITIES (Continued)

Solar Energy Programs (Continued)

BCC NMTC CDE XXII, LLC (Continued)

CDE XXII is related to the following entities (the CDE XXII entities):

BCC Solar III Investment Fund, LLC (the Investment Fund), a Massachusetts limited liability company, was formed in August 2015 for the purpose of making a QEI in CDE XXII. The Investment Fund's equity interests are owned by an outside investor, but its activities are controlled by SEA Fund Manager as a non-member manager.

The Investment Fund entered into an option agreement with CDE XXII and NMTC Manager, whereby the Investment Fund, following the expiration of the credit period in 2021, has the option to sell its investor interest in the CDE to the NMTC Manager for a purchase price of \$1,000 plus all amounts outstanding under the leverage loan, provided that the total does not exceed the fair market value of the Investment Fund. Upon the Investment Fund's exercise of the put option, NMTC Manager may elect to have a designee purchase the Investment Fund's interest for the put price in lieu of the CDE redeeming the Investment Fund's interest. In the event that the Investment Fund does not elect to exercise the put option, the NMTC Manager has a call option to purchase the interest from the Investment Fund at fair market value, as defined in the agreement, at any time during the six month period following the put option period expiration.

BCC Solar III, LLC (Solar III), a Delaware limited liability company, was formed in November 2014 to facilitate the delivery of solar energy to affordable housing projects and other facilities. SEA is the Manager Member of Solar III with a 1% interest. CDE XXII made an equity investment QLICI to Solar III during 2015 to fund construction of four solar energy projects. Through the QLICI, CDE XXII acquired a 99% interest in Solar III.

The Investment Fund is a disregarded entity of its investor. CDE XXII and Solar III are partnerships for tax purposes.

Foreclosure and Home Mortgage Services

The Corporation operates foreclosure and home mortgage services through its Stabilizing Urban Neighborhoods Initiative (BlueHub SUN). The goal of the BlueHub SUN is to stop the displacement of families and the neighborhood destabilizing effects of home vacancies and abandonment by enabling homeowners with overleveraged properties to stay in their homes.

BLUEHUB CAPITAL, INC. AND AFFILIATES

Notes to Consolidated Financial Statements
December 31, 2019 and 2018

1. OPERATIONS AND RELATED ENTITIES (Continued)

RELATED ENTITIES (Continued)

Foreclosure and Home Mortgage Services (Continued)

The foreclosure and home mortgage services of BlueHub SUN are carried out through the following consolidated affiliates:

Aura Mortgage Advisors, LLC

The Corporation formed Aura Mortgage Advisors, LLC (Aura), a Massachusetts limited liability company, with the Venture Fund as its sole member. Aura has elected to be a disregarded entity for tax purposes. Aura was formed for the purpose of acting as a mortgage broker for low-income people and communities. Aura is licensed as a mortgage broker and lender in Massachusetts by the Massachusetts Division of Banks (the Division). Aura's licenses as a mortgage broker and lender are subject to renewal annually and are scheduled for renewal by December 31, 2019. Aura is approved as a Title II Federal Housing Administration lender by the U.S. Department of Housing and Urban Development (HUD). Aura has registered to conduct business in several states outside of Massachusetts in order to expand the operation of BlueHub SUN.

Aura and Aura Direct Financing (see below) are collectively referred to as Aura Mortgage in these consolidated financial statements.

In order to maintain its licensed broker and lender status, Aura Mortgage is required to maintain a minimum net worth of \$200,000 and must have two surety bonds filed with the state of Massachusetts; a broker bond for \$75,000 and a lender bond in the amount of \$100,000 to \$500,000, based on the dollar amount of loans closed in the prior year. Aura Mortgage met these requirements as of December 31, 2019 and 2018.

In addition, Aura Mortgage is required to have a mortgage lender surety bond in states in which it operates. As of December 31, 2019, Aura Mortgage had the following surety bonds:

| <u>State</u> | <u>Bond Amount</u> |
|--------------|--------------------|
| Illinois | \$ 25,000 |
| New Jersey | \$ 150,000 |
| Wisconsin | \$ 300,000 |
| Maryland | \$ 150,000 |
| Pennsylvania | \$ 100,000 |
| Connecticut | \$ 200,000 |

Aura Direct Financing LLC

Aura Direct Financing LLC (Aura Direct) was created as a single member limited liability company of Aura Mortgage to act as the "approved financing entity" incident to the CDFI Bond Guarantee program (see Note 7) to hold certain mortgage loans and other related assets. Aura Direct has elected to be a disregarded entity of the Venture Fund for tax purposes.

BLUEHUB CAPITAL, INC. AND AFFILIATES

Notes to Consolidated Financial Statements
December 31, 2019 and 2018

1. OPERATIONS AND RELATED ENTITIES (Continued)

RELATED ENTITIES (Continued)

Foreclosure and Home Mortgage Services (Continued)

NSP Residential, LLC

The Holding Company formed NSP Residential, LLC (NSP), a Massachusetts limited liability company, to combat community deterioration and to improve general conditions where low-income people live and work. The Holding Company is NSP's sole member and NSP has elected to be a disregarded entity for tax purposes. NSP purchases and rehabilitates residential properties in foreclosure or at risk of foreclosure in low-income communities in connection with BlueHub SUN. NSP seeks to resell purchased properties to low-income individuals, often to the original homeowner. The properties are generally purchased by NSP in negotiated transactions from lenders holding the foreclosed properties or troubled loans. Once the purchases by NSP are complete, the homeowners apply for financing through Aura Mortgage or other sources, thereby allowing the residents (either previous owners or persons renting the residence) to remain in the homes and avoid eviction.

SUN Initiative Financing, LLC

The Corporation formed SUN Initiative Financing, LLC (SUN Financing) as a Massachusetts limited liability company to finance the operations of BlueHub SUN. SUN Financing provides financing for activities of BlueHub SUN within the geographic areas surrounding Revere, Boston, and other surrounding areas in Massachusetts. SUN Financing received a capital contribution from an outside investor for \$3,500,000, which acts as first loss capital related to its portfolio of mortgage loans receivable. NSP is SUN Financing's Managing Member. NSP and the outside investor each hold 50% of the membership units in SUN Financing. SUN Financing has raised additional capital in the form of loans payable from investors (see Note 7).

SUN Financing has elected to be treated as a partnership for income tax purposes. Items of income, loss, credits, or deductions arising from operations are reported by the members on their respective income tax returns. In accordance with SUN Financing's operating agreement, net profits are allocated to each member until they have been allocated net profits in amounts equal to any prior net losses allocated, and then 50% to NSP and 50% to the outside investor member. Net losses are allocated to the members until their positive capital account balances are reduced to zero, and then 100% to the outside investor member.

Other Affiliates - Unconsolidated

BCLF Ventures II, LLC

The Corporation is also related to BCLF Ventures II, LLC (Ventures II, LLC). Ventures II, LLC is a Massachusetts limited liability company formed for the purpose of making investments in businesses that benefit low-income people and communities. The Corporation is related to Ventures II, LLC through common management and the Venture Fund's financial interest in Ventures II, LLC. The Venture Fund is the Managing Member and a regular member of Ventures II, LLC. The Corporation accounts for its interest in Ventures II, LLC on the equity method (see Notes 2 and 3).

BLUEHUB CAPITAL, INC. AND AFFILIATES

Notes to Consolidated Financial Statements
December 31, 2019 and 2018

1. OPERATIONS AND RELATED ENTITIES (Continued)

RELATED ENTITIES (Continued)

New Market Tax Credit Community Development Entities

The Holding Company has been granted status by the Treasury as a Community Development Entity (CDE). The Holding Company has received allocations of NMTC from the Treasury which have yielded approximately \$523 million of QEIs that have been syndicated as of December 31, 2019.

The Holding Company has formed a total of forty-six CDEs (collectively, the CDE LLCs), seventeen of which were active as of December 31, 2019:

| | |
|---|--------------------------|
| BCC NMTC CDE X, LLC (closed in 2018) (see page 9) | BCC NMTC CDE XXII, LLC |
| BCC NMTC CDE XII, LLC (closed in 2019) | BCC NMTC CDE XXIII, LLC |
| BCC NMTC CDE XIII, LLC (closed in 2019) | BCC NMTC CDE XXIV, LLC |
| BCC NMTC CDE XIV, LLC (closed in 2019) | BCC NMTC CDE XXV, LLC |
| BCC NMTC CDE XV, LLC (closed in 2019) | BCC NMTC CDE XXVI, LLC |
| BCC NMTC CDE XVI, LLC | BCC NMTC CDE XXVII, LLC |
| BCC NMTC CDE XVII, LLC | BCC NMTC CDE XXVIII, LLC |
| BCC NMTC CDE XVIII, LLC | BCC NMTC CDE XXIX, LLC |
| BCC NMTC CDE XIX, LLC | BCC NMTC CDE XXX, LLC |
| BCC NMTC CDE XX, LLC | BCC NMTC CDE XXXI, LLC |
| BCC NMTC CDE XXI, LLC | BCC NMTC CDE XXXII, LLC |

Other CDE LLCs have been formed for future NMTC allocations, but have conducted no financial activity to date and are as follows:

BCC NMTC CDE XXXIII, LLC - BCC NMTC CDE XLVI, LLC

The CDE LLCs were formed as Massachusetts limited liability companies which Managed Assets or the NMTC Manager control as managing members generally with .01% interests and unrelated investors are admitted as regular members generally with 99.99% interests.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The Corporation prepares its consolidated financial statements in accordance with generally accepted accounting standards and principles (U.S. GAAP) established by the Financial Accounting Standards Board (FASB). References to U.S. GAAP in these notes are to the FASB Accounting Standards Codification (ASC).

Principles of Consolidation and Combination

The consolidated financial statements include the nonprofit affiliates comprising the Corporation and all wholly-owned and majority-owned for-profit limited liability companies and corporations (see Note 1). All significant intercompany balances and transactions have been eliminated in the accompanying consolidated financial statements.

The Corporation combines the financial statements of CDE XVI, LLC and CDE XXII and their related entities (see Note 1) because of its rights to receive substantial economic benefits, including net cash flows, and because of its substantive managing control over activities of these entities which house a substantial portion of the Corporation's Solar Energy Programs. All other active CDE LLCs (see Note 1) are not required to be consolidated in the accompanying consolidated financial statements because of the financial interests and participating rights of the investor members.

BLUEHUB CAPITAL, INC. AND AFFILIATES

Notes to Consolidated Financial Statements
December 31, 2019 and 2018

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Principles of Consolidation and Combination (Continued)

The Corporation also combines the financial statements of SUN Financing, which is an integral part of the Corporation's Foreclosure and Home Mortgage Services program. NSP controls the activities of SUN Financing as its managing member and other affiliates of the Corporation conduct substantial intercompany activities with SUN Financing in connection with BlueHub SUN (see Note 1).

Under the principles of consolidation applicable to business corporations, an entity is considered as maintaining control over an affiliated corporation if it owns more than 50% of the affiliate's outstanding stock. Since the Corporation owns a majority of the outstanding stock of SEA (see Note 1), it is considered to maintain a controlling financial interest, and therefore, the financial statements of SEA are included in the accompanying consolidated financial statements. The Corporation owned a majority of the outstanding stock of WegoWise, the assets of which were sold to an unaffiliated buyer in 2018 (see Note 1). The financial statements of WegoWise were included in the accompanying consolidated financial statements until its dissolution in 2019.

Adoption of New Accounting Standards

In 2019, the Corporation adopted FASB's Accounting Standards Update (ASU) 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. This ASU amends the presentation of restricted deposits within the consolidated statements of cash flows. The new guidance requires that restricted deposits and cash equivalents be added to cash and cash equivalents for purposes of the consolidated statements of cash flows. This ASU has been applied retrospectively to all periods presented.

The adoption of ASU 2016-18 resulted in the following changes to the Corporation's cash flow classification for the year ended December 31, 2018:

| <u>Consolidated Statement of Cash Flows</u> | <u>2018 As Previously Reported</u> | <u>Effect of Adoption</u> | <u>2018 As Adjusted</u> |
|---|--|-------------------------------|-----------------------------|
| Operating activities | \$ 3,571,929 | \$ - | \$ 3,571,929 |
| Investing activities | (68,667,688) | 6,027,707 | (62,639,981) |
| Financing activities | 51,787,220 | - | 51,787,220 |
| Discontinued operations | <u>2,916,834</u> | <u>2,003,000</u> | <u>4,919,834</u> |
| Net change in cash, cash equivalents and restricted deposits | <u>\$ (10,391,705)</u> | <u>\$ 8,030,707</u> | <u>\$ (2,360,998)</u> |

Also, during 2019, the Corporation adopted FASB's ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This ASU clarifies and improves guidance for contributions received and contributions made and provides guidance to organizations on how to account for certain exchange transactions. In addition, it clarifies whether a contribution is conditional. As a result, it enhances comparability of financial information among not-for-profit entities. The Corporation adopted ASU 2018-08 using a modified prospective method effective January 1, 2019. Under the modified prospective method, this ASU only applies to agreements not completed or entered into (revenue or expense that has not yet been recognized) as of January 1, 2019. As a result, the 2018 consolidated financial statements are not restated and there was no cumulative-effect adjustment to opening net assets as of January 1, 2019.

BLUEHUB CAPITAL, INC. AND AFFILIATES

Notes to Consolidated Financial Statements
December 31, 2019 and 2018

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Adoption of New Accounting Standard (Continued)

In addition, during 2019, the Corporation adopted ASC Topic 606, *Revenue from Contracts with Customers*, with respect to its revenue recognition policies. The core principal of the new accounting guidance is that an entity should recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The adoption of this standard did not have a significant impact on the Corporation's consolidated financial statements as the Corporation's primary source of revenue is loan interest income and other income generated from lending activities, which is not subject to this accounting standard. There were no material changes in the timing of recognition of program revenue and fees (see page 23) as a result of the adoption of Topic 606, however, disclosures related to revenue recognition have been enhanced.

Estimates

The preparation of consolidated financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that may affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Fair Value Measurements

The Corporation follows the accounting and disclosure standards pertaining to ASC Topic, *Fair Value Measurements*, for qualifying assets and liabilities. Fair value is defined as the price that the Corporation would receive upon selling an asset or pay to settle a liability in an orderly transaction between market participants.

The Corporation uses a framework for measuring fair value that includes a hierarchy that categorizes and prioritizes the sources used to measure and disclose fair value. This hierarchy is broken down into three levels based on inputs that market participants would use in valuing the financial instruments based on market data obtained from sources independent of the Corporation. Inputs refer broadly to the assumptions that market participants would use in pricing the financial instrument, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the financial instrument developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset developed based on the best information available.

The three-tier hierarchy of inputs is summarized in the three broad levels as follows:

- Level 1 - Inputs that reflect unadjusted quoted prices in active markets for identical assets at the measurement date.
- Level 2 - Inputs other than quoted prices that are observable for the asset either directly or indirectly, including inputs in markets that are not considered to be active.
- Level 3 - Inputs that are unobservable and which require significant judgment or estimation.

An asset or liability's level within the framework is based upon the lowest level of any input that is significant to the fair value measurement.

BLUEHUB CAPITAL, INC. AND AFFILIATES

Notes to Consolidated Financial Statements
December 31, 2019 and 2018

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents and Concentration of Risk

For purposes of the consolidated statements of cash flows, cash and cash equivalents consist of depository accounts and all highly liquid investments purchased with a maturity of three months or less, and includes cash held for loan loss reserves, loan escrow funds (see below), and certain restricted depository accounts held in connection with the bond payable agreement (see Note 14).

Cash and cash equivalents are maintained in various banks in Massachusetts and are insured within limits of the Federal Deposit Insurance Corporation. At times, cash and cash equivalents may exceed the insured limits. Management monitors, on a regular basis, the financial condition of the financial institutions, along with the Corporation's balances, to minimize potential risk.

The Corporation held cash balances of \$5,950,771 and \$6,276,572 in escrow for outside parties as of December 31, 2019 and 2018, respectively. These amounts are escrowed for borrowers for various purposes, including deposits for purchases of properties, working capital reserves, replacement reserves, and construction fund escrows. The Corporation also held in escrow a cash balance of \$2,126,762 as of December 31, 2018, related to the proceeds of a sale of tax credits donated to the Loan Fund from a project's sponsor.

Cash and cash equivalents - loan loss reserves include a variety of funds set aside in connection with the Corporation's Foreclosure and Home Mortgage Services business. Aura Mortgage received contracted support from the Commonwealth of Massachusetts for use as loan loss reserves. SUN Financing and SUN Financing II have also used capital contributions from investors as loan loss reserves. These reserves are invested in cash and short-term certificates of deposit and are available to provide liquidity to BlueHub SUN in the event of mortgage loan losses (see Note 14).

Short-Term Investments

Short-term investments include certificates of deposit and an investment in a money market mutual fund. Managed Assets held \$2,081,168 and \$6,106,284 in certificates of deposit that earn interest at a rate of 2.3% annually at December 31, 2019 and 2018, respectively. The certificates of deposit matured in February 2020 and were not renewed. Money market mutual funds are reported at fair value using Level 1 inputs (see page 16). As of December 31, 2018, there was a money market mutual fund held for \$461,773, which was liquidated in 2019.

Loans Receivable and Allowance for Loan Losses

Loans receivable are stated net of unamortized deferred loan origination fees and an allowance for loan losses (see Notes 4 and 5). Interest on loans is calculated by using the simple interest method on monthly balances of the principal amount outstanding.

Provisions are made for estimated loan losses based on management's evaluation of each loan. Loss recoveries are recorded in the year the recovery is known. The allowance for loan losses (see Note 5) is established through a provision for loan losses, which is charged to operations. The allowance is an amount that management believes will be adequate to absorb expected losses on existing loans that may become uncollectible. Management evaluates loan collectability through consideration of factors such as previous loss experience, performance of individual loans in accordance with contract terms, financial strength and cash flows of the borrower, realizable values of collateral, and current economic conditions that may affect the borrower's ability to repay.

BLUEHUB CAPITAL, INC. AND AFFILIATES

Notes to Consolidated Financial Statements
December 31, 2019 and 2018

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loans Receivable and Allowance for Loan Losses (Continued)

U.S. GAAP requires nonprofit organizations to record interest expense and contribution revenue in connection with loans payable that are interest free or that have below-market interest rates. Likewise, funds loaned to borrowers at below-market interest rates should also result in imputed revenue and contribution expense. Interest rates on loans payable are disclosed in Note 7. Interest rates on loans receivable are disclosed in Note 4. The Loan Fund believes that the benefits derived from below-market rate loans received are passed through to the borrowers via below-market rate loans made, and that there is no material difference between community development finance market rates and the stated rates of loans in their portfolios. Consequently, no adjustments have been made to the accompanying consolidated financial statements to reflect rate differentials.

Credit Enhancement

Using the proceeds of a grant received in 2017 from the U.S. Department of Education (see page 21), the Loan Fund enters into credit enhancement agreements with charter schools and third-party lenders to act as the guarantor of loans between the charter schools and the lenders (see Note 13). Under the terms of the agreements, the Loan Fund deposits amounts, as defined in the agreements, into credit enhancement reserves held by the Loan Fund for the benefit of the lenders as collateral for the charter schools' loans. The agreements are in effect until the earlier of the maturity of the loans or early pay-off of the loans. If the charter schools' default on the loans, the lenders are entitled to the collateral to the extent of the default, not to exceed the designated credit enhancement reserve. All remaining collateral deposits and accrued income are deposited back to the grant reserve funds at the expiration of the agreements and are then available for subsequent use in new credit enhancement transactions on a revolving basis. For accounting purposes, the Loan Fund accrues for losses against the credit enhancement reserves when losses are deemed probable. There were no losses incurred during 2019 or 2018.

Investments in Affiliates

The Corporation maintains an equity investment in Ventures II, LLC where the Corporation is deemed to exercise significant influence over Ventures II, LLC (see Notes 1 and 3). The Corporation accounts for this investment using the equity method. Under the equity method, the investment is initially recorded at cost and then increased or decreased by the share of income or loss of the investee. Distributions of cash reduce the carrying value of the investment. For investments carried on the equity method, the Corporation records its share of income of affiliates as other changes in net assets without donor restrictions in the accompanying consolidated statements of activities.

All other closely held affiliate investments are recorded using the cost method and are generally eliminated in consolidation (see Note 3). Under the cost method, an investment is carried at its original cost and cash distributions of profits are reported as income.

The Corporation periodically assesses the carrying balance of all investments in affiliates for possible impairment.

BLUEHUB CAPITAL, INC. AND AFFILIATES

Notes to Consolidated Financial Statements
December 31, 2019 and 2018

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, Equipment and Interests in Real Property

Management records all significant expenditures for property and equipment (see Note 6) with useful lives in excess of one year at cost, if purchased, or at the fair market value on the date received, if donated. Renewals and betterments are capitalized as additions to the related asset accounts, while repairs and maintenance are expensed as incurred.

Depreciation is recorded using the straight-line method over the following useful lives:

| | |
|-------------------------------|--------------------------------------|
| Computer and office equipment | 3 - 5 years |
| Leasehold improvements | Life of lease |
| Solar energy equipment | 10 - 12 years |
| Rental properties | 25 years (after being held one year) |

With respect to solar energy equipment as developed and operated under Solar Energy Programs (see Note 1), management has adopted a policy of reducing the cost of such equipment by the amount of grants and rebates received in connection with the development of the equipment (see Note 6). This reporting policy reduces the carrying cost of solar energy equipment to the net cost expected to be recovered through the operation and future disposition of the equipment.

Real estate owned consists of real property acquired in satisfaction of lending transactions of the Loan Fund or BlueHub SUN. Real estate owned is held for sale and is recorded at the lesser of the fair value at the time of acquisition less estimated costs of sale or the net recorded investment in the loan (see Note 6). Real estate owned is not depreciated but is periodically evaluated for possible impairment.

Also included in property and equipment are purchased rental properties and properties held for sale within BlueHub SUN (see Note 1), which are recorded at the lower of cost or fair value. Properties held for sale are generally rented to low-income homeowners under rent-to-buy arrangements (see Note 6).

The Corporation accounts for the carrying value of long-lived assets in accordance with the requirements of ASC Topic, *Property, Plant and Equipment*. As of December 31, 2019 and 2018, the Corporation has not recognized any significant reduction in the carrying value of its property and equipment when considering these requirements.

Conditional Advances

The Loan Fund records the amount of proceeds of certain Federal award programs, which it has not committed to qualifying projects, as conditional advances as mandated by the grant agreements (see page 24). During 2019 and 2018, the Loan Fund received Federal grants totaling \$4,800,000 and \$3,900,000, respectively. Due to timing of the awards, \$3,095,000 and \$3,313,000 of the funds were not yet committed to qualifying projects as of December 31, 2019 and 2018, respectively, and are reported as conditional advances in the accompanying consolidated statements of financial position. During 2019, the Loan Fund committed \$3,313,000 that was remaining as of December 31, 2018, to qualifying projects and such amounts are included in grants and contributions in the accompanying 2019 consolidated statement of activities. The conditional advances as of December 31, 2019, are expected to be deployed or committed for qualifying projects in future periods.

BLUEHUB CAPITAL, INC. AND AFFILIATES

Notes to Consolidated Financial Statements
December 31, 2019 and 2018

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Debt Issuance Costs

Debt issuance costs represent costs incurred in connection with the closing of notes and bond payable (see Note 7). These fees are amortized into interest expense over the term of the related financing. Amortization is calculated using the straight-line method which approximates the effective interest method. The unamortized debt issuance costs are reported as a reduction of the notes and bond payable. Unamortized costs related to financing that is terminated before original maturity are written off as non-operating expense.

Net Assets and Non-Controlling Interests

Net assets without donor restrictions include those net resources of the Corporation that bear no external restrictions. These include the Corporation's general net assets and net assets designated by the Board of Directors for permanent loan capital (see page 21), special programs, loan loss reserves, and affiliate investments. The Corporation's Board of Directors designated \$1,000,000 of net assets without donor restrictions, the proceeds of two grant awards from the Treasury (see Note 1), as permanent loan capital. The Corporation's Board of Directors also designated \$132,500 of net assets without donor restrictions to Board designated net assets for special programs of the Loan Fund. During 2017, the Board of Directors established a \$2 million Board designated reserve utilizing NSP's net assets to create scholarships for youth impacted by foreclosure. There were no scholarships awarded during 2019 or 2018.

Board designated net assets for loan loss reserves consist of amounts deemed available in the event of loan losses to provide a source of liquidity to meet financing and other obligations related to lending activities (see Note 5).

The Board of Directors may also authorize transfers of net assets without donor restrictions among the affiliates for working capital needs or to support new initiatives. During 2018, Managed Assets transferred \$1,000,000 to the Venture Fund in order to make an investment in Aura Mortgage.

Net assets with donor restrictions are net financial resources restricted by donors as to the purpose or timing of expenditure. Net assets with donor restrictions are purpose restricted as follows as of December 31:

| | <u>2019</u> | <u>2018</u> |
|--|----------------------|----------------------|
| Revolving Loan Capital: | | |
| ED Credit Enhancement | \$ 8,039,470 | \$ 8,024,674 |
| CDFI Capital Magnet | 10,141,019 | 5,104,816 |
| Permanent loan capital | <u>883,321</u> | <u>883,321</u> |
| Subtotal revolving loan capital | <u>19,063,810</u> | <u>14,012,811</u> |
| Other Purpose Restrictions: | | |
| Other Financial Assistance | 20,000 | 1,000,000 |
| Energy Advantage Program (EAP) | <u>476,531</u> | <u>476,531</u> |
| Subtotal other purpose restrictions | <u>496,531</u> | <u>1,476,531</u> |
| Total net assets with donor restrictions | <u>\$ 19,560,341</u> | <u>\$ 15,489,342</u> |

BLUEHUB CAPITAL, INC. AND AFFILIATES

Notes to Consolidated Financial Statements
December 31, 2019 and 2018

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets and Non-Controlling Interests (Continued)

Revolving loan capital represents awards from the Department of Education for credit enhancement (see Note 13), CDFI Capital Magnet awards and other permanent loan capital from donors (see below). The ED credit enhancement grant is used to provide credit enhancement in the form of securable collateral in connection with the financing of charter school facilities (see page 18 and Note 13). The Capital Magnet awards are used to make loans to qualified projects. Each of these grants requires that the proceeds be revolved for recurring use during the term of the respective agreements. Accordingly, the expended grant proceeds plus applicable donor designated accumulations remain in net assets with donor restrictions until depleted by losses or until the agreements expire. The ED credit enhancement grant expires in September 2040 and the Capital Magnet awards expire on various dates through March 2028.

Permanent loan capital is the term the Loan Fund uses to describe those capital resources which are intended to provide a permanent capital base for lending activities, meet debt covenants and provide for potential loan losses. The Loan Fund has three categories of permanent loan capital: net assets with donor restrictions, designated by the Board of Directors (see page 20), and subordinated loans payable (see Note 8). No outside donor has imposed an obligation on the Loan Fund to replenish the principal of any gift of permanent loan capital in the event such funds are needed to offset loan losses. Accordingly, donor-restricted permanent loan capital awards have been classified as net assets with donor restrictions in the accompanying consolidated statements of financial position.

EAP net assets with donor restrictions consist of the unspent proceeds from a grant in the original amount of \$5,000,000 received in 2007, which is restricted for a partnership between the Corporation and other agencies to design and implement a financing program to support the installation of on-site renewable energy systems for low-income housing across Massachusetts.

Other financial assistance as of December 31, 2018, represents unexpended awards from the Treasury (see Note 1) for the Healthy Foods Financing Initiative, which aims to provide low-income neighborhoods with access to affordable and healthy foods. Other financial assistance as of December 31, 2019, represents a restricted contribution for Building Pathways, which provides a gateway for low-income area residents, particularly in underserved communities, to access family-sustaining careers in the construction industry.

Non-Controlling Interests represents the net capital interests of outside investors participating in the ownership of certain consolidated affiliates of the Corporation.

BLUEHUB CAPITAL, INC. AND AFFILIATES

Notes to Consolidated Financial Statements
December 31, 2019 and 2018

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets and Non-Controlling Interests (Continued)

Non-controlling interests are comprised of the following activity:

| | <u>SUN Financing</u> | <u>BCC 481 NMTC Investment Fund, LLC</u> | <u>BCC Solar USB Investment Fund, LLC</u> | <u>BCC Solar III Investment Fund, LLC</u> | <u>WegoWise</u> | <u>Total</u> |
|---|--------------------------|--|---|---|-----------------|----------------------|
| Non-controlling interests at December 31, 2017 | \$ 2,914,046 | \$ 1,973,174 | \$ 3,791,052 | \$ 4,834,532 | \$ (703,196) | \$ 12,809,608 |
| Changes in net assets | (317,636) | (203,029) | (138,226) | (202,170) | 703,196 | (157,865) |
| Transfer of non- controlling interests | - | (1,769,539) | - | - | - | (1,769,539) |
| Distributions | - | (606) | - | - | - | (606) |
| Non-controlling interests at December 31, 2018 | 2,596,410 | - | 3,652,826 | 4,632,362 | - | 10,881,598 |
| Changes in net assets | <u>77,523</u> | - | <u>(73,474)</u> | <u>(137,507)</u> | - | <u>(133,458)</u> |
| Non-controlling interests at December 31, 2019 | <u>\$ 2,673,933</u> | <u>\$ -</u> | <u>\$ 3,579,352</u> | <u>\$ 4,494,855</u> | <u>\$ -</u> | <u>\$ 10,748,140</u> |

Consolidated Statements of Activities

Transactions deemed by management to be ongoing, major, or central to the provision of program services are reported as operating revenue and expenses in the accompanying consolidated statements of activities. Non-operating revenue (expenses) include loan capital transactions and investment earnings accounted for under the equity method.

Revenue Recognition

Financial and earned revenues are generally recognized as revenue without donor restrictions as earned on an accrual basis. Interest income related to certain restricted revolving capital grants is restricted for use in qualified activities and is accordingly reported as net assets with donor restrictions.

The Corporation follows the guidance from ASC Topic 606, *Revenue from Contracts with Customers*, for applicable types of revenue which include NMTC sub-allocation fees, electric utility charges, and sales of renewable energy certificates.

Revenue recognition is determined through the following steps:

- Identification of the contract, or contracts, with a customer;
- Identification of the performance obligations in the contract;
- Determination of the transaction price;
- Allocation of the transaction price to the performance obligations in the contract; and
- Recognition of revenue when, or as, the performance obligations are satisfied.

BLUEHUB CAPITAL, INC. AND AFFILIATES

Notes to Consolidated Financial Statements
December 31, 2019 and 2018

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition (Continued)

Program revenue and fees for the years ended December 31, 2019 and 2018, include:

| | <u>2019</u> | <u>2018</u> |
|---|---------------------|---------------------|
| NMTC sub-allocation fees (see Note 9) | \$ 2,152,848 | \$ 3,593,197 |
| Solar Renewable Energy Certificates (SRECs) (see Note 6) | 2,120,707 | 2,114,061 |
| Power purchase and host agreements (see Note 6) | 976,331 | 951,070 |
| Loan fees (see below) | 939,259 | 1,178,280 |
| Other | <u>93,597</u> | <u>205,839</u> |
| Total | 6,282,742 | 8,042,447 |
| Less - intercompany eliminations related to NMTC program | <u>(218,672)</u> | <u>(231,182)</u> |
| | <u>\$ 6,064,070</u> | <u>\$ 7,811,265</u> |

The Loan Fund generally amortizes loan origination fees for loans with terms greater than one year in length over the term of the loans. Unamortized deferred loan fees are included as an adjustment to the carrying value of loans receivable in the accompanying consolidated statements of financial position (see Note 4). Net loan origination fees of BlueHub SUN are not significant and are not amortized.

Grants and contributions may be conditional or unconditional in accordance with ASU 2018-08, Not-for-Profit Entities (Topic 958): *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. A grant or contribution is considered conditional when the donor imposes both a barrier and a right of return. Conditional grants and contributions are recognized as revenue on the date all donor-imposed barriers are overcome or explicitly waived by the donor. Barriers may include specific and measurable outcomes, limitations on the performance of an activity, and other stipulations related to the grant or contribution. A donor has a right of return of any assets transferred or a right of release of its obligation to transfer any assets in the event the Corporation fails to overcome one or more barriers. Assets received before the barrier is overcome are accounted for as refundable or conditional advances.

Grants and contributions are recorded as revenue when received or unconditionally pledged. Grants and contributions with donor restrictions are transferred to net assets without donor restrictions as costs related to purpose restrictions are incurred or time restrictions have lapsed.

All other revenue is recorded when earned.

Expense Allocation

Expenses related directly to a function are distributed to that function, while other expenses are allocated based upon management's expectation of the percentage attributable to each function. The consolidated financial statements contain certain categories of expenses that are attributable to program and supporting functions and are allocated on a reasonable basis that is consistently applied. The expenses that are allocated include personnel, office operations, consultants, marketing, professional fees, and insurance and other, which are allocated based on an estimate of time and level of effort spent on the Corporation's program and supporting functions.

BLUEHUB CAPITAL, INC. AND AFFILIATES

Notes to Consolidated Financial Statements
December 31, 2019 and 2018

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**Expense Allocation (Continued)**

The Corporation's expenses for the year ended December 31, 2019, by their natural and functional classifications are as follows:

| | <u>Program</u> | <u>General and Administration</u> | <u>Fund-raising</u> | <u>Total</u> |
|---------------------------------|----------------------|-----------------------------------|---------------------|----------------------|
| Personnel | \$ 6,046,529 | \$ 1,707,900 | \$ 54,000 | \$ 7,808,429 |
| Depreciation and amortization | 246,328 | 1,963,286 | - | 2,209,614 |
| Office operations | 292,095 | 1,370,480 | - | 1,662,575 |
| Program expenses | 1,046,485 | - | - | 1,046,485 |
| Consultants | 417,769 | 198,641 | - | 616,410 |
| Insurance and other | 316,547 | 97,668 | - | 414,215 |
| Professional fees | 236,342 | 149,161 | - | 385,503 |
| Marketing | 65,776 | 94,174 | 204,391 | 364,341 |
| Interest | <u>156,721</u> | <u>-</u> | <u>-</u> | <u>156,721</u> |
| Subtotal operating | 8,824,592 | 5,581,310 | 258,391 | 14,664,293 |
| Interest for lending operations | <u>9,316,643</u> | <u>-</u> | <u>-</u> | <u>9,316,643</u> |
| Total | <u>\$ 18,141,235</u> | <u>\$ 5,581,310</u> | <u>\$ 258,391</u> | <u>\$ 23,980,936</u> |

The Corporation's expenses for the year ended December 31, 2018, by their natural and functional classifications are as follows:

| | <u>Program</u> | <u>General and Administration</u> | <u>Fund-raising</u> | <u>Total</u> |
|---------------------------------|----------------------|-----------------------------------|---------------------|----------------------|
| Personnel | \$ 5,652,307 | \$ 1,512,190 | \$ 42,339 | \$ 7,206,836 |
| Depreciation and amortization | 243,556 | 2,090,570 | - | 2,334,126 |
| Office operations | 346,316 | 1,429,381 | - | 1,775,697 |
| Program expenses | 997,131 | - | - | 997,131 |
| Consultants | 677,962 | 227,737 | - | 905,699 |
| Insurance and other | 194,294 | 74,337 | - | 268,631 |
| Professional fees | 557,251 | 102,465 | - | 659,716 |
| Marketing | 58,165 | 78,866 | 514,721 | 651,752 |
| Interest | <u>204,472</u> | <u>-</u> | <u>-</u> | <u>204,472</u> |
| Subtotal operating | 8,931,454 | 5,515,546 | 557,060 | 15,004,060 |
| Interest for lending operations | <u>6,945,274</u> | <u>-</u> | <u>-</u> | <u>6,945,274</u> |
| Total | <u>\$ 15,876,728</u> | <u>\$ 5,515,546</u> | <u>\$ 557,060</u> | <u>\$ 21,949,334</u> |

BLUEHUB CAPITAL, INC. AND AFFILIATES

Notes to Consolidated Financial Statements
December 31, 2019 and 2018

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes

For the consolidated corporate entities, income tax expense is based on pre-tax financial accounting income. The corporate entities account for income taxes according to the asset and liability method in accordance with ASC Topic, *Income Taxes*. The differences between the consolidated financial statement amounts and the tax bases of assets and liabilities are determined annually. Deferred tax assets and liabilities are computed for those differences that will result in taxable or deductible amounts in future periods using currently enacted tax laws and rates that apply to the periods in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount that will more likely than not be realized (see Note 12). Income tax expense is the tax payable or refundable for the current period plus or minus the change during the period in deferred income tax assets and liabilities.

The Corporation and its operating affiliates account for uncertainty in income taxes. This standard clarifies the accounting for uncertainty in tax positions and prescribes a recognition threshold and measurement attribute for the consolidated financial statements regarding a tax position taken or expected to be taken in a tax return. The Corporation has determined that there are no uncertain tax positions which qualify for either recognition or disclosure in the consolidated financial statements at December 31, 2019 and 2018. The Corporation does not expect that the amounts of unrecognized tax benefits will change significantly within the next twelve months.

Subsequent Events

Subsequent events have been evaluated through April 3, 2020, which is the date the consolidated financial statements were available to be issued. Events that met the criteria for recognition and disclosure in the consolidated financial statements are included in Notes 6, 7, 15, and 18.

3. INVESTMENTS IN AFFILIATES

Cost Method Investments Eliminated in Consolidation

Managed Assets' investments in CDE XVI and CDE XXII (see Note 1) are carried on the cost method of accounting (see Note 2) as follows and have been eliminated from the accompanying consolidated financial statements at December 31:

| | <u>2019</u> | <u>2018</u> |
|----------|-----------------|-----------------|
| CDE XVI | \$ 753 | \$ 753 |
| CDE XXII | <u>598</u> | <u>600</u> |
| | <u>\$ 1,351</u> | <u>\$ 1,353</u> |

Managed Assets recovered its investment in CDE X upon its closure during 2018 (see Note 1).

The Venture Fund's investments in Aura Mortgage (see Note 1) and WegoWise are carried on the cost method of accounting (see Note 2) as follows and have been eliminated from the accompanying consolidated financial statements at December 31:

| | <u>2019</u> | <u>2018</u> |
|---------------|----------------------|----------------------|
| Aura Mortgage | \$ 11,170,000 | \$ 10,670,000 |
| WegoWise | <u>-</u> | <u>894,310</u> |
| | <u>\$ 11,170,000</u> | <u>\$ 11,564,310</u> |

BLUEHUB CAPITAL, INC. AND AFFILIATESNotes to Consolidated Financial Statements
December 31, 2019 and 2018**3. INVESTMENTS IN AFFILIATES (Continued)****Cost Method Investments Eliminated in Consolidation (Continued)**

The Holding Company's investments in NSP, SEA and WegoWise (see Note 1) are also carried on the cost method of accounting (see Note 2) as follows and have been eliminated from the accompanying consolidated financial statements at December 31:

| | <u>2019</u> | <u>2018</u> |
|----------|---------------------|---------------------|
| NSP | \$ 3,400,000 | \$ 3,400,000 |
| SEA | 800,000 | 800,000 |
| WegoWise | <u>-</u> | <u>820,000</u> |
| | <u>\$ 4,200,000</u> | <u>\$ 5,020,000</u> |

The Venture Fund and the Holding Company received partial liquidations of their interests of \$1,934,692 and \$1,344,447, respectively, in WegoWise during 2018, but also wrote down those investments by \$2,542,509 and \$1,279,984, respectively, in 2018 (see Note 1). The Venture Fund and the Holding Company recovered the remainder of their investments in WegoWise in 2019 upon liquidation of the Indemnity Escrow (see Notes 1 and 14).

Cost Method Investments in CDE LLCs

The consolidated financial statements only include the financial statements of CDEs XVI and XXII (see Notes 1 and 2). Managed Assets and NMTC Manager maintain a small membership interest in other CDE LLCs and account for them using the cost method of accounting.

As of December 31, 2019 and 2018, Managed Assets had the following amounts invested in the unconsolidated CDE LLCs:

| | <u>2019</u> | <u>2018</u> |
|--------------------------|------------------|------------------|
| BCC NMTC CDE VII, LLC | \$ 4,363 | \$ 4,363 |
| BCC NMTC CDE VIII, LLC | - | 8,502 |
| BCC NMTC CDE XII, LLC | - | 1,442 |
| BCC NMTC CDE XIII, LLC | - | 1,579 |
| BCC NMTC CDE XIV, LLC | - | 2,526 |
| BCC NMTC CDE XV, LLC | - | 2,062 |
| BCC NMTC CDE XVII, LLC | 800 | 800 |
| BCC NMTC CDE XVIII, LLC | 1,505 | 1,505 |
| BCC NMTC CDE XIX, LLC | 337 | 337 |
| BCC NMTC CDE XX, LLC | 1,578 | 1,578 |
| BCC NMTC CDE XXI, LLC | 1,384 | 1,384 |
| BCC NMTC CDE XXIII, LLC | 431 | 431 |
| BCC NMTC CDE XXIV, LLC | 550 | 550 |
| BCC NMTC CDE XXV, LLC | 500 | 500 |
| BCC NMTC CDE XXVI, LLC | 1,000 | 1,000 |
| BCC NMTC CDE XXVII, LLC | 1,000 | 1,000 |
| BCC NMTC CDE XXVIII, LLC | 800 | 800 |
| BCC NMTC CDE XXIX, LLC | 250 | 250 |
| BCC NMTC CDE XXXII, LLC | 300 | 300 |
| BCC NMTC CDE XXXI, LLC | 800 | 800 |
| BCC NMTC CDE XXXII, LLC | <u>300</u> | <u>300</u> |
| | <u>\$ 15,898</u> | <u>\$ 32,009</u> |

BLUEHUB CAPITAL, INC. AND AFFILIATES

Notes to Consolidated Financial Statements
December 31, 2019 and 2018

3. INVESTMENTS IN AFFILIATES (Continued)

Equity Method Investment in BCLF Ventures II, LLC

The Venture Fund accounts for its investment in Ventures II, LLC using the equity method of accounting (see Note 1). The Venture Fund increases or decreases its investment by its respective share of Ventures II, LLC net income or loss and decreases its investment by distributions received.

The Venture Fund's net investment in Venture II, LLC was \$355,258 and \$329,784, respectively, as of December 31, 2019 and 2018, as follows:

| | <u>2019</u> | <u>2018</u> |
|-----------------------------------|-------------------|-------------------|
| Net investment, beginning of year | \$ 329,784 | \$ 274,379 |
| Share of income | <u>25,474</u> | <u>55,405</u> |
| Net investment, end of year | <u>\$ 355,258</u> | <u>\$ 329,784</u> |

Summarized financial information for Ventures II, LLC is as follows as of and for the years ended December 31:

| | <u>2019</u> | <u>2018</u> |
|------------|---------------------|---------------------|
| Assets | <u>\$ 3,486,912</u> | <u>\$ 3,232,171</u> |
| Equity | <u>\$ 3,486,912</u> | <u>\$ 3,232,171</u> |
| Revenues | \$ 302,877 | \$ 603,104 |
| Expenses | <u>48,136</u> | <u>49,060</u> |
| Net income | <u>\$ 254,741</u> | <u>\$ 554,044</u> |

4. LOANS AND INTEREST RECEIVABLE

Loan Fund

Portfolio Lending

The Loan Fund offers a variety of loan products of both short and long-term maturity, including term loans, as well as revolving and non-revolving lines of credit, for the following purposes:

Construction: for construction or rehabilitation of residential (single family and multi-family) and commercial properties.

Organizational: for organizational capacity building, recapitalization and/or providing operating capital.

Permanent: for long-term financing for newly constructed or rehabilitated or existing multi-family housing, community facilities or commercial real estate.

Predevelopment: for financing the upfront cost of real estate development projects prior to construction, such as for permitting, design and due diligence.

Site acquisition: for acquisition of property for development, whether for commercial or housing developments.

BLUEHUB CAPITAL, INC. AND AFFILIATES

Notes to Consolidated Financial Statements
December 31, 2019 and 2018

4. LOANS AND INTEREST RECEIVABLE (Continued)

Loan Fund (Continued)

Portfolio Lending (Continued)

Loans receivable bear interest at rates ranging from zero to eight percent (0% - 8%) and mature at various dates through 2042. Borrowers generally include nonprofit community organizations, private developers, and businesses which benefit low-income individuals and communities. Loans receivable are generally made in connection with affordable housing and community development projects and are primarily collateralized by first or second mortgages on the property of the borrower. The Loan Fund also has some loans secured through third mortgages, all assets of the borrower, cash held by the lender, or other forms of collateral. The Loan Fund's five largest outstanding loans receivable collectively comprised approximately 15% and 17% of the portfolio as of December 31, 2019 and 2018, respectively.

Loans receivable of the Loan Fund are presented net of third-party loan participations of \$29,883,640 and \$24,240,176 as of December 31, 2019 and 2018, respectively. All loan participations qualify as loan sales in accordance with ASC Topic, *Accounting for Transfers and Servicing of Assets and Liabilities*. Interest on loans of the Loan Fund is presented net of interest of \$1,519,372 and \$1,137,950 collected on behalf of and paid to loan participants in 2019 and 2018, respectively.

The Loan Fund's loans receivable are as follows at December 31:

| Type | 2019 | | 2018 | |
|---------------------------------------|-----------------|-----------------------|-----------------|-----------------------|
| | Number of Loans | Net Loan Amount | Number of Loans | Net Loan Amount |
| Construction | 59 | \$ 100,655,316 | 50 | \$ 89,550,337 |
| Organizational | 10 | 4,863,026 | 10 | 4,923,945 |
| Permanent | 57 | 55,559,533 | 60 | 56,136,563 |
| Predevelopment | 7 | 4,525,393 | 2 | 704,146 |
| Site acquisition | <u>28</u> | <u>41,138,958</u> | <u>23</u> | <u>19,605,368</u> |
| | <u>161</u> | 206,742,225 | <u>145</u> | 170,920,359 |
| Interest receivable on above loans | | <u>2,395,948</u> | | <u>2,098,489</u> |
| | | <u>\$ 209,138,173</u> | | <u>\$ 173,018,848</u> |

The majority of the Loan Fund's loans receivable is secured by real estate holdings in the New England and the Mid-Atlantic states and could be affected by adverse real estate markets and other economic factors in the region. Certain loans receivable from charter schools are also secured by \$5,504,225 and \$3,418,769 of the Loan Fund's restricted deposits dedicated to credit enhancement activities (see Note 13) as of December 31, 2019 and 2018, respectively.

The Loan Fund had committed \$56,149,353 and \$63,962,218 for future disbursements on existing loan commitments and lines of credit to unrelated borrowers as of December 31, 2019 and 2018, respectively. Among the tools available to manage liquidity are lines of credit with financial institutions (see Note 7), proceeds of a public debt offering (see Note 18), as well as the potential to initiate loan sales and loan participation agreements with lending partners.

BLUEHUB CAPITAL, INC. AND AFFILIATES

Notes to Consolidated Financial Statements
December 31, 2019 and 2018

4. LOANS AND INTEREST RECEIVABLE (Continued)

Loan Fund (Continued)

Portfolio Lending (Continued)

The following is an aging analysis of the Loan Fund's past due portion of loan principal at December 31:

| | <u>2019</u> | <u>2018</u> |
|----------------------|-----------------------|-----------------------|
| 60 - 89 days | \$ 2,500 | \$ 2,500 |
| Greater than 90 days | <u>36,000</u> | <u>22,500</u> |
| Total past due | 38,500 | 25,000 |
| Current | <u>206,703,725</u> | <u>170,895,359</u> |
| | <u>\$ 206,742,225</u> | <u>\$ 170,920,359</u> |

Special Tax-Credit Lending

As of December 31, 2019 and 2018, the Loan Fund has entered into 113 and 105 arrangements, respectively, to act as the nonprofit intermediary to improve the economic value of Massachusetts historic and state low-income tax credits of qualifying projects in Massachusetts. The Loan Fund received a donation of tax credits from each project's sponsor and made loans to the respective project entity from the proceeds of the Loan Fund's resale of the credits to outside investors. The loans have interest rates ranging from 0% to 4.25%, which the Loan Fund will receive on the maturity dates through July 2072. As part of each arrangement, the Loan Fund receives fees up to .05% of the total loan, not to be less than \$15,000. These fees are included in program revenue and fees in the accompanying consolidated statements of activities and totaled \$90,221 and \$246,664 for 2019 and 2018, respectively.

Total outstanding principal balances are \$488,573,218 and \$464,701,149 as of December 31, 2019 and 2018, respectively. These loans have specific restrictions surrounding their use, and due to their long-term deferred nature and likelihood of collectability, the notes are fully reserved at December 31, 2019 and 2018. The provision associated with these allowances is netted with the value of the tax credit donations in the accompanying consolidated financial statements. Interest earned on these loans was fully reserved for the year ended December 31, 2019. Interest earned on these loans totaled \$156,126 for the year ended December 31, 2018. As of December 31, 2019 and 2018, there was outstanding interest receivable on these loans of \$482,806 and \$419,353, respectively, in the accompanying consolidated financial statements.

Foreclosure and Home Mortgage Services

Through the operations of BlueHub SUN, NSP purchases and rehabilitates residential properties in foreclosure or at risk of foreclosure in low-income communities in Massachusetts. NSP seeks to resell these properties to low-income individuals. The properties are generally purchased by NSP in negotiated transactions from lenders holding the foreclosed properties or troubled loans. Once the purchases by NSP are complete, the homeowners apply for financing through Aura Mortgage or other sources, thereby allowing the residents (either previous owners or persons renting the residence) to remain in the homes and avoid eviction.

BLUEHUB CAPITAL, INC. AND AFFILIATESNotes to Consolidated Financial Statements
December 31, 2019 and 2018**4. LOANS AND INTEREST RECEIVABLE (Continued)****Foreclosure and Home Mortgage Services (Continued)**

To satisfy collateralization requirements associated with the bond payable (see Note 7), loans receivable and the related loan loss allowance are sometimes transferred between Aura Mortgage and SUN Financing and SUN Financing II. Since the closing of the bond payable (see Note 7), Aura Mortgage has retained substantially all newly issued mortgage loans receivable. Aura Mortgage, in collaboration with an outside management company (see Note 10), continues to service all loans initiated under the program.

Mortgage Loans Receivable

Loans receivable consist of mortgage loans receivable from low-income individuals in the states of Massachusetts, New Jersey, Maryland, Illinois, Rhode Island, Connecticut, and Pennsylvania. Adverse real estate markets in these states could affect the value of BlueHub SUN's loans receivable. These loans are generally secured by a first priority mortgage on the property and mature at various dates through 2049. The allowance for loan losses reduces the reported loan values.

Loans receivable of BlueHub SUN consisted of the following at December 31:

| | 2019 | | | 2018 | | |
|---------------|----------------------------|---------------------------|-----------------------------|----------------------------|---------------------------|-----------------------------|
| | Number of Loans | Interest Rates | Monthly Payments | Number of Loans | Interest Rates | Monthly Payments |
| Aura Mortgage | 582 | 5.625% - 8.500% | \$172 - \$4,261 | 501 | 5.625% - 7.500% | \$172 - \$4,261 |
| SUN Financing | 119 | 5.750% - 6.500% | \$287 - \$3,413 | 170 | 5.750% - 6.500% | \$270 - \$3,413 |

The following is an aging analysis of BlueHub SUN's loans receivable at December 31:

| | 2019 | 2018 |
|----------------------|-----------------------|-----------------------|
| 60 - 89 days | \$ 3,457,683 | \$ 4,156,996 |
| Greater than 90 days | <u>12,862,054</u> | <u>10,258,208</u> |
| Total past due | 16,319,737 | 14,415,204 |
| Current | <u>113,906,648</u> | <u>109,415,538</u> |
| | <u>\$ 130,226,385</u> | <u>\$ 123,830,742</u> |

BlueHub SUN maintains certain cash held for loan loss reserves (see Notes 1 and 14). These reserves become available as a source to repay financing obligations in the event of non-payment of loans receivable associated with these cash reserves. BlueHub SUN re-deploys the cash to other loans within its portfolio upon repayment of loans receivable associated with the reserves. When loans receivable are transferred among the affiliates, any loan loss reserves associated with such loans are generally also transferred.

BLUEHUB CAPITAL, INC. AND AFFILIATESNotes to Consolidated Financial Statements
December 31, 2019 and 2018**4. LOANS AND INTEREST RECEIVABLE (Continued)****Foreclosure and Home Mortgage Services (Continued)**

For the properties purchased by NSP and then resold to individuals through a mortgage loan, NSP holds shared appreciation agreements with each borrower that entitle NSP to a specified share of the proceeds less the original contract sales price on any potential future sale of these properties as outlined in these agreements. Realized gains from shared appreciation agreements are earned when borrowers sell their properties. The gain realized is the difference between sale price and net book value of interests in real property at time of NSP's original sale of the property to the borrower. Income received by NSP associated with shared appreciation agreements is recognized upon full repayment of loans receivable within BlueHub SUN. For the years ended December 31, 2019 and 2018, NSP recognized gains related to shared appreciation notes totaling \$2,137,744 and \$1,067,375, respectively, resulting from the sale of properties, which are included in net gains on shared appreciation agreements and sales of real estate and tax credit notes in the accompanying consolidated statements of activities.

Maturities

Maturities of the loans and interest receivable as of December 31, 2019, are as follows:

| <u>Year</u> | <u>Loan Fund</u> | <u>Foreclosure and Home Mortgage Services</u> | | <u>Total</u> |
|---|-----------------------|---|--------------------------|-----------------------|
| | | <u>Aura Mortgage</u> | <u>SUN Financing</u> | |
| 2020 | \$ 50,006,487 | \$ 1,689,687 | \$ 312,807 | \$ 52,008,981 |
| 2021 | 34,441,333 | 1,786,129 | 333,096 | 36,560,558 |
| 2022 | 19,936,848 | 1,899,638 | 354,709 | 22,191,195 |
| 2023 | 12,842,044 | 2,020,367 | 377,732 | 15,240,143 |
| 2024 | 15,186,512 | 2,148,776 | 402,258 | 17,737,546 |
| Thereafter | <u>76,724,949</u> | <u>95,057,339</u> | <u>23,843,847</u> | <u>195,626,135</u> |
| | 209,138,173 | 104,601,936 | 25,624,449 | 339,364,558 |
| Adjustment for deferred loan fees (see Note 2) | (602,219) | - | - | (602,219) |
| Less - allowance for loan losses (see Note 5) | <u>(2,813,234)</u> | <u>(10,517,125)</u> | <u>(3,882,387)</u> | <u>(17,212,746)</u> |
| Net loans and interest receivable | 205,722,720 | 94,084,811 | 21,742,062 | 321,549,593 |
| Less - current portion | <u>(48,782,800)</u> | <u>(1,689,687)</u> | <u>(312,807)</u> | <u>(50,785,294)</u> |
| Net long-term portion | <u>\$ 156,939,920</u> | <u>\$ 92,395,124</u> | <u>\$ 21,429,255</u> | <u>\$ 270,764,299</u> |

BLUEHUB CAPITAL, INC. AND AFFILIATESNotes to Consolidated Financial Statements
December 31, 2019 and 2018**4. LOANS AND INTEREST RECEIVABLE (Continued)****Maturities (Continued)**

Loans receivable are as follow as of December 31, 2018:

| | <u>Loan Fund</u> | <u>Foreclosure and Home Mortgage Services</u> | | <u>Total</u> |
|---|-----------------------|---|--------------------------|-----------------------|
| | | <u>Aura Mortgage</u> | <u>SUN Financing</u> | |
| Gross loans receivable | \$ 173,018,848 | \$ 90,080,601 | \$ 33,750,141 | \$ 296,849,590 |
| Adjustment for deferred loan fees (see Note 2) | (637,455) | - | - | (637,455) |
| Less - allowance for loan losses (see Note 5) | <u>(2,813,234)</u> | <u>(9,402,690)</u> | <u>(5,377,251)</u> | <u>(17,593,175)</u> |
| Net loans and interest receivable | 169,568,159 | 80,677,911 | 28,372,890 | 278,618,960 |
| Less - current portion | <u>(35,800,098)</u> | <u>(1,405,776)</u> | <u>(447,393)</u> | <u>(37,653,267)</u> |
| Net long-term portion | <u>\$ 133,768,061</u> | <u>\$ 79,272,135</u> | <u>\$ 27,925,497</u> | <u>\$ 240,965,693</u> |

Affiliate Loans

From time-to-time, the Corporation and its affiliates may enter into intercompany borrowing arrangements to support general operations or specific business initiatives. Those borrowing arrangements not described elsewhere in these footnotes are described here. All intercompany borrowings with affiliates are eliminated in the consolidation.

The Loan Fund has entered into the following lending arrangements with certain consolidating affiliates.

SUN Financing

The Loan Fund entered into a Note Purchase Agreement and an initial unsecured note under this agreement with SUN Financing. Under this note, the Loan Fund made advances to SUN Financing in the aggregate principal amount of \$10,000,000. Funds advanced are used to acquire and refinance homes at risk of foreclosure. This intercompany loan bears interest at 4.25% per annum and interest is due quarterly. Interest paid to the Loan Fund was \$269,167 and \$430,903 for 2019 and 2018, respectively. As of December 31, 2019 and 2018, principal outstanding under this agreement totaled \$5,000,000 and \$10,000,000, respectively. All remaining unpaid principal and interest are due on the maturity date of December 31, 2020.

BLUEHUB CAPITAL, INC. AND AFFILIATES

Notes to Consolidated Financial Statements
December 31, 2019 and 2018

4. LOANS AND INTEREST RECEIVABLE (Continued)

Affiliate Loans (Continued)

481 Investment Fund/SEA

The Loan Fund entered into a leverage loan agreement with the 481 Investment Fund in the amount of \$1,472,876, which was used in the finance of solar panel installations within a new markets tax credit financing structure (see Note 1). Interest on this note accrues at 6%. On October 31st of each year, all accrued interest and unpaid principal, to the extent of cash flow as outlined in the agreement, are due. All remaining unpaid principal and interest are due on the maturity date of March 23, 2021. During 2019 and 2018, payments of principal were \$204,550 and \$209,854, respectively. In connection with the membership interest transfer agreement (see Note 1), SEA assumed the outstanding balance of the loan payable. As of December 31, 2019 and 2018, the outstanding balance of the loan was \$164,939 and \$369,489, respectively. Total interest was \$15,817 and \$32,924 for 2019 and 2018, respectively, and has been eliminated in the accompanying consolidated statements of activities. There was no unpaid interest as of December 31, 2019 and 2018.

SEA

The Loan Fund loaned \$3,000,000 of the proceeds of the permanent loan capital - subordinated loans payable to SEA (see Notes 1 and 6) to finance a portion of certain assets of SEA. The entire principal is outstanding at December 31, 2019 and 2018. This intercompany loan bears interest at 3%, payable quarterly, is unsecured, and matures in September 2029. Interest on these borrowings totaled \$90,000 in 2019 and 2018 and has been eliminated in the accompanying consolidated statements of activities.

USB Investment Fund

During 2013, the Loan Fund entered into a leverage loan with the USB Investment Fund in the amount of \$5,224,207, which was used in the financing of solar panel installations within a new markets tax credit financing structure. Interest on this note accrues at 6% per annum, compounded annually. Beginning on December 31, 2013, and thereafter at each succeeding year, all accrued interest and unpaid principal, to the extent of net cash flow as outlined in the agreement, is due and payable. All remaining principal and interest are due on the maturity date of November 6, 2023. This loan may be prepaid without penalty. During 2019 and 2018, USB Investment Fund made payments of principal of \$460,422 and \$520,044, respectively. Total interest incurred was \$48,578 and \$79,267 for 2019 and 2018, respectively, and has been eliminated in the accompanying consolidated statements of activities. There was no unpaid interest as of December 31, 2019 and 2018. As of December 31, 2019 and 2018, the principal outstanding under this agreement was \$550,375 and \$1,010,797, respectively.

BLUEHUB CAPITAL, INC. AND AFFILIATESNotes to Consolidated Financial Statements
December 31, 2019 and 2018**4. LOANS AND INTEREST RECEIVABLE (Continued)****Affiliate Loans (Continued)**

Affiliate loans consist of the following at December 31:

| | <u>2019</u> | <u>2018</u> |
|--|--------------------|---------------------|
| Intercompany borrowings: | | |
| Loan Fund receivable from SUN | \$ 5,000,000 | \$ 10,000,000 |
| Loan Fund receivable from SEA | 3,000,000 | 3,000,000 |
| Loan Fund receivable from the USB Investment Fund | 550,375 | 1,010,797 |
| Loan Fund receivable from the 481 Investment Fund/SEA | <u>164,939</u> | <u>369,489</u> |
| Sub-total affiliate loans receivable | 8,715,314 | 14,380,286 |
| Affiliate loan receivables eliminated in consolidation | <u>(8,715,314)</u> | <u>(14,380,286)</u> |
| Total net affiliate loans receivable | <u>\$ -</u> | <u>\$ -</u> |

Interest on these borrowings totaled \$423,562 and \$666,048 in 2019 and 2018, respectively, which has also been eliminated from the accompanying consolidated financial statements.

5. ALLOWANCE FOR LOAN LOSSES AND LOAN LOSS RESERVES**Loan Fund**

Loan loss reserves is the term used by the Loan Fund and certain significant investors to refer to the balance of loan loss allowances plus otherwise net assets without donor restrictions which have been designated by the Board of Directors as a hedge against potential loan losses. Covenants with certain significant investors require the Loan Fund to maintain loan loss reserves equal to at least 5% of loans receivable of the Loan Fund.

The Loan Fund's loan loss reserves consist of the following as of December 31:

| | <u>2019</u> | <u>2018</u> |
|---|----------------------|----------------------|
| Allowance for loan losses (see Notes 2 and 4) | \$ 2,813,234 | \$ 2,813,234 |
| Board designated net assets for general loan loss reserves (see Note 2) | <u>10,133,797</u> | <u>8,168,792</u> |
| | <u>\$ 12,947,031</u> | <u>\$ 10,982,026</u> |

An allowance for loan losses is an estimate of expected loan losses expressed as a reduction of the carrying value of loans receivable. The loan loss allowance is based on expected losses as determined under the Loan Fund's risk rating system. In addition, the Loan Fund's Board of Directors designates net assets without donor restrictions for loan loss reserves so that the sum of the loan loss allowance and board designated general and loan loss reserves equals at least 5% of total loans receivable of the Loan Fund.

BLUEHUB CAPITAL, INC. AND AFFILIATES

 Notes to Consolidated Financial Statements
 December 31, 2019 and 2018

5. ALLOWANCE FOR LOAN LOSSES AND LOAN LOSS RESERVES (Continued)
Loan Fund (Continued)

The allowance for loan losses consists of the following at December 31:

| <u>2019</u> | <u>Construction</u> | <u>Organi- zational</u> | <u>Permanent</u> | <u>Pre- development</u> | <u>Site Acquisition</u> | <u>Total</u> |
|---|---------------------|-----------------------------|---------------------|-----------------------------|-----------------------------|---------------------|
| Allowance for loan losses, December 31, 2018 | \$ 229,799 | \$ 2,755 | \$ 1,898,134 | \$ 414,970 | \$ 267,576 | \$ 2,813,234 |
| Provision | 190,327 | 5,633 | 104,704 | - | (114,000) | 186,664 |
| Recoveries | <u>-</u> | <u>-</u> | <u>(186,664)</u> | <u>-</u> | <u>-</u> | <u>(186,664)</u> |
| Allowance for loan losses, December 31, 2019 | <u>\$ 420,126</u> | <u>\$ 8,388</u> | <u>\$ 1,816,174</u> | <u>\$ 414,970</u> | <u>\$ 153,576</u> | <u>\$ 2,813,234</u> |
| Ending balance: Individually evaluated for impairment | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 1,721,094</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 1,721,094</u> |
| Troubled Debt Restructuring | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 1,721,094</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 1,721,094</u> |
| <u>2018</u> | <u>Construction</u> | <u>Organi- zational</u> | <u>Permanent</u> | <u>Pre- development</u> | <u>Site Acquisition</u> | <u>Total</u> |
| Allowance for loan losses, December 31, 2017 | \$ 22,988 | \$ 2,755 | \$ 2,218,945 | \$ 414,970 | \$ 153,576 | \$ 2,813,234 |
| Provision | 206,811 | - | - | - | 114,000 | 320,811 |
| Recoveries | <u>-</u> | <u>-</u> | <u>(320,811)</u> | <u>-</u> | <u>-</u> | <u>(320,811)</u> |
| Allowance for loan losses, December 31, 2018 | <u>\$ 229,799</u> | <u>\$ 2,755</u> | <u>\$ 1,898,134</u> | <u>\$ 414,970</u> | <u>\$ 267,576</u> | <u>\$ 2,813,234</u> |
| Ending balance: Individually evaluated for impairment | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 1,782,601</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 1,782,601</u> |
| Troubled Debt Restructuring | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 1,782,601</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 1,782,601</u> |

BLUEHUB CAPITAL, INC. AND AFFILIATES

Notes to Consolidated Financial Statements
December 31, 2019 and 2018

5. ALLOWANCE FOR LOAN LOSSES AND LOAN LOSS RESERVES (Continued)**Loan Fund (Continued)**

The Loan Fund uses an eight level credit rating system, with "1" representing the highest quality/lowest risk credits and "8" representing the lowest quality/highest credit risk credits. The following table presents the Loan Fund's loans receivable balances and related allowance by risk rating at December 31:

| <u>Category</u> | <u>Risk Rating</u> | <u>2019</u> | | <u>2018</u> | |
|-----------------|--------------------|-----------------------|----------------------------|-----------------------|----------------------------|
| | | <u>Loan Balance</u> | <u>Loan Loss Allowance</u> | <u>Loan Balance</u> | <u>Loan Loss Allowance</u> |
| Pass | 1 - 4 | \$ 197,057,021 | \$ - | \$ 161,075,362 | \$ - |
| Special Mention | 5 - 6 | 8,897,136 | 1,726,356 | 9,050,429 | 1,794,777 |
| Substandard | 7 - 8 | 788,068 | 788,068 | 794,568 | 794,568 |
| General Reserve | | - | 298,810 | - | 223,889 |
| | | <u>\$ 206,742,225</u> | <u>\$ 2,813,234</u> | <u>\$ 170,920,359</u> | <u>\$ 2,813,234</u> |

Impaired Loans and Troubled Debt Restructurings

The Corporation identifies a loan as impaired when it is probable that interest and/or principal will not be collected according to the contractual terms of the loan agreement. In accordance with guidance provided by the ASC Topic, *Impairment (Recoverability) of a Loan*, management employs one of three methods to determine and measure impairment: the Present Value of Future Cash Flow Method; the Fair Value of Collateral Method; and the Observable Market Price of a Loan Method. To perform an impairment analysis, the Loan Fund reviews a loan's internally assigned risk rating, its outstanding balance, value of the collateral, guarantors, and a current report of the action being implemented. Based on the nature of the specific loan, one of the impairment methods is chosen and any impairment is determined, based on criteria established for impaired loans.

A troubled debt restructuring (TDR) occurs when a creditor, for economic or legal reasons related to a borrower's financial condition, grants a concession to the borrower that it would not otherwise consider, such as below market interest rates, extending the maturity of a loan, or a combination of both. The Loan Fund considers all loans modified in a TDR to be impaired.

At the time a loan is modified in a TDR, the Loan Fund considers several factors in determining whether the loan should accrue interest, including:

- Cash flow necessary to pay the interest
- Whether the customer is current on their interest payments
- Whether the Loan Fund expects the borrower to perform under the revised terms of the restructuring

BLUEHUB CAPITAL, INC. AND AFFILIATES

Notes to Consolidated Financial Statements
December 31, 2019 and 2018

5. ALLOWANCE FOR LOAN LOSSES AND LOAN LOSS RESERVES (Continued)

Loan Fund (Continued)

As of December 31, 2019 and 2018, loans that were impaired and classified as TDRs were as follows:

| <u> Troubled Debt Restructuring </u> | <u> 2019 </u> | | |
|--|---|---|--|
| | <u>Number of Loans Restructured</u> | <u>Amount of Restructured Loans</u> | <u>Related Allowance for Loan Loss</u> |
| Permanent financings - multiple extensions resulting from financial difficulty | <u>3</u> | <u>\$ 2,647,621</u> | <u>\$ 1,721,094</u> |
| <u> Troubled Debt Restructuring </u> | <u> 2018 </u> | | |
| | <u>Number of Loans Restructured</u> | <u>Amount of Restructured Loans</u> | <u>Related Allowance for Loan Loss</u> |
| Permanent financings - multiple extensions resulting from financial difficulty | <u>3</u> | <u>\$ 2,770,635</u> | <u>\$ 1,782,601</u> |

The above loans are all on “non-accrual” basis.

Foreclosure and Home Mortgage Services

BlueHub SUN uses an eight number-based credit rating system, with "1" representing the highest quality/lowest risk credits and "8" representing the lowest quality/highest credit risk credits.

The following table presents BlueHub SUN loans receivable balances and related allowance by risk rating at December 31:

| <u> Category </u> | <u> Risk Rating </u> | <u> 2019 </u> | | <u> 2018 </u> | |
|---|--|---|--------------------------------|---|--------------------------------|
| | | <u>Loan Balance</u> | <u>Loan Loss Allowance</u> | <u>Loan Balance</u> | <u>Loan Loss Allowance</u> |
| Pass | 1 - 2 | \$ 93,621,838 | \$ 3,719,889 | \$ 87,784,275 | \$ 3,371,117 |
| Special Mention | 3 - 6 | 20,099,810 | 2,200,223 | 21,631,262 | 2,513,364 |
| Substandard | 7 - 8 | 16,504,737 | 4,067,696 | 14,415,205 | 3,572,759 |
| General reserve | | - | 4,411,704 | - | 5,322,701 |
| | | <u>\$ 130,226,385</u> | <u>\$ 14,399,512</u> | <u>\$ 123,830,742</u> | <u>\$ 14,779,941</u> |

BLUEHUB CAPITAL, INC. AND AFFILIATESNotes to Consolidated Financial Statements
December 31, 2019 and 2018**5. ALLOWANCE FOR LOAN LOSSES AND LOAN LOSS RESERVES (Continued)****Foreclosure and Home Mortgage Services (Continued)**

The loan loss allowance consists of the following:

| | <u>2019</u> | <u>2018</u> |
|--|----------------------|----------------------|
| Beginning of year | \$ 14,779,941 | \$ 14,774,791 |
| Loan loss allowance established with mortgage origination (see Note 2) | 2,668,376 | 2,797,729 |
| Payment made for program return of funds | (211,463) | - |
| Reduction for loans converted to real estate owned | (189,031) | (144,557) |
| Recovery from loans repaid | (1,798,311) | (1,673,022) |
| Loan loss recoveries | <u>(850,000)</u> | <u>(975,000)</u> |
| End of year | <u>\$ 14,399,512</u> | <u>\$ 14,779,941</u> |

BlueHub SUN had no write-offs of loan principal during 2019 and 2018.

Impaired loans as of December 31, 2019 and 2018, are set forth in the tables below:

| | <u>2019</u> | | |
|---------------|---------------------------------|---------------------------------|--|
| | <u>Number of Impaired Loans</u> | <u>Amount of Impaired Loans</u> | <u>Related Allowance for Loan Loss</u> |
| SUN Financing | <u>26</u> | <u>\$ 6,894,047</u> | <u>\$ 1,391,469</u> |
| | <u>2018</u> | | |
| | <u>Number of Impaired Loans</u> | <u>Amount of Impaired Loans</u> | <u>Related Allowance for Loan Loss</u> |
| SUN Financing | <u>30</u> | <u>\$ 7,124,365</u> | <u>\$ 1,748,832</u> |

6. PROPERTY, EQUIPMENT AND INTERESTS IN REAL PROPERTY**Holding Company**

Property and equipment of the Holding Company are as follows as of December 31:

| | <u>2019</u> | <u>2018</u> |
|---------------------------------|-------------------|-------------------|
| Computer equipment | \$ 188,845 | \$ 188,845 |
| Office equipment | 67,393 | 47,923 |
| Leasehold improvements | <u>1,138,555</u> | <u>1,138,555</u> |
| | 1,394,793 | 1,375,323 |
| Less - accumulated depreciation | <u>810,963</u> | <u>665,347</u> |
| | <u>\$ 583,830</u> | <u>\$ 709,976</u> |

Depreciation expense of the Holding Company for 2019 and 2018 was \$145,616 and \$145,541, respectively.

BLUEHUB CAPITAL, INC. AND AFFILIATES

Notes to Consolidated Financial Statements
December 31, 2019 and 2018

6. PROPERTY, EQUIPMENT AND INTERESTS IN REAL PROPERTY (Continued)**Solar Energy Programs**

The Corporation operates various ground and roof-mounted photovoltaic panel installations that are owned by the affiliates that operate its Solar Energy Programs (see Note 1). All projects are located in Massachusetts.

In connection with certain of these installations, SEA and SEA QALICB received financial support in the form of grant proceeds of the Holding Company's EAP grant (see Note 2), Massachusetts Renewable Energy Trust (MRET) rebates, Massachusetts Clean Energy Center (MCEC) grants, and Federal Payments for Specified Energy Property in Lieu of Tax Credits under Section 1603 of the American Recovery and Reinvestment Act of 2009 (Section 1603 payments), all of which have reduced the cost of the solar energy equipment for depreciation purposes (see Note 2). There are specific recapture provisions associated with the MRET rebates and Section 1603 payments. SEA and SEA QALICB were in compliance with these provisions as of December 31, 2019 and 2018.

The net carrying value of the solar panel projects are as follows at December 31:

| 2019 | SEA | SEA QALICB | SEA QALICB II | Solar III | Total |
|--|--------------------|-----------------------|--------------------------|---------------------|----------------------|
| Solar energy panels and installation | \$ 10,554,805 | \$ 5,091,403 | \$ 6,906,911 | \$ 9,718,284 | \$ 32,271,403 |
| Less - MRET rebates, MCEC grants and Section 1603 payments | (5,141,188) | (215,889) | - | - | (5,357,077) |
| Less - EAP grants received from the Holding Company | <u>(2,307,684)</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(2,307,684)</u> |
| Depreciable cost basis | 3,105,933 | 4,875,514 | 6,906,911 | 9,718,284 | 24,606,642 |
| Less - accumulated depreciation | <u>(2,409,033)</u> | <u>(3,295,517)</u> | <u>(3,240,471)</u> | <u>(3,634,139)</u> | <u>(12,579,160)</u> |
| Net book value of projects | <u>\$ 696,900</u> | <u>\$ 1,579,997</u> | <u>\$ 3,666,440</u> | <u>\$ 6,084,145</u> | 12,027,482 |
| Less - elimination of developer fee profit earned by SEA | | | | | <u>(384,653)</u> |
| Net book value of projects after elimination | | | | | <u>\$ 11,642,829</u> |

BLUEHUB CAPITAL, INC. AND AFFILIATESNotes to Consolidated Financial Statements
December 31, 2019 and 2018**6. PROPERTY, EQUIPMENT AND INTERESTS IN REAL PROPERTY (Continued)****Solar Energy Programs (Continued)**

| <u>2018</u> | <u>SEA</u> | <u>SEA QALICB</u> | <u>SEA QALICB II</u> | <u>Solar III</u> | <u>Total</u> |
|--|--------------------|-----------------------|--------------------------|---------------------|----------------------|
| Solar energy panels and installation | \$ 10,508,570 | \$ 5,091,403 | \$ 6,906,911 | \$ 9,718,284 | \$ 32,225,168 |
| Less - MRET rebates, MCEC grants and Section 1603 payments | (5,141,188) | (215,889) | - | - | (5,357,077) |
| Less - EAP grants received from the Holding Company | <u>(2,307,684)</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(2,307,684)</u> |
| Depreciable cost basis | 3,059,698 | 4,875,514 | 6,906,911 | 9,718,284 | 24,560,407 |
| Less - accumulated depreciation | <u>(2,162,705)</u> | <u>(2,889,924)</u> | <u>(2,664,551)</u> | <u>(2,662,720)</u> | <u>(10,379,900)</u> |
| Net book value of projects | <u>\$ 896,993</u> | <u>\$ 1,985,590</u> | <u>\$ 4,242,360</u> | <u>\$ 7,055,564</u> | 14,180,507 |
| Less - elimination of developer fee profit earned by SEA | | | | | <u>(446,163)</u> |
| Net book value of projects after elimination | | | | | <u>\$ 13,734,344</u> |

For the years ended December 31, 2019 and 2018, depreciation expense related to SEA, SEA QALICB, SEA QALICB II, and Solar III totaled \$2,199,260 and \$2,199,112, respectively.

The Holding Company and SEA are the developers of the solar projects on behalf of the affiliates which own them. The portion of developer fee that is considered intercompany profit has been eliminated from the consolidated financial statements.

Solar Operations

SEA, SEA QALICB, SEA QALICB II and Solar III have power purchase and host agreements (PPA) with the host of each of the solar panel projects. Under the power purchase agreements, the applicable affiliate constructs and installs integrated solar-photovoltaic electricity generating systems (the systems) in order to provide solar energy for the host. Each agreement obligates the host to buy the power produced by its solar panel project, for which the host is billed monthly at a rate per kilowatt hour of energy specified in the agreement. SEA manages the billing process on behalf of each affiliate and transfers payments accordingly. The initial term of each agreement is ten or twenty years. Ten-year agreements may be extended as provided in the agreement. The host may terminate its agreement on specified dates provided that the host pays the affiliate an early buyout purchase price for the solar panel project. The host can also buy each solar panel project on the agreement expiration date. Solar III has also signed net metering credit purchase and sale agreement with owners of residential affordable rental housing developments serving low income communities and residents in Massachusetts. Each agreement obligates the purchaser to buy the net metering credits generated by the solar panel systems.

BLUEHUB CAPITAL, INC. AND AFFILIATES

Notes to Consolidated Financial Statements
December 31, 2019 and 2018

6. PROPERTY, EQUIPMENT AND INTERESTS IN REAL PROPERTY (Continued)

Solar Energy Programs (Continued)

The solar developments also earn SRECs and Renewable Energy Certificates (RECs) under the Commonwealth of Massachusetts' Renewable Portfolio Standard program for the production of energy through the solar energy projects. SEA entered into transaction agreements with two utility companies to sell specified amounts of SRECs and RECs at specified rates to these companies for specified time periods. If SEA does not provide the specified quantity of RECs as described in the agreements, SEA would be obligated to reimburse the utility company for any additional costs paid to obtain substitute RECs over the agreed-upon price. SEA acts as an agent for the RECs earned by the QALICBs and generally transfers the RECs and SRECs to the contracting utility upon receipt.

Solar Energy Program revenues are as follows for 2019 and 2018 and are included in program revenue and fees in the accompanying consolidated statements of activities:

| | <u>2019</u> | <u>2018</u> |
|------------------------|---------------------|---------------------|
| PPA revenue: | | |
| SEA PPA | \$ 221,885 | \$ 219,573 |
| SEA QALICB PPA | 91,648 | 90,150 |
| SEA QALICB II PPA | 241,117 | 229,641 |
| Solar III PPA | <u>421,681</u> | <u>411,706</u> |
| Sub-total PPA revenue | <u>976,331</u> | <u>951,070</u> |
| REC/SREC Revenue: | | |
| SEA REC | 14,523 | 5,867 |
| SEA SREC | 144,838 | 137,580 |
| SEA QALICB SREC | 292,568 | 318,555 |
| SEA QALICB II SREC | 636,754 | 610,889 |
| Solar III SREC | 1,005,274 | 1,007,611 |
| Other | <u>26,750</u> | <u>33,559</u> |
| Total REC/SREC revenue | <u>2,120,707</u> | <u>2,114,061</u> |
| Total | <u>\$ 3,097,038</u> | <u>\$ 3,065,131</u> |

Foreclosure and Home Mortgage Services

NSP

In connection with activities of BlueHub SUN, foreclosed and other residential properties in low-income communities are purchased by NSP, rehabilitated and held for resale with the intent that they be resold to the original owner. SUN Financing generally acquires the beneficial interests in these properties.

BLUEHUB CAPITAL, INC. AND AFFILIATES

Notes to Consolidated Financial Statements
December 31, 2019 and 2018

6. PROPERTY, EQUIPMENT AND INTERESTS IN REAL PROPERTY (Continued)

SUN Financing's Interests in Real Property and Real Estate Owned

Properties Held for Sale

Interests in real property held for sale substantially consist of real property owned by NSP in which SUN Financing or SUN Financing II have purchased an interest of the real property's income. At the time of sale, NSP transfers the value of the property to SUN Financing or SUN Financing II. NSP manages the rental and held for sale properties and transfers the net rental income to the affiliate holding the interest. Total rental income received by NSP totaled \$63,522 and \$31,644 for the years ended December 31, 2019 and 2018, respectively, and is included in program revenue and fees in the accompanying consolidated statements of activities. Due to the uncertainty of when these properties will sell, these properties have been classified as long-term assets in the accompanying consolidated statements of financial position.

A reconciliation of properties held for sale by BlueHub SUN is as follows as of December 31:

| | <u>SUN Financing</u> |
|---|--------------------------|
| Balance at December 31, 2017 | \$ 257,869 |
| Purchase of interests in real properties | 19,573,429 |
| Cost basis of interests in real property converted to interests in loans receivable (see Note 4) | <u>(19,759,909)</u> |
| Balance at December 31, 2018 | 71,389 |
| Purchase of interests in real properties | 15,545,244 |
| Cost basis of interests in real property converted to interests in loans receivable (see Note 4) | <u>(15,460,907)</u> |
| Balance at December 31, 2019 | <u>\$ 155,726</u> |

Real Estate Owned

Aura Mortgage and SUN Financing have foreclosed on various residential real estate properties which each had financed and in which each had an interest in the loan receivable. Aura Mortgage and SUN Financing acquired ownership of the residential real estate properties and canceled the respective mortgage loans. There were two new SUN Financing properties acquired through foreclosure in 2019 and five new SUN Financing properties acquired through foreclosure in 2018. There are five properties remaining under SUN Financing as of December 31, 2019. The remaining five properties all have agreements where the current delinquent tenant must vacate the property by mid-2020 where upon SUN Financing intends to remodel and sell the remaining properties. SUN Financing's real estate owned was \$1,099,336 and \$1,172,639 as of December 31, 2019 and 2018, respectively.

During 2019, SUN Financing sold four residential real estate properties, yielding proceeds of \$1,033,364, and recognized gains on the sales of these residential real estate properties of \$365,960. During 2018, SUN Financing sold one residential real estate property, yielding proceeds of \$455,372, and recognized a gain on the sale of this residential real estate property for \$69,797. These gains are included in realized gains from sales of real estate in the accompanying consolidated statements of activities.

BLUEHUB CAPITAL, INC. AND AFFILIATESNotes to Consolidated Financial Statements
December 31, 2019 and 2018**6. PROPERTY, EQUIPMENT AND INTERESTS IN REAL PROPERTY (Continued)****Real Estate Owned (Continued)**

Total property and equipment, interests in real property and real estate owned, net is comprised of the following at December 31:

| | <u>2019</u> | <u>2018</u> |
|--|----------------------|----------------------|
| Holding Company property and equipment | \$ 583,830 | \$ 709,976 |
| SEA - Solar energy equipment | 11,642,829 | 13,734,344 |
| Foreclosure and Home Mortgage Services: | | |
| SUN Financing - foreclosed property | 1,099,336 | 1,172,639 |
| SUN Financing - properties held for sale | <u>155,726</u> | <u>71,389</u> |
| | 13,481,721 | 15,688,348 |
| Less - eliminations | <u>(106,510)</u> | <u>(124,403)</u> |
| | <u>\$ 13,375,211</u> | <u>\$ 15,563,945</u> |

Eliminations represent the undepreciated net profit of capitalized developer fees earned by the Holding Company related to solar installations.

7. LOANS AND BOND PAYABLE**Loan Fund**

The balance of loans payable of the Loan Fund was as follows as of December 31:

| | <u>2019</u> | <u>2018</u> |
|--|---------------|---------------|
| The Loan Fund has two \$10,000,000 unsecured non-revolving lines of credit with a financial institution, which expire on December 21, 2021 and September 28, 2025, respectively. The interest rate on the first line of credit is based on the applicable Federal Home Loan Bank of Boston (FHLBB) rate at the time of the borrowings. The interest rate on the second line of credit is based on the FHLBB rate at the time of the borrowing plus 1%. The interest rates are locked-in on the specific date of each draw. | \$ 20,000,000 | \$ 20,000,000 |
| The Loan Fund has a \$20,000,000 unsecured revolving line of credit with a financial institution, which expires on October 31, 2026. The loan was amended to increase the available line of credit to \$20,000,000 from \$15,000,000 in December 2019. The interest rate on this line of credit is 2.5% and interest is due in quarterly payments. | 20,000,000 | 15,000,000 |
| The Loan Fund has a \$15,000,000 unsecured non-revolving line of credit with a financial institution, which, as amended in 2019, expires August 1, 2026. The interest rate on this line of credit is fixed at 3.49%. | 15,000,000 | 15,000,000 |

BLUEHUB CAPITAL, INC. AND AFFILIATESNotes to Consolidated Financial Statements
December 31, 2019 and 2018**7. LOANS AND BOND PAYABLE (Continued)****Loan Fund (Continued)**

| | <u>2019</u> | <u>2018</u> |
|---|-------------|-------------|
| The Loan Fund has a \$10,000,000 unsecured revolving line of credit with a financial institution, which expires on November 30, 2022. The interest rate on this line of credit is 1.34% and interest is due in quarterly payments. | 10,000,000 | 10,000,000 |
| The Loan Fund has a \$10,000,000 unsecured non-revolving line of credit with a financial institution, which expires on December 22, 2026. The interest rate on this line of credit is 3.25% and interest is due quarterly on the first day of each quarter. | 10,000,000 | 10,000,000 |
| The Loan Fund has a \$10,000,000 unsecured non-revolving line of credit agreement with a financial institution, which expires on May 30, 2024. Draws bear interest at a fixed 3.63% interest rate of the outstanding balance. | 10,000,000 | - |
| The Loan Fund has a \$10,000,000 unsecured non-revolving line of credit agreement with a financial institution, which expires on September 1, 2026. The first \$5,000,000 drawn bears interest at a fixed 4.5% interest rate and the second \$5,000,000 bears an interest rate of 4%. | 10,000,000 | - |
| The Loan Fund has a \$10,000,000 unsecured revolving line of credit with a financial institution, which expires on March 13, 2021. The interest rate on this line of credit is based on a thirty-day London Interbank Offered Rate (LIBOR) (1.75% and 2.4582% as of December 31, 2019 and 2018, respectively), plus 2.05%. | 10,000,000 | 5,000,000 |
| The Loan Fund has a \$5,000,000 unsecured non-revolving line of credit with a financial institution, which expires on December 11, 2025. The interest rate on this line of credit is based on the FHLBB Rate at the time of the borrowing plus 1.25%. | 5,000,000 | 5,000,000 |
| The Loan Fund has a \$5,000,000 unsecured revolving line of credit with a financial institution, which expires on August 29, 2022. The interest rate on this line of credit is based on a thirty-day LIBOR (1.75% as of December 31, 2019), plus 1.5%. | 5,000,000 | - |
| The Loan Fund has a \$10,000,000 unsecured revolving line of credit with a financial institution, which originally expired on May 31, 2018. During 2018, this line of credit was amended and extended until August 27, 2021. The interest rate on this line of credit is based on a thirty-day LIBOR (1.7543% and 2.4582% as of December 31, 2019 and 2018, respectively), plus 2.5%. | 2,500,000 | 5,000,000 |

BLUEHUB CAPITAL, INC. AND AFFILIATESNotes to Consolidated Financial Statements
December 31, 2019 and 2018

7. LOANS AND BOND PAYABLE (Continued)**Loan Fund (Continued)**

| | <u>2019</u> | <u>2018</u> |
|---|-----------------------|-----------------------|
| The Loan Fund has a \$10,000,000 unsecured revolving line of credit with a financial institution, which expires on December 31, 2021. The interest rate on this line of credit is fixed at 3.56% for draws before December 31, 2019. For draws after December 31, 2019, the interest rate is based on the FHLBB rate at the time of the borrowing plus 1.25%. | <u>2,500,000</u> | <u>-</u> |
| Total lines of credit | 120,000,000 | 85,000,000 |
| Other loans payable (see below) | <u>35,232,475</u> | <u>36,186,370</u> |
| | 155,232,475 | 121,186,370 |
| Less - unamortized debt issuance costs | (158,737) | (49,428) |
| Less - current portion | <u>(7,482,992)</u> | <u>(6,735,751)</u> |
| | <u>\$ 147,590,746</u> | <u>\$ 114,401,191</u> |

Other loans payable of the Loan Fund represent loans by approximately 370 lenders (“investors”) in principal amounts ranging from \$1,000 to \$8,300,000. Loans payable bear interest at rates ranging from 0% to 4.7%, payable at various dates through 2028.

In the ordinary course of operations, the Loan Fund may negotiate extensions of maturity with many investors. The current maturities as of December 31, 2019, include approximately \$429,000 of loan principal which has matured, but has not been paid or formally extended. Management is in the process of negotiating extensions of these loans. Current maturities as of December 31, 2019, also include approximately \$1,405,398 considered due on demand.

Debt issuance costs totaling \$310,262 and \$169,779 as of December 31, 2019 and 2018, respectively, are recorded at cost and are amortized over the lives of their respective loans payable. The Loan Fund uses the straight-line method of amortizing imputed interest associated with these costs, as the effective interest method does not materially impact the consolidated financial statements. Imputed interest totaled \$31,174 and \$21,004 for the years ended December 31, 2019 and 2018, respectively, and is included in interest expense in the accompanying consolidated statements of activities. Total accumulated amortization as of December 31, 2019 and 2018, was \$151,525 and \$120,351, respectively.

The Loan Fund had a total of \$15,000,000 of unused available credit on lines of credit with financial institutions as of December 31, 2019.

BLUEHUB CAPITAL, INC. AND AFFILIATESNotes to Consolidated Financial Statements
December 31, 2019 and 2018

7. LOANS AND BOND PAYABLE (Continued)**Solar Energy Programs*****Solar III***

Solar III entered into a direct loan (the direct loan) agreement with a bank in the amount of \$4,802,252. Outstanding amounts bear interest at 5.11% per annum. Solar III is required to make principal and interest payments to fully amortize the loan in ten years. Beginning on December 31, 2016, and through December 31, 2025, Solar III is also required to make an additional annual principal payment equal to 95% of surplus cash flow as defined in the loan agreement. As of December 31, 2019, there was an additional estimated principal payment of \$100,625 due based on expected surplus cash flow. Solar III made an additional principal payment of \$609,507 in 2019 based on the cash position of Solar III after payment of other required payments (see Note 8). As of December 31, 2018, there was an additional principal payment of \$71,938 due based on 2018 surplus cash flow, which was paid in full during 2019. BCC SEA has unconditionally guaranteed Solar III's loan and the direct loan is also secured by all assets of Solar III. The balance of the direct loan was \$2,449,043 and \$3,572,123 as of December 31, 2019 and 2018, respectively.

Foreclosure and Home Mortgage Services***SUN Financing***

Loans payable under the Note Purchase Agreement issued by SUN Financing bear interest at rates ranging from 3.00% to 4.25%, payable quarterly in arrears, and are set to mature in December 2020. All loans payable may be prepaid without penalty. The Note Purchase Agreements require SUN Financing to maintain certain covenants as specified in the agreements. As of December 31, 2019 and 2018, SUN Financing was in compliance with these covenants.

The total amount outstanding under these note payable agreements, excluding the Loan Fund's \$10,000,000 interest (see Note 4), was as follows as of December 31:

| | <u>2019</u> | <u>2018</u> |
|---------------|----------------------|----------------------|
| SUN Financing | <u>\$ 37,951,703</u> | <u>\$ 37,110,825</u> |

Interest expense under the loans payable, excluding the Loan Fund's interest, was as follows for the years ended December 31:

| | <u>2019</u> | <u>2018</u> |
|---------------|---------------------|---------------------|
| SUN Financing | <u>\$ 1,534,791</u> | <u>\$ 1,504,624</u> |

BLUEHUB CAPITAL, INC. AND AFFILIATES

Notes to Consolidated Financial Statements
December 31, 2019 and 2018

7. LOANS AND BOND PAYABLE (Continued)

Foreclosure and Home Mortgage Services (Continued)

Aura Mortgage

Bond Payable

Aura Mortgage has a bond loan agreement with a nonprofit bond qualified issuer organization and bank as Trustee for a maximum amount of \$100,000,000. Aura Mortgage had drawn \$83,000,000 and \$75,000,000 as of December 31, 2019 and 2018, respectively. All draws must be substantiated by proper loan collateral and the last draw must occur by September 18, 2022. Under the promissory note issued incident to the bond loan agreement, interest accrues at a fixed rate on a given tranche, dependent upon the timing of the draw of the related payments. The draws on the bond payable were subject to a weighted-average interest rate of 2.91% and 3.26% as of December 31, 2019 and 2018, respectively. Quarterly principal and interest payments plus applicable administrative and Trustee fees began on March 15, 2018. The quarterly principal and interest payments were \$947,971 and \$899,927 as of December 31, 2019 and 2018, respectively. All remaining unpaid principal and accrued interest are due and payable in March 2047. The loan may be prepaid in whole or in part in increments of \$100,000 subject to a call premium. The principal balance at December 31, 2019 and 2018, was \$79,497,143 and \$73,327,550, respectively. The bond payable is shown net of unamortized debt issuance costs of \$701,272 and \$727,006 as of December 31, 2019 and 2018, respectively. Interest expense on the bond payable totaled \$2,593,358 and \$2,226,565 for 2019 and 2018, respectively, and is included in interest expense in the accompanying consolidated statements of activities. The bond is guaranteed under the CDFI Bond Guarantee program and a third party limited guarantee of \$3,000,000 (see page 48).

Aura Mortgage is also required to comply with certain financial and non-financial covenants associated with the bond payable. Among these is a requirement for Aura Mortgage to independently meet net asset covenants in which Aura Mortgage must in at least two out of three consecutive fiscal years have a positive change in net assets without donor restrictions. Second, Aura Mortgage must also meet a defined net assets without donor restrictions ratio where net assets without donor restrictions divided by total assets is greater than or equal to 18% for any two consecutive fiscal quarters within each year. Aura Mortgage was in compliance with these covenants as of December 31, 2019 and 2018.

In connection with the net asset covenants, the Venture Fund and Aura Mortgage entered into an agreement where the Venture Fund will contribute up to \$6,000,000 of capital contributions to Aura Mortgage (see Note 3) if Aura Mortgage is unable to independently meet the net assets without donor restrictions ratio covenants. The Venture Fund contributed \$500,000 and \$1,000,000 for this purpose in 2019 and 2018, respectively, which are included in the accompanying consolidated statements of changes in net assets and non-controlling interests.

As part of the bond loan agreement, Aura Mortgage is obligated to pay the bank as a Trustee on a quarterly basis. The fees include agency administrative fees, Trustee fees, and qualified issuer fees. Aura Mortgage is also obligated to the qualified issuer and lender of the bond payable for one-time fees and other ongoing quarterly fees, including bond facilitation fees, program administrator and servicing fees, and loan collateral fees. The Trustee has also been assigned without recourse, rights, title and interest in the collateral of the pledged loans receivable.

BLUEHUB CAPITAL, INC. AND AFFILIATES

Notes to Consolidated Financial Statements
December 31, 2019 and 2018

7. LOANS AND BOND PAYABLE (Continued)

Foreclosure and Home Mortgage Services (Continued)

Aura Mortgage (Continued)

Proceeds advanced to Aura under the bond loan agreement are subsequently loaned to Aura Direct which uses the proceeds to make qualifying mortgage loans receivable of BlueHub SUN. The bond payable is collateralized by a note evidencing this affiliate borrowing in an amount equal to 101% of the bond proceeds advanced, the balance of which has been eliminated from the accompanying consolidated financial statements. The bond payable is also collateralized by any unspent proceeds of its borrowing from Aura, the pool of loans receivable held by Aura Direct, as well as certain restricted deposit balances (see Note 14). The collateralization on the loan agreement between Aura and Aura Direct is to be not less than 125%, calculated as outstanding principal on the loans with Aura Direct, plus the restricted deposit account, divided by the outstanding obligation on the Aura Direct loan payable to Aura.

Guarantees

Aura Mortgage has entered into an agreement with a large national foundation whereupon the foundation has guaranteed up to \$3,000,000 in conjunction with the bond payable. In the event that the loans collateralized are insufficient to meet debt service obligations of the bond payable, the foundation will advance up to \$3,000,000 to Aura Mortgage. Advances under the guarantee would take the form of a subordinated loan payable to the foundation due and payable in full in November 2047. The unpaid principal balance would bear interest at an annual rate of 3%. Interest-only payments would be required on a quarterly basis until the note's maturity.

The bond payable is also guaranteed by the Treasury under the terms of the CDFI Bond Guarantee program. In the event of insufficient cash flow, in order of priority, exceeds the limited \$3 million foundation guarantee, balances of the CDFI bond risk share pool (see Note 14) and the required overcollateralization cash balances, the Treasury will provide funds to offset any remaining principal, interest or call premium then in default. Advances by the Treasury under the guarantee take the form of a balance payable to the Treasury under a reimbursement note.

Maturities

The schedule of maturities on the next page includes only regularly scheduled principal payments for principal outstanding at December 31, 2019, and does not include payments related to commitments to pay available or excess cash which may be determined from time-to-time under certain agreements.

BLUEHUB CAPITAL, INC. AND AFFILIATES

 Notes to Consolidated Financial Statements
 December 31, 2019 and 2018

7. LOANS AND BOND PAYABLE (Continued)
Maturities (Continued)

Maturities of all loans and bond payable, as adjusted for commitments to refinance current maturities, as of December 31, 2019 and 2018, are as follows:

| 2019 | | | | |
|--|-----------------------|------------------------------|--|-----------------------|
| <u>Year</u> | <u>Loan Fund</u> | <u>Solar Energy Programs</u> | <u>Foreclosure and Homes Mortgage Services</u> | <u>Total</u> |
| 2020 | \$ 7,482,992 | \$ 565,363 | \$ 39,891,361 | \$ 47,939,716 |
| 2021 | 33,613,094 | 489,051 | 1,996,313 | 36,098,458 |
| 2022 | 19,295,450 | 514,635 | 2,055,457 | 21,865,542 |
| 2023 | 21,505,107 | 541,557 | 2,116,376 | 24,163,040 |
| 2024 | 30,038,939 | 338,437 | 2,176,499 | 32,553,875 |
| Thereafter | <u>43,296,893</u> | <u>-</u> | <u>69,212,840</u> | <u>112,509,733</u> |
| Total loans | 155,232,475 | 2,449,043 | 117,448,846 | 275,130,364 |
| Less - current portion | (7,482,992) | (565,363) | (39,891,361) | (47,939,716) |
| Less - unamortized debt issuance costs | <u>(158,737)</u> | <u>-</u> | <u>(701,272)</u> | <u>(860,009)</u> |
| Loans payable, net of current portion | <u>\$ 147,590,746</u> | <u>\$ 1,883,680</u> | <u>\$ 76,856,213</u> | <u>\$ 226,330,639</u> |
| 2018 | | | | |
| <u>Year</u> | <u>Loan Fund</u> | <u>Solar Energy Programs</u> | <u>Foreclosure and Homes Mortgage Services</u> | <u>Total</u> |
| Total loans | \$ 121,186,370 | \$ 3,572,123 | \$ 110,438,375 | \$ 235,196,868 |
| Less - current portion | (6,735,751) | (513,573) | (1,681,125) | (8,930,449) |
| Less - unamortized debt issuance costs | <u>(49,428)</u> | <u>-</u> | <u>(727,006)</u> | <u>(776,434)</u> |
| Loans payable, net of current portion | <u>\$ 114,401,191</u> | <u>\$ 3,058,550</u> | <u>\$ 108,030,244</u> | <u>\$ 225,489,985</u> |

8. PERMANENT LOAN CAPITAL – SUBORDINATED LOANS PAYABLE

Permanent loan capital - subordinated loans payable consist of long-term subordinated loans payable of the Loan Fund (47 individual loans as of December 31, 2019 and 2018) from financial and other institutions, bearing simple interest at rates between 2% and 4%. These loans have substantially similar terms including annual interest-only payments until final maturity, occurring between 2020 and 2030. These loans are subordinate and junior to all other obligations of the Loan Fund. Only two notes with original principal of \$500,000 each are currently amortizing. An additional note with principal of \$2,000,000 requires interest-only payments until February 2028, at which time the note requires additional quarterly principal payments of \$250,000 until the balance is repaid.

BLUEHUB CAPITAL, INC. AND AFFILIATES

Notes to Consolidated Financial Statements
December 31, 2019 and 2018

8. PERMANENT LOAN CAPITAL – SUBORDINATED LOANS PAYABLE (Continued)

Each loan was issued with an initial maturity of nine to twenty years. The initial maturity dates automatically extend by one year at the end of each of the first five years of the loans' terms. The final maturity dates may then be extended at their anniversary dates, indefinitely, based upon specified criteria in the loan terms and agreements of the Loan Fund and the lenders.

Permanent loan capital - subordinated loans payable also included a \$4,410,000 Equity Equivalent Security (EQ2 Security) with the Treasury (see Note 1), which the Loan Fund entered into in 2011. Outstanding amounts under this agreement bore interest at 2% through the maturity date in September 2019. The Loan Fund was required to make quarterly interest payments until maturity. The Loan Fund fully paid off the EQ2 Security with the Treasury in 2019.

Maturity of principal over the next five years as of December 31, 2019, are as follows:

| | |
|------------------------|----------------------|
| 2020 | \$ 81,606 |
| 2021 | 22,889 |
| 2022 | - |
| 2023 | - |
| 2024 | - |
| Thereafter | <u>23,750,000</u> |
| Total loans | 23,854,495 |
| Less - current portion | <u>(81,606)</u> |
| | <u>\$ 23,772,889</u> |

Permanent loan capital - subordinated loans payable as of December 31, 2018, were as follows:

| | |
|------------------------|----------------------|
| Total loans | \$ 27,371,657 |
| Less - current portion | <u>(4,517,162)</u> |
| | <u>\$ 22,854,495</u> |

9. NEW MARKETS TAX CREDITS PROGRAM

The New Markets Tax Credits Program was formed to provide investment capital raised through the Federal NMTC Program to businesses in low-income communities that are not served by conventional forms of financing or equity. The Corporation implements the program by competitively applying for allocations of NMTC and seeking investor capital for qualifying projects nationally. The majority of its NMTC allocations have been used to make low-interest loans through the CDE LLCs (see Note 1). The loan proceeds were provided for various projects including:

- for the purpose of acquiring land, developing, owning, operating, and selling income producing timberlands;
- to construct a sweet potato processing plant and make other certain improvements for the production and sale of sweet potato food products;
- to build and renovate charter schools; and
- to facilitate the delivery of solar energy to affordable housing projects and other facilities.

Managed Assets entered into agreements with the CDE LLCs' Investor Members, who provided approximately \$523 million of cumulative QEIs as of December 31, 2019, to make QLICs of the active CDE LLCs. By making QLICs, the CDE LLCs enable the Investor Members to claim approximately \$204 million of NMTC over credit periods of seven years.

BLUEHUB CAPITAL, INC. AND AFFILIATES

Notes to Consolidated Financial Statements
December 31, 2019 and 2018

9. NEW MARKETS TAX CREDITS PROGRAM (Continued)

For Managed Assets' participation in establishing the CDE LLCs and underwriting the QLICs made, Managed Assets earns upfront and sub-allocation fees, which are included in program revenue and fees (see Note 2) in the accompanying consolidated statements of activities. There were no fees earned in 2019. The fees earned in 2018 were as follows:

| | <u>2018</u> |
|-------------------------|-------------------|
| BCC NMTC CDE XXVII, LLC | \$ 500,000 |
| BCC NMTC CDE XXX, LLC | 150,000 |
| BCC NMTC CDE XXXII, LLC | <u>150,000</u> |
| Total | <u>\$ 800,000</u> |

Sub-allocation fees may also include delayed portions earned by Managed Assets as compensation for annual services related to servicing and management of the CDE entities. Though the delayed sub-allocation fees are recognized over the seven-year expected lives of the CDE LLCs, the entire fee is recorded as receivable at the inception of the agreement because these fees are generally guaranteed to be paid by the respective CDE LLCs or their investors. The delayed portions not yet collected are included in affiliate fees receivable and deferred revenue in the accompanying consolidated statements of financial position. Delayed fees receivable are as follows at December 31:

| | <u>2019</u> | <u>2018</u> | <u>Quarterly Installments Payable Through</u> |
|--------------------------|---------------------|---------------------|---|
| BCC NMTC CDE XIV, LLC | \$ - | \$ 838,417 | September 2019 |
| BCC NMTC CDE XV, LLC | - | 112,708 | June 2019 |
| BCC NMTC CDE XVI, LLC * | 110,799 | 243,757 | January 2020 |
| BCC NMTC CDE XX, LLC | - | 11,781 | September 2019 |
| BCC NMTC CDE XXI, LLC | 136,155 | 405,929 | March 2020 |
| BCC NMTC CDE XXII, LLC * | 300,000 | 400,000 | December 2020 |
| BCC NMTC CDE XXIII, LLC | 307,893 | 338,682 | December 2020 |
| BCC NMTC CDE XXIV, LLC | 660,000 | 660,000 | Entire fee due in March 2024 |
| BCC NMTC CDE XXV, LLC | 219,393 | 269,393 | June 2024 |
| BCC NMTC CDE XXVI, LLC | 474,444 | 599,444 | September 2024 |
| BCC NMTC CDE XXVII, LLC | 548,787 | 606,453 | June 2024 |
| BCC NMTC CDE XXVIII, LLC | 393,111 | 473,111 | August 2024 |
| BCC NMTC CDE XXIX, LLC | 115,764 | 140,764 | August 2024 |
| BCC NMTC CDE XXX, LLC | 160,000 | 190,000 | June 2025 |
| BCC NMTC CDE XXXI, LLC | 397,778 | 477,778 | December 2024 |
| BCC NMTC CDE XXXII, LLC | <u>157,500</u> | <u>187,500</u> | March 2024 |
| Total | 3,981,624 | 5,955,717 | |
| Less - eliminations (*) | (410,799) | (643,757) | |
| Less - current portion | <u>(637,692)</u> | <u>(1,809,013)</u> | |
| | <u>\$ 2,933,133</u> | <u>\$ 3,502,947</u> | |

The current portion of delayed fees receivable represents the amount expected to be paid by CDE/LLCs during the following year based on expected available cash.

BLUEHUB CAPITAL, INC. AND AFFILIATESNotes to Consolidated Financial Statements
December 31, 2019 and 2018**9. NEW MARKETS TAX CREDITS PROGRAM (Continued)**

For 2019 and 2018, Managed Assets and the Holding Company have reported \$2,152,848 (Managed Assets: \$1,152,848, Holding Company: \$1,000,000) and \$2,793,197 (Managed Assets: \$1,543,197, Holding Company: \$1,250,000), respectively, of these fees as revenue, which are included in program revenue and fees in the accompanying consolidated statements of activities. The portion of the delayed fees which Managed Assets allocates to future services is included in deferred revenue in the accompanying consolidated statements of financial position. Deferred revenue is as follows at December 31:

| | <u>2019</u> | <u>2018</u> |
|--------------------------|---------------------|---------------------|
| BCC NMTC CDE XIV, LLC | \$ - | \$ 240,602 |
| BCC NMTC CDE XV, LLC | - | 245,470 |
| BCC NMTC CDE XVI, LLC * | 110,799 | 243,756 |
| BCC NMTC CDE XVII, LLC | 56,401 | 170,687 |
| BCC NMTC CDE XVIII, LLC | 107,482 | 322,444 |
| BCC NMTC CDE XIX, LLC | 48,143 | 96,286 |
| BCC NMTC CDE XX, LLC | 398,126 | 623,690 |
| BCC NMTC CDE XXI, LLC | 430,239 | 628,810 |
| BCC NMTC CDE XXII, LLC * | 250,000 | 335,715 |
| BCC NMTC CDE XXIII, LLC | 184,478 | 246,057 |
| BCC NMTC CDE XXIV, LLC | 660,000 | 660,000 |
| BCC NMTC CDE XXV, LLC | 220,833 | 270,833 |
| BCC NMTC CDE XXVI, LLC | 466,667 | 566,667 |
| BCC NMTC CDE XXVII, LLC | 516,667 | 616,667 |
| BCC NMTC CDE XXVIII, LLC | 366,667 | 446,667 |
| BCC NMTC CDE XXIX, LLC | 114,583 | 139,583 |
| BCC NMTC CDE XXX, LLC | 160,000 | 190,000 |
| BCC NMTC CDE XXXI, LLC | 400,000 | 480,000 |
| BCC NMTC CDE XXXII, LLC | <u>157,500</u> | <u>187,500</u> |
| Total NMTC delayed fees | 4,648,585 | 6,711,434 |
| Less - eliminations * | <u>(360,799)</u> | <u>(579,471)</u> |
| Total deferred revenue | <u>\$ 4,287,786</u> | <u>\$ 6,131,963</u> |

Terms of the agreements with the Investor Members require Managed Assets to maintain certain covenants to avoid recapture of NMTC and possible reimbursement of a portion of upfront fees it has received. At December 31, 2019 and 2018, Managed Assets was in compliance with all such covenants and management expects to maintain compliance throughout the seven-year NMTC credit period of each of QEI.

Total fees earned by Managed Assets and the Holding Company related to the NMTC programs are as follows for the years ended December 31:

| | <u>2019</u> | <u>2018</u> |
|---|---------------------|---------------------|
| Delayed sub-allocation fees (see above) | \$ 2,152,848 | \$ 2,793,197 |
| Upfront fees (see page 51) | <u>-</u> | <u>800,000</u> |
| Total | <u>\$ 2,152,848</u> | <u>\$ 3,593,197</u> |

BLUEHUB CAPITAL, INC. AND AFFILIATES

Notes to Consolidated Financial Statements
December 31, 2019 and 2018

10. LEASES AND OTHER COMMITMENTS

Leases

The Corporation has a lease agreement to rent office space and parking in Roxbury, Massachusetts through June 2024, with an option to extend for an additional five-year period. Monthly base rent under this lease is \$23,066, with additional rent of \$12,159 per month as set forth in the lease agreement. The Corporation is also responsible for its proportionate share of property taxes and certain operating expenses, as defined in the agreement. Total rent expense under these facility leases was \$418,738 and \$424,185 for 2019 and 2018, respectively, and is included in office operations in the accompanying consolidated statements of activities.

The Corporation also has lease commitments for office equipment and telecommunications and information technology services. These agreements require aggregate monthly operating payments of approximately \$1,600 and expire at various dates through July 2021.

Future minimum payments under all lease and other agreements are as follows:

| | <u>Facilities</u> | <u>Equipment</u> |
|------|-------------------|------------------|
| 2020 | \$ 422,700 | \$ 19,176 |
| 2021 | \$ 422,700 | \$ 11,186 |
| 2022 | \$ 422,700 | \$ - |
| 2023 | \$ 422,700 | \$ - |
| 2024 | \$ 211,350 | \$ - |

Servicing Agreement

In September 2015, Aura Mortgage entered into a loan servicing agreement with a company to service and maintain a portion of BlueHub SUN's loan portfolio, effective January 1, 2016. The initial term of the agreement is through December 2020 and will automatically renew for one-year terms unless Aura Mortgage or the company elect to terminate the agreement. Under the terms of the agreement, the company receives a monthly service fee for each loan, a fee for setting up new loans, and fees related to monthly reports related to the portfolio. The total compensation to the company under this agreement was \$123,218 and \$102,110 for the years ended December 31, 2019 and 2018, respectively, and is included in program expenses in the accompanying consolidated statements of activities.

11. RETIREMENT PLANS

The Holding Company has adopted an IRC Section 401(k) plan managed by an investment manager, which includes a Roth option. Employees may withhold contributions from their salaries on a tax-deferred basis within IRC limits. The Corporation provides a 100% match for all employee contributions up to 6% of their total wages (adjusted from 4% in 2018), not exceeding \$205,000 annually. All employees age 21 and over are eligible to participate in the plan. Pension expense for 2019 and 2018 was \$322,474 and \$159,806, respectively, and is included in personnel in the accompanying consolidated statements of activities.

BLUEHUB CAPITAL, INC. AND AFFILIATES

Notes to Consolidated Financial Statements
December 31, 2019 and 2018

11. RETIREMENT PLANS (Continued)

During 2019, the Corporation established a 457(b) salary deferral plan for certain employees. All contributions and related earnings are immediately vested. The Corporation contributed \$42,215 to this plan during 2019, which is included in personnel in the accompanying consolidated statements of activities. The balance in the deferred compensation plan was \$140,178 at December 31, 2019, and is reported as both an asset and liability in the accompanying consolidated statement of financial position. Deferred compensation investments consist of mutual funds which are valued using Level 1 inputs within the fair value hierarchy (see Note 1).

During 2019, the Corporation also established a 457(f) salary deferral plan for key executives. Contributions vest over a two-year period. The Corporation contributed \$500,000 to this plan during 2019, of which \$83,333 is included in personnel in the accompanying consolidated statement of activities for 2019. Under the plan, the Corporation has fully funded the contributions and participants are able to direct the investments which remain assets of the Corporation until fully vested. Accordingly, the liability to the participants also includes investment earnings expected to be paid to the participants. The balance of investments in the deferred compensation plan was \$522,952 at December 31, 2019. Deferred compensation investments consist of mutual funds which are valued using Level 1 inputs within the fair value hierarchy (see Note 1). The accrued liability to participants was \$83,333 at December 31, 2019.

12. INCOME TAXES

Significant balances with differences in accounting and tax basis consist primarily of net operating loss carryforwards of SEA. At December 31, 2019 and 2018, SEA had the following net operating loss (NOL) carryforwards available to offset future taxable income:

| | <u>2019</u> | <u>2018</u> |
|-------------|--------------|--------------|
| SEA: | | |
| Federal NOL | \$ 5,910,700 | \$ 5,753,700 |
| State NOL | \$ 4,043,600 | \$ 3,889,100 |

Federal and state NOLs incurred before 2018 may be carried forward for twenty years following the year of loss. These carryforwards expire at various times through 2037. NOLs incurred after 2017 do not expire. Utilization of NOL carryforwards may be subject to a substantial annual limitation due to ownership change limitations that could occur in the future as provided by Section 382 of the IRC. Due to the uncertainty of recognizing these carryforwards in future periods, the deferred tax assets associated with them have been fully reserved as of December 31, 2019 and 2018.

As of December 31, 2019 and 2018, the components of SEA's net deferred tax asset are as follows:

| | <u>2019</u> | <u>2018</u> |
|----------------------------------|------------------|------------------|
| Net operating loss carryforwards | \$ 1,497,000 | \$ 1,454,000 |
| Less - valuation allowance | <u>1,497,000</u> | <u>1,454,000</u> |
| | <u>\$ -</u> | <u>\$ -</u> |

BLUEHUB CAPITAL, INC. AND AFFILIATES

Notes to Consolidated Financial Statements
December 31, 2019 and 2018

13. CREDIT ENHANCEMENT

The Loan Fund administers proceeds of an \$8 million conditional grant from the Department of Education (ED) (see Note 2) in collaboration with Nonprofit Finance Fund to use the grant proceeds plus interest earned to provide credit enhancement for charter schools. Under the agreement, the Loan Fund facilitates additional security to lenders and investors by using the ED grant funds for the fulfillment of debt service reserve requirements on behalf of the charter school bond holders and lenders, as well as provide loan guarantees and collateral funds. The Loan Fund was considered to have met the conditions upon substantial deployment of the funds, but un-deployed funds must be returned to and are refundable to ED in the case of default. The ED agreement expires in September 2040.

Pursuant to the credit enhancement agreements, bank accounts are established as depositories for collateral reserves pledged on behalf of the charter school borrowers. Under the terms of agreements, the Loan Fund cannot withdraw, transfer, pledge, or otherwise use any funds, securities or other financial assets in these accounts without permission of the secured lenders until termination of the underlying credit enhancement agreements.

Credit enhancement funds were deployed as follows as of December 31:

| | <u>2019</u> | <u>2018</u> |
|--|---------------------|---------------------|
| Cash collateral (thirteen and eleven active arrangements as of December 31, 2019 and 2018, respectively) | \$ 7,914,981 | \$ 6,777,795 |
| Grant reserve funds | <u>126,841</u> | <u>1,246,879</u> |
| | <u>\$ 8,041,822</u> | <u>\$ 8,024,674</u> |

Approximately \$5.5 million and \$3.4 million of the cash collateral escrowed secures loans receivable of the Loan Fund as of December 31, 2019 and 2018, respectively (see Note 4).

Interest income reinvested to the grant reserve totaled \$14,796 and \$21,386 for the years ended December 31, 2019 and 2018, respectively.

Maturity dates of the active arrangements as of December 31, 2019 and 2018, range from February 1, 2022 through February 28, 2037, as follows:

| | |
|------------|--------------|
| 2020 | \$ - |
| 2021 | \$ - |
| 2022 | \$ 857,000 |
| 2023 | \$ 768,000 |
| 2024 | \$ 1,706,000 |
| Thereafter | \$ 4,583,981 |

BLUEHUB CAPITAL, INC. AND AFFILIATESNotes to Consolidated Financial Statements
December 31, 2019 and 2018**14. RESTRICTED DEPOSITS AND LOAN LOSS RESERVES****Restricted Deposits**

Restricted deposits is comprised of the following as of December 31:

| | <u>2019</u> | <u>2018</u> |
|---|----------------------|----------------------|
| BlueHub SUN: | | |
| CDFI bond risk share pool account | \$ 2,490,000 | \$ 2,497,590 |
| Pledged loan payment account * | 498,552 | 446,840 |
| Restricted deposit account * | <u>1,687,849</u> | <u>3,991,841</u> |
| Subtotal BlueHub SUN | 4,676,401 | 6,936,271 |
| Loan Fund: | | |
| Credit enhancement reserves (see Note 13) | 8,041,822 | 8,024,674 |
| Holding Company: | | |
| Restricted deposits for deferred compensation investments | 663,130 | - |
| WegoWise: | | |
| Indemnity escrow * | <u>-</u> | <u>2,003,000</u> |
| | 13,381,353 | 16,963,945 |
| Less - current portion * | <u>(2,186,401)</u> | <u>(6,441,489)</u> |
| Net long-term portion | <u>\$ 11,194,952</u> | <u>\$ 10,522,456</u> |

BlueHub SUN

Aura Mortgage is required to maintain several accounts as part of the bond loan agreement (see Note 7).

CDFI Bond Risk Share Pool

This account is held by Aura Mortgage and maintained by the Trustee for the purpose of protecting against a payment default on the bond loan before the Treasury Guarantee (see Note 7) is exercised. The deposits into the account must be equal to 3% of the total amount advanced on the bond and must be funded by Aura Mortgage from sources other than the proceeds of the bond. Deposits into this account must be funded at each advance under the terms of the bond loan agreement. Amounts in the risk share pool will not be returned to Aura Mortgage until maturity of the bond.

Pledged Loan Payments

Aura Mortgage is obligated to maintain an account with an escrow agent for the purpose of depositing incoming loan payments from borrowers of the loan pool held by Aura Direct. Withdrawals from this account are used to pay debt service on the bond payable and fees owed to the Trustee (see Note 7). Any excess amounts after the above required payments are transferred into the ROCA (see page 57).

BLUEHUB CAPITAL, INC. AND AFFILIATES

Notes to Consolidated Financial Statements
December 31, 2019 and 2018

14. RESTRICTED DEPOSITS AND LOAN LOSS RESERVES (Continued)

Restricted Deposits (Continued)

BlueHub SUN (Continued)

Required Overcollateralization Cash

Aura Mortgage is required to maintain an account, the Required Overcollateralization Cash Account (ROCA), with the Trustee for additional bond loan collateral in the event there is insufficient collateral as calculated by the Trustee. The ROCA is funded with excess pledged loan payments (see page 54). Any excess amount of cash above and beyond the calculated amount is deposited into the restricted deposit account (see below). Funds are only to be withdrawn from the ROCA with respect to all or any portion of accelerated amounts due and payable as a result of any event of default in accordance with the bond loan agreement or of the promissory note. There was no required balance in this account as of December 31, 2019 and 2018, as the account is only to be funded based on a finding of insufficient collateral by the Trustee.

Restricted Deposit Account

Aura Mortgage is obligated to maintain an account with an escrow agent that holds cash collateral from the pool of loans held by Aura Direct. Any excess amount above and beyond the required overcollateralization (the ROCA) can be distributed to Aura Mortgage's operating cash account upon written request of Aura Mortgage. Aura Mortgage is required to hold at least 3% of the total outstanding draws on the bond payable in this account.

Holding Company

Restricted Deposits for Deferred Compensation Investments

Holding Company is the plan sponsor for the Corporation's 457(b) and 457(f) deferred compensation plans (see Note 11) in which the Holding Company maintains the investment assets of the participating employees and key executives.

WegoWise

Indemnity Escrow

In connection with the sale of WegoWise, approximately \$2,000,000 of the sales proceeds were held in an escrow account (see Note 2) as recourse for indemnity claims under the sale agreement. Release and payment of these funds occurred in 2019.

BLUEHUB CAPITAL, INC. AND AFFILIATESNotes to Consolidated Financial Statements
December 31, 2019 and 2018**14. RESTRICTED DEPOSITS AND LOAN LOSS RESERVES (Continued)****Loan Loss Reserves**

Below is a reconciliation of cash and cash equivalents - loan loss reserves held in connection with BlueHub SUN for 2019 and 2018:

| | <u>Aura Mortgage</u> | <u>SUN Financing</u> | <u>Total</u> |
|---|--------------------------|--------------------------|---------------------|
| Balance at December 31, 2017 | \$ 1,610,245 | \$ 3,508,766 | \$ 5,119,011 |
| Transfers | (130,585) | 130,585 | - |
| Administration fee withdrawal | (75,000) | - | (75,000) |
| Interest earned on loan loss reserves | - | 45,554 | 45,554 |
| Withdrawals of accumulated interest | <u>-</u> | <u>(45,554)</u> | <u>(45,554)</u> |
| Balance at December 31, 2018 | 1,404,660 | 3,639,351 | 5,044,011 |
| Payment made for program return of funds (see Note 5) | (211,463) | - | (211,463) |
| Interest earned on loan loss reserves | - | 116,717 | 116,717 |
| Withdrawals of accumulated interest | <u>-</u> | <u>(116,717)</u> | <u>(116,717)</u> |
| Balance at December 31, 2019 | <u>\$ 1,193,197</u> | <u>\$ 3,639,351</u> | <u>\$ 4,832,548</u> |

Cash and cash equivalents - loan loss reserves consist primarily of cash received by Aura Mortgage related to contracts awarded from the Commonwealth of Massachusetts in connection with certain loans receivable. At times, a portion of the cash received from these contracts may be transferred to other BlueHub SUN entities that hold the interest in loans that benefit from the loan loss reserve support.

In addition to the contract funds noted above, cash and cash equivalents - loan loss reserves also includes \$3,500,000 received by SUN Financing from its investor member (see Note 1).

15. CONTINGENCIES**Lawsuit**

On February 14, 2020, a lawsuit was filed by eight mortgage holders against Aura and its affiliates, the Holding Company and NSP (the Defendants). All individual borrowers on these eight mortgages are Massachusetts residents and the case was filed under Massachusetts consumer protection laws, with the plaintiffs seeking to certify a class. The claims made against the Defendants are focused on consumer protection theories of misrepresentation, unfair lending practices, and asserting the mortgages in question are products that are classified as "predatory" due to interest rates and the additional "shared appreciation second mortgage". The Defendants have responded denying such claims, will defend against such suit vigorously, and do not currently estimate any losses. Management does not believe this action is likely to have a material adverse effect upon the Corporation's operations, assets or properties.

BLUEHUB CAPITAL, INC. AND AFFILIATES

Notes to Consolidated Financial Statements
December 31, 2019 and 2018

15. CONTINGENCIES (Continued)

Coronavirus Outbreak

In March 2020, the COVID-19 coronavirus pandemic emerged in the United States triggering widespread government mandated and voluntary business closures, which in turn have led to substantial interruptions in financial markets, employment and the economy as a whole. The economic conditions created by the pandemic may impact the Corporation's borrowers and their ability to repay the loans receivable of the Corporation. Though the potential financial effects cannot be reasonably estimated at this time, these circumstances may have adverse effects on the Corporation, its operations, pipeline of loan closings and financing commitments for projects currently in development, and future financial statements. The accompanying consolidated financial statements, including loan loss allowances (see Note 5), have not been adjusted for any potential financial effects that may occur in the future related to the current uncertainty.

Management of the Corporation is monitoring these events and their borrowers closely to assess the financial impact of the situation and determine appropriate courses of action. As of the date of this report, the Corporation is unable to accurately predict how the Coronavirus will affect the results of its operations because the disease's severity and the duration of the outbreak are uncertain.

16. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The Corporation's financial assets available within one year from December 31, 2019, for general operating purposes are as follows:

| | <u>2019</u> | <u>2018</u> |
|--|-----------------------|-----------------------|
| Cash and cash equivalents | \$ 82,458,137 | \$ 64,273,633 |
| Current portion of restricted deposits | 2,186,401 | 6,441,489 |
| Short-term investments | 2,081,168 | 6,568,057 |
| Current portion of loans and interest receivable | 50,785,294 | 37,653,267 |
| Current portion of affiliate fees receivable | 637,692 | 1,809,013 |
| Grants and other accounts receivable | <u>3,079,364</u> | <u>2,714,187</u> |
| Total financial assets | 141,228,056 | 119,459,646 |
| Board designated reserves (see Note 2) | (13,266,297) | (11,301,292) |
| Conditional advances and net assets with donor restrictions | <u>(3,115,000)</u> | <u>(4,313,000)</u> |
| Financial assets available to meet cash needs for general expenditures within one year | <u>\$ 124,846,759</u> | <u>\$ 103,845,354</u> |

The current portion of restricted deposits has been included above as the funds are generally available for operations of BlueHub SUN (see Note 14).

The Corporation deploys capital resources into multiple business initiatives for the benefit of low and moderate-income people and their communities. Business initiatives are intended to operate self-sustainably but may require seed capital from philanthropic sources or the Corporation's general reserves to develop sufficient scale to operate sustainably.

BLUEHUB CAPITAL, INC. AND AFFILIATES

Notes to Consolidated Financial Statements
December 31, 2019 and 2018

16. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS (Continued)

A substantial portion of the Corporation's financial resources are dedicated to the lending operations of the Loan Fund and BlueHub SUN. Both operations are supported substantially with borrowed capital (see Note 7) in proportion with equity resources that reduce the overall cost of funds. The Loan Fund and BlueHub SUN have access to capital to meet loan commitments and demand in the form of repayments of existing loans receivable, available lines of credit, available bond proceeds in the case of BlueHub SUN, and a recently executed public debt offering in the case of the Loan Fund (see Note 18). To supplement liquidity for mission-related financing, the Corporation also utilizes participation strategies and other co-lending agreements with mission-related partners.

The Corporation has consistently generated sufficient interest and fees earned on its lending activities to offset operating costs and loan losses. As part of the Corporation's liquidity management, the Corporation has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

17. RECLASSIFICATION

Certain amounts in the 2018 consolidated financial statements have been reclassified to conform with the 2019 presentation.

18. SUBSEQUENT EVENT – PUBLIC DEBT OFFERING

Subsequent to year-end, the Loan Fund completed its first public debt offering, \$75 million in Sustainability Bonds (the Bonds) composed of \$56.25 million in ten-year bonds and \$18.75 in seven-year bonds. The Bonds are rated A- by S&P Global Ratings. The proceeds of the Bonds are being used primarily to refinance certain existing fixed and floating debt obligations of the Loan Fund (see Note 5).

BLUEHUB CAPITAL, INC. AND AFFILIATES

Combining and Consolidating Statement of Financial Position
December 31, 2019

| Assets | BlueHub Capital, Inc. and Affiliates | | | | | | | Total |
|---|--------------------------------------|----------------------|----------------------|----------------------|-----------------------|--|------------------------|-----------------------|
| | Loan Fund | Managed Assets | Venture Fund | Holding Company | Solar Energy Programs | Foreclosure and Home Mortgage Services | Eliminations | |
| Current Assets: | | | | | | | | |
| Cash and cash equivalents | \$ 31,609,606 | \$ 17,801,838 | \$ 2,117,507 | \$ 3,101,915 | \$ 468,829 | \$ 27,358,442 | \$ - | \$ 82,458,137 |
| Cash and cash equivalents - escrow funds and other | 1,066,742 | - | - | 4,799,525 | - | 84,504 | - | 5,950,771 |
| Cash and cash equivalents - loan loss reserves | - | - | - | - | - | 4,832,548 | - | 4,832,548 |
| Current portion of restricted deposits | - | - | - | - | - | 2,186,401 | - | 2,186,401 |
| Short-term investments | - | 2,081,168 | - | - | - | - | - | 2,081,168 |
| Current portion of loans and interest receivable, net | 48,782,800 | - | - | - | - | 2,002,494 | - | 50,785,294 |
| Current portion of affiliate loans and fees receivable | 5,000,000 | 1,048,491 | - | - | - | - | (5,410,799) | 637,692 |
| Grants and other accounts receivable | - | - | - | 9,696 | 1,339,527 | 1,730,144 | - | 3,079,367 |
| Other current assets | - | 131,782 | - | 121,376 | 189,013 | 38,127 | - | 480,298 |
| Current portion of due from affiliates | - | 16,232 | - | 1,987,992 | - | - | (2,004,224) | - |
| Total current assets | 86,459,148 | 21,079,511 | 2,117,507 | 10,020,504 | 1,997,369 | 38,232,660 | (7,415,023) | 152,491,676 |
| Restricted Deposits, net of current portion | 8,041,822 | - | - | 663,130 | - | 2,490,000 | - | 11,194,952 |
| Loans Receivable, net | 156,939,920 | - | - | - | - | 113,824,379 | - | 270,764,299 |
| Affiliate Fees Receivable, net of current portion | 3,715,314 | 2,933,133 | - | - | - | - | (3,715,314) | 2,933,133 |
| Origination Costs - Sub-Allocation Fee, net of accumulated amortization | - | - | - | - | 530,622 | - | (530,622) | - |
| Investments in Affiliates | - | 17,246 | 11,525,261 | 4,200,000 | - | - | (15,371,351) | 371,156 |
| Due from Affiliates, net of current portion | - | 3,000,000 | - | - | - | - | (3,000,000) | - |
| Property, Equipment and Interests in Real Property, net | - | - | - | 583,830 | 11,642,829 | 1,255,062 | (106,510) | 13,375,211 |
| Total assets | \$ 255,156,204 | \$ 27,029,890 | \$ 13,642,768 | \$ 15,467,464 | \$ 14,170,820 | \$ 155,802,101 | \$ (30,138,820) | \$ 451,130,427 |
| Liabilities, Net Assets and Non-Controlling Interests | | | | | | | | |
| Current Liabilities: | | | | | | | | |
| Current portion of loans and bond payable | \$ 7,482,992 | \$ - | \$ - | \$ - | \$ 565,363 | \$ 39,891,361 | \$ - | \$ 47,939,716 |
| Current portion of permanent loan capital - subordinated loans payable | 81,606 | - | - | - | - | - | - | 81,606 |
| Interest and accounts payable | 469,480 | 95,447 | - | 869,620 | 115,379 | 514,122 | - | 2,064,048 |
| Current portion of affiliate loans and interest payable | - | - | - | - | 410,799 | - | (410,799) | - |
| Escrow funds and other | 1,066,742 | - | - | 4,799,525 | - | 84,504 | - | 5,950,771 |
| Conditional advances | 3,095,000 | - | - | - | - | - | - | 3,095,000 |
| Current portion of due to affiliates | 292,772 | - | 281,177 | - | 17,034 | 6,413,241 | (7,004,224) | - |
| Total current liabilities | 12,488,592 | 95,447 | 281,177 | 5,669,145 | 1,108,575 | 46,903,228 | (7,415,023) | 59,131,141 |
| Loans and Bond Payable, net | 147,590,746 | - | - | - | 1,883,680 | 76,856,213 | - | 226,330,639 |
| Affiliate Loans and Interest Payable, net of current portion | - | - | - | - | 715,314 | - | (715,314) | - |
| Deferred Revenue | - | 4,648,585 | - | - | - | - | (360,799) | 4,287,786 |
| Due to Affiliates, net of current portion | - | - | - | 3,000,000 | 3,000,000 | - | (6,000,000) | - |
| Permanent Loan Capital - Subordinated Loans Payable, net of current portion | 23,772,889 | - | - | - | - | - | - | 23,772,889 |
| Total liabilities | 183,852,227 | 4,744,032 | 281,177 | 8,669,145 | 6,707,569 | 123,759,441 | (14,491,136) | 313,522,455 |
| Net Assets and Non-Controlling Interests: | | | | | | | | |
| Without donor restrictions: | | | | | | | | |
| General | 40,953,870 | 22,285,858 | 13,361,591 | 6,321,788 | - | - | 11,110,087 | 94,033,194 |
| Board designated for permanent loan capital and special programs | 1,132,500 | - | - | - | - | - | 2,000,000 | 3,132,500 |
| Board designated for loan loss reserves | 10,133,797 | - | - | - | - | - | - | 10,133,797 |
| Total without donor restrictions | 52,220,167 | 22,285,858 | 13,361,591 | 6,321,788 | - | - | 13,110,087 | 107,299,491 |
| With donor restrictions: | | | | | | | | |
| Revolving loan capital | 19,063,810 | - | - | - | - | - | - | 19,063,810 |
| Other purpose restrictions | 20,000 | - | - | 476,531 | - | - | - | 496,531 |
| Total with donor restrictions | 19,083,810 | - | - | 476,531 | - | - | - | 19,560,341 |
| Total net assets | 71,303,977 | 22,285,858 | 13,361,591 | 6,798,319 | - | - | 13,110,087 | 126,859,832 |
| Stockholder's equity and members' investment: | | | | | | | | |
| Stockholder's equity - Solar Energy Advantage, Inc. | - | - | - | - | (612,307) | - | 612,307 | - |
| Members' investment - NSP Residential, LLC | - | - | - | - | - | 7,777,117 | (7,777,117) | - |
| Members' investment - Aura Mortgage Advisors, LLC | - | - | - | - | - | 21,591,610 | (21,591,610) | - |
| Total stockholder's equity and members' investment | - | - | - | - | (612,307) | 29,368,727 | (28,756,420) | - |
| Non-controlling interests: | | | | | | | | |
| SUN Initiative Financing, LLC | - | - | - | - | - | 2,673,933 | - | 2,673,933 |
| Solar Energy Programs | - | - | - | - | 8,075,558 | - | (1,351) | 8,074,207 |
| Total non-controlling interests | - | - | - | - | 8,075,558 | 2,673,933 | (1,351) | 10,748,140 |
| Total net assets and non-controlling interests | 71,303,977 | 22,285,858 | 13,361,591 | 6,798,319 | 7,463,251 | 32,042,660 | (15,647,684) | 137,607,972 |
| Total liabilities, net assets and non-controlling interests | \$ 255,156,204 | \$ 27,029,890 | \$ 13,642,768 | \$ 15,467,464 | \$ 14,170,820 | \$ 155,802,101 | \$ (30,138,820) | \$ 451,130,427 |

BLUEHUB CAPITAL, INC. AND AFFILIATES

Combining and Consolidating Statement of Financial Position
December 31, 2018

| | BlueHub Capital, Inc. and Affiliates | | | | | | | | |
|---|--------------------------------------|----------------|---------------|-----------------|---------------|-----------------------|--|-----------------|----------------|
| Assets | Loan Fund | Managed Assets | Venture Fund | Holding Company | WegoWise Inc. | Solar Energy Programs | Foreclosure and Home Mortgage Services | Eliminations | Total |
| Current Assets: | | | | | | | | | |
| Cash and cash equivalents | \$ 20,641,096 | \$ 12,491,498 | \$ 1,496,828 | \$ 2,139,723 | \$ 8,544 | \$ 1,241,739 | \$ 26,254,205 | \$ - | \$ 64,273,633 |
| Cash and cash equivalents - escrow funds and other | 3,471,687 | - | - | 4,830,087 | - | - | 101,560 | - | 8,403,334 |
| Cash and cash equivalents - loan loss reserves | - | - | - | - | - | - | 5,044,011 | - | 5,044,011 |
| Current portion of restricted deposits | - | - | - | - | 2,003,000 | - | 4,438,489 | - | 6,441,489 |
| Short-term investments | 461,773 | 6,106,284 | - | - | - | - | - | - | 6,568,057 |
| Current portion of loans and interest receivable, net | 35,800,098 | - | - | - | - | - | 1,853,169 | - | 37,653,267 |
| Current portion of affiliate loans and fees receivable | - | 2,097,553 | - | - | - | - | - | (288,540) | 1,809,013 |
| Current portion of investments in affiliates | - | - | 894,310 | 820,000 | - | - | - | (1,714,310) | - |
| Grants and other accounts receivable | - | - | - | 5,049 | - | 1,130,558 | 1,578,580 | - | 2,714,187 |
| Other current assets | - | 85,003 | - | 109,017 | - | 174,683 | 27,572 | - | 396,275 |
| Current portion of due from affiliates | - | 650,000 | - | 3,263,167 | - | - | - | (3,913,167) | - |
| Total current assets | 60,374,654 | 21,430,338 | 2,391,138 | 11,167,043 | 2,011,544 | 2,546,980 | 39,297,586 | (5,916,017) | 133,303,266 |
| Restricted Deposits, net of current portion | 8,024,674 | - | - | - | - | - | 2,497,782 | - | 10,522,456 |
| Loans Receivable, net | 133,768,061 | - | - | - | - | - | 107,197,632 | - | 240,965,693 |
| Affiliate Fees Receivable, net of current portion | 14,380,286 | 3,858,164 | - | - | - | - | - | (14,735,503) | 3,502,947 |
| Origination Costs - Sub-Allocation Fee, net of accumulated amortization | - | - | - | - | - | 845,937 | - | (845,937) | - |
| Investments in Affiliates, net of current portion | - | 33,362 | 10,999,784 | 4,200,000 | - | - | - | (14,871,353) | 361,793 |
| Due from Affiliates, net of current portion | - | 3,350,000 | - | - | - | - | - | (3,350,000) | - |
| Property, Equipment and Interests in Real Property, net | - | - | - | 709,976 | - | 13,734,344 | 1,244,028 | (124,403) | 15,563,945 |
| Total assets | \$ 216,547,675 | \$ 28,671,864 | \$ 13,390,922 | \$ 16,077,019 | \$ 2,011,544 | \$ 17,127,261 | \$ 150,237,028 | \$ (39,843,213) | \$ 404,220,100 |
| Liabilities, Net Assets and Non-Controlling Interests | | | | | | | | | |
| Current Liabilities: | | | | | | | | | |
| Current portion of loans and bond payable | \$ 6,735,751 | \$ - | \$ - | \$ - | \$ - | \$ 513,573 | \$ 1,681,125 | \$ - | \$ 8,930,449 |
| Current portion of permanent loan capital - subordinated loans payable | 4,517,162 | - | - | - | - | - | - | - | 4,517,162 |
| Interest and accounts payable | 453,045 | 102,377 | - | 762,515 | - | 96,113 | 391,616 | - | 1,805,666 |
| Current portion of affiliate loans and interest payable | - | - | - | - | - | 288,540 | - | (288,540) | - |
| Escrow funds and other | 3,471,687 | - | - | 4,830,087 | - | - | 101,560 | - | 8,403,334 |
| Liabilities related to discontinued operations | - | - | - | - | 285,690 | - | - | (30,000) | 255,690 |
| Conditional advances | 3,313,000 | - | - | - | - | - | - | - | 3,313,000 |
| Current portion of due to affiliates | 261,278 | 89,051 | 6,784 | 609,811 | - | 33,405 | 2,882,838 | (3,883,167) | - |
| Total current liabilities | 18,751,923 | 191,428 | 6,784 | 6,202,413 | 285,690 | 931,631 | 5,057,139 | (4,201,707) | 27,225,301 |
| Loans and Bond Payable, net | 114,401,191 | - | - | - | - | 3,058,550 | 108,030,244 | - | 225,489,985 |
| Affiliate Loans and Interest Payable, net of current portion | - | - | - | - | - | 1,735,503 | 10,000,000 | (11,735,503) | - |
| Deferred Revenue | - | 6,711,434 | - | - | - | - | - | (579,471) | 6,131,963 |
| Due to Affiliates, net of current portion | - | - | - | 3,350,000 | - | 3,000,000 | - | (6,350,000) | - |
| Permanent Loan Capital - Subordinated Loans Payable, net of current portion | 22,854,495 | - | - | - | - | - | - | - | 22,854,495 |
| Total liabilities | 156,007,609 | 6,902,862 | 6,784 | 9,552,413 | 285,690 | 8,725,684 | 123,087,383 | (22,866,681) | 281,701,744 |
| Net Assets and Non-Controlling Interest: | | | | | | | | | |
| Without donor restrictions: | | | | | | | | | |
| General | 36,225,963 | 21,769,002 | 13,384,138 | 6,048,075 | - | - | - | 7,418,946 | 84,846,124 |
| Board designated for permanent loan capital and special programs | 1,132,500 | - | - | - | - | - | - | 2,000,000 | 3,132,500 |
| Board designated for loan loss reserves | 8,168,792 | - | - | - | - | - | - | - | 8,168,792 |
| Total without donor restrictions | 45,527,255 | 21,769,002 | 13,384,138 | 6,048,075 | - | - | - | 9,418,946 | 96,147,416 |
| With donor restrictions: | | | | | | | | | |
| Revolving loan capital | 14,012,811 | - | - | - | - | - | - | - | 14,012,811 |
| Other purpose restrictions | 1,000,000 | - | - | 476,531 | - | - | - | - | 1,476,531 |
| Total with donor restrictions | 15,012,811 | - | - | 476,531 | - | - | - | - | 15,489,342 |
| Total net assets | 60,540,066 | 21,769,002 | 13,384,138 | 6,524,606 | - | - | - | 9,418,946 | 111,636,758 |
| Stockholder's equity and members' investment: | | | | | | | | | |
| Stockholder's equity - Solar Energy Advantage, Inc. | - | - | - | - | - | 115,036 | - | (115,036) | - |
| Stockholder's equity - WegoWise, Inc. | - | - | - | - | 1,725,854 | - | - | (1,725,854) | - |
| Members' investment - NSP Residential, LLC | - | - | - | - | - | - | 5,768,582 | (5,768,582) | - |
| Members' investment - Aura Mortgage Advisors, LLC | - | - | - | - | - | - | 18,784,653 | (18,784,653) | - |
| Total stockholder's equity and members' investment | - | - | - | - | 1,725,854 | 115,036 | 24,553,235 | (26,394,125) | - |
| Non-controlling interests: | | | | | | | | | |
| SUN Initiative Financing, LLC | - | - | - | - | - | - | 2,596,410 | - | 2,596,410 |
| Solar Energy Programs | - | - | - | - | - | 8,286,541 | - | (1,353) | 8,285,188 |
| Total non-controlling interests | - | - | - | - | - | 8,286,541 | 2,596,410 | (1,353) | 10,881,598 |
| Total net assets and non-controlling interests | 60,540,066 | 21,769,002 | 13,384,138 | 6,524,606 | 1,725,854 | 8,401,577 | 27,149,645 | (16,976,532) | 122,518,356 |
| Total liabilities, net assets and non-controlling interests | \$ 216,547,675 | \$ 28,671,864 | \$ 13,390,922 | \$ 16,077,019 | \$ 2,011,544 | \$ 17,127,261 | \$ 150,237,028 | \$ (39,843,213) | \$ 404,220,100 |

BLUEHUB CAPITAL, INC. AND AFFILIATES

 Combining and Consolidating Statement of Activities
 For the Year Ended December 31, 2019

| | BlueHub Capital, Inc. and Affiliates | | | | | | | |
|---|--------------------------------------|----------------|--------------|-----------------|-----------------------|--|--------------|---------------|
| | Loan Fund | Managed Assets | Venture Fund | Holding Company | Solar Energy Programs | Foreclosure and Home Mortgage Services | Eliminations | Total |
| Changes in Net Assets Without Donor Restrictions: | | | | | | | | |
| Operating revenues: | | | | | | | | |
| Financial and earned revenue: | | | | | | | | |
| Interest on loans, net | \$ 11,703,442 | \$ - | \$ - | \$ - | \$ - | \$ 7,908,689 | \$ (423,562) | \$ 19,188,569 |
| Program revenue and fees | 700,811 | 1,152,848 | 25,000 | 1,000,075 | 3,097,038 | 306,970 | (218,672) | 6,064,070 |
| Net loan loss recoveries | - | - | - | - | - | 2,648,311 | - | 2,648,311 |
| Net gains on shared appreciation agreements and sales of real estate and tax credit notes | - | - | - | - | - | 2,503,704 | - | 2,503,704 |
| Investment income | 196,747 | 353,995 | 19,239 | 23,948 | 631 | 265,290 | - | 859,850 |
| Less - interest expense | (5,162,760) | - | - | - | - | (4,423,050) | 269,167 | (9,316,643) |
| Net financial and earned revenue | 7,438,240 | 1,506,843 | 44,239 | 1,024,023 | 3,097,669 | 9,209,914 | (373,067) | 21,947,861 |
| Grants and contributions | - | - | - | 84,575 | - | - | - | 84,575 |
| Total operating revenues | 7,438,240 | 1,506,843 | 44,239 | 1,108,598 | 3,097,669 | 9,209,914 | (373,067) | 22,032,436 |
| Operating expenses: | | | | | | | | |
| Personnel | 3,419,275 | 697,563 | 70,777 | 389,907 | 391,437 | 2,839,470 | - | 7,808,429 |
| Office operations | 375,537 | 57,716 | 4,989 | 61,417 | 255,036 | 907,880 | - | 1,662,575 |
| Program expenses | - | - | - | 9,614 | 233,608 | 803,263 | - | 1,046,485 |
| Consultants | 210,487 | 75,362 | 2,368 | 32,160 | 198,112 | 97,921 | - | 616,410 |
| Insurance and other | 119,748 | 39,265 | 13,164 | 23,866 | 146,537 | 71,635 | - | 414,215 |
| Professional fees | 124,681 | 108,021 | 962 | 88,514 | 63,325 | - | - | 385,503 |
| Marketing | 120,600 | 12,060 | - | 83,791 | 51,160 | 96,730 | - | 364,341 |
| Interest | - | - | - | - | 311,116 | - | (154,395) | 156,721 |
| Total operating expenses before depreciation and amortization | 4,370,328 | 989,987 | 92,260 | 689,269 | 1,650,331 | 4,816,899 | (154,395) | 12,454,679 |
| Depreciation and amortization | - | - | - | 145,616 | 2,385,664 | - | (321,666) | 2,209,614 |
| Total operating expenses | 4,370,328 | 989,987 | 92,260 | 834,885 | 4,035,995 | 4,816,899 | (476,061) | 14,664,293 |
| Changes in net assets without donor restrictions from operations | 3,067,912 | 516,856 | (48,021) | 273,713 | (938,326) | 4,393,015 | 102,994 | 7,368,143 |
| Other changes in net assets without donor restrictions: | | | | | | | | |
| Grants for loan capital | 2,625,000 | - | - | - | - | - | - | 2,625,000 |
| Net assets released from restrictions for loan capital | 1,000,000 | - | - | - | - | - | - | 1,000,000 |
| Share of income of affiliate | - | - | 25,474 | - | - | - | - | 25,474 |
| Changes in net assets without donor restrictions | 6,692,912 | 516,856 | (22,547) | 273,713 | (938,326) | 4,393,015 | 102,994 | 11,018,617 |
| Changes in Net Assets With Donor Restrictions: | | | | | | | | |
| Grants and contributions | 5,038,000 | - | - | - | - | - | - | 5,038,000 |
| Interest income | 32,999 | - | - | - | - | - | - | 32,999 |
| Net assets released from restrictions for loan capital | (1,000,000) | - | - | - | - | - | - | (1,000,000) |
| Changes in net assets with donor restrictions | 4,070,999 | - | - | - | - | - | - | 4,070,999 |
| Changes in net assets before discontinued operations | 10,763,911 | 516,856 | (22,547) | 273,713 | (938,326) | 4,393,015 | 102,994 | 15,089,616 |
| Changes in Net Assets Attributable to Non-Controlling Interests | - | - | - | - | 210,981 | (77,523) | - | 133,458 |
| Changes in net assets attributable to BlueHub Capital, Inc. and operating affiliates | \$ 10,763,911 | \$ 516,856 | \$ (22,547) | \$ 273,713 | \$ (727,345) | \$ 4,315,492 | \$ 102,994 | \$ 15,223,074 |

BLUEHUB CAPITAL, INC. AND AFFILIATES

Combining and Consolidating Statement of Activities
For the Year Ended December 31, 2018

| | BlueHub Capital, Inc. and Affiliates | | | | | | | | |
|---|--------------------------------------|----------------|----------------|-----------------|---------------|-----------------------|--|--------------|---------------|
| | Loan Fund | Managed Assets | Venture Fund | Holding Company | WegoWise Inc. | Solar Energy Programs | Foreclosure and Home Mortgage Services | Eliminations | Total |
| Changes in Net Assets Without Donor Restrictions: | | | | | | | | | |
| Operating revenues: | | | | | | | | | |
| Financial and earned revenue: | | | | | | | | | |
| Interest on loans, net | \$ 9,057,030 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 7,220,010 | \$ (666,048) | \$ 15,610,992 |
| Program revenue and fees | 1,020,620 | 2,343,197 | 25,000 | 1,249,195 | - | 3,065,131 | 339,304 | (231,182) | 7,811,265 |
| Net loan loss recoveries | - | - | - | - | - | - | 2,648,022 | - | 2,648,022 |
| Net gains on shared appreciation agreements and sales of real estate and tax credit notes | - | - | - | - | - | - | 1,137,172 | - | 1,137,172 |
| Investment income | 16,710 | 318,880 | - | 3,381 | - | 951 | 92,991 | - | 432,913 |
| Less - interest expense | (3,188,350) | - | - | - | - | - | (4,187,827) | 430,903 | (6,945,274) |
| Net financial and earned revenue | 6,906,010 | 2,662,077 | 25,000 | 1,252,576 | - | 3,066,082 | 7,249,672 | (466,327) | 20,695,090 |
| Grants and contributions | - | - | - | 490,936 | - | - | - | - | 490,936 |
| Total operating revenues | 6,906,010 | 2,662,077 | 25,000 | 1,743,512 | - | 3,066,082 | 7,249,672 | (466,327) | 21,186,026 |
| Operating expenses: | | | | | | | | | |
| Personnel | 2,473,354 | 965,607 | 70,278 | 729,557 | - | 230,748 | 2,737,292 | - | 7,206,836 |
| Office operations | 338,558 | 94,662 | 7,204 | 65,921 | - | 305,695 | 963,657 | - | 1,775,697 |
| Program expenses | - | - | - | 10,315 | - | 156,720 | 830,096 | - | 997,131 |
| Consultants | 281,177 | 169,444 | 2,256 | 40,403 | - | 231,910 | 180,509 | - | 905,699 |
| Insurance and other | 88,795 | 28,972 | 12,193 | 13,557 | - | 71,507 | 53,607 | - | 268,631 |
| Professional fees | 90,622 | 120,859 | 741 | 211,659 | - | 235,835 | - | - | 659,716 |
| Marketing | 124,139 | 19,209 | - | 390,582 | - | 32,285 | 85,537 | - | 651,752 |
| Interest | - | - | 32,955 | - | - | 406,662 | - | (235,145) | 204,472 |
| Total operating expenses before depreciation and amortization | 3,396,645 | 1,398,753 | 125,627 | 1,461,994 | - | 1,671,362 | 4,850,698 | (235,145) | 12,669,934 |
| Depreciation and amortization | - | - | - | 145,541 | - | 2,572,967 | - | (384,382) | 2,334,126 |
| Total operating expenses | 3,396,645 | 1,398,753 | 125,627 | 1,607,535 | - | 4,244,329 | 4,850,698 | (619,527) | 15,004,060 |
| Changes in net assets without donor restrictions from operations | 3,509,365 | 1,263,324 | (100,627) | 135,977 | - | (1,178,247) | 2,398,974 | 153,200 | 6,181,966 |
| Other changes in net assets without donor restrictions: | | | | | | | | | |
| Grants for loan capital | 1,507,505 | - | - | - | - | - | - | - | 1,507,505 |
| Share of income of affiliate | - | - | 55,404 | - | - | - | - | - | 55,404 |
| Grants from (to) affiliate for support of new initiatives | - | (1,000,000) | 1,000,000 | - | - | - | - | - | - |
| Changes in net assets without donor restrictions | 5,016,870 | 263,324 | 954,777 | 135,977 | - | (1,178,247) | 2,398,974 | 153,200 | 7,744,875 |
| Changes in Net Assets With Donor Restrictions: | | | | | | | | | |
| Grants and contributions | 3,692,000 | - | - | (425,775) | - | - | - | - | 3,266,225 |
| Interest income | 37,060 | - | - | - | - | - | - | - | 37,060 |
| Changes in net assets with donor restrictions | 3,729,060 | - | - | (425,775) | - | - | - | - | 3,303,285 |
| Changes in net assets before discontinued operations | 8,745,930 | 263,324 | 954,777 | (289,798) | - | (1,178,247) | 2,398,974 | 153,200 | 11,048,160 |
| Changes in Net Assets from Discontinued Operations | - | - | (2,542,509) | (1,498,306) | 13,283,780 | - | - | 3,925,113 | 13,168,078 |
| Changes in net assets | 8,745,930 | 263,324 | (1,587,732) | (1,788,104) | 13,283,780 | (1,178,247) | 2,398,974 | 4,078,313 | 24,216,238 |
| Changes in Net Assets Attributable to Non-Controlling Interests | | | | | | | | | |
| Changes in net assets attributable to BlueHub Capital, Inc. and operating affiliates | \$ 8,745,930 | \$ 263,324 | \$ (1,587,732) | \$ (1,788,104) | \$ 12,580,584 | \$ (634,822) | \$ 2,716,610 | \$ 4,078,313 | \$ 24,374,103 |