

BOSTON COMMUNITY LOAN FUND, INC. AND AFFILIATE

**CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

BOSTON COMMUNITY LOAN FUND, INC. AND AFFILIATE

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December 31, 2017 and 2016

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Independent Auditor's Report

To the Board of Directors of
Boston Community Loan Fund, Inc. and Affiliate:

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Boston Community Loan Fund, Inc. (a Massachusetts corporation, not for profit) (the Loan Fund) and Affiliate which comprise the consolidated statements of financial position as of December 31, 2017 and 2016, and the related consolidated statements of activities, changes in net assets 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 the 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 Boston Community Loan Fund, Inc. and Affiliate as of December 31, 2017 and 2016, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As explained in Note 1 to the consolidated financial statements, the Loan Fund and Affiliate are part of an affiliated group of companies and have entered into transactions with certain group members. As required under accounting principles generally accepted in the United States of America, the consolidated financial statements of the Loan Fund and Affiliate are also consolidated with those of the affiliated group. Our opinion to the consolidated financial statements was not modified with respect to this matter.

Alexander, Brown, Finning & Co., P.C.

Boston, Massachusetts
April 10, 2018

BOSTON COMMUNITY LOAN FUND, INC. AND AFFILIATE

Consolidated Statements of Financial Position
December 31, 2017 and 2016

Assets	2017	2016
Current Assets:		
Cash and cash equivalents	\$ 23,912,012	\$ 17,450,344
Marketable securities	10,329	11,500,738
Escrow funds	1,203,590	1,232,693
Grants receivable	-	3,750,000
Current portion of loans and interest receivable, net of allowance for loan losses of \$226,070 and \$739,126 as of December 31, 2017 and 2016, respectively	18,831,930	23,644,507
Other accounts receivable	303,336	50,811
Total current assets	<u>44,261,197</u>	<u>57,629,093</u>
Restricted Cash	8,003,288	-
Loans and Interest Receivable, net of current portion and allowance for loan losses of \$2,587,164 and \$2,481,214 as of December 31, 2017 and 2016, respectively	99,822,526	59,806,878
Affiliate Loans, net of current portion	<u>16,760,184</u>	<u>17,356,555</u>
Total assets	<u>\$ 168,847,195</u>	<u>\$ 134,792,526</u>
Liabilities and Net Assets		
Current Liabilities:		
Current portion of loans payable	\$ 6,901,215	\$ 7,267,784
Current portion of permanent loan capital - subordinated loans payable	105,042	102,963
Accounts payable	504,694	539,436
Accrued interest	399,993	360,075
Due to affiliate	255,586	152,916
Escrow funds	1,203,590	1,232,693
Total current liabilities	<u>9,370,120</u>	<u>9,655,867</u>
Conditional Advances	2,105,000	-
Loans Payable, net	80,206,283	61,147,721
Permanent Loan Capital - Subordinated Loans Payable, net of current portion	<u>25,371,656</u>	<u>25,476,698</u>
Total liabilities	<u>117,053,059</u>	<u>96,280,286</u>
Net Assets:		
Unrestricted:		
General	33,924,605	27,360,376
Board designated for permanent loan capital and special programs	1,132,500	1,132,500
Board designated for loan loss reserves	5,453,280	7,136,043
Total unrestricted	<u>40,510,385</u>	<u>35,628,919</u>
Temporarily restricted:		
Revolving capital	11,283,751	883,321
Other financial assistance	-	2,000,000
Total temporarily restricted	<u>11,283,751</u>	<u>2,883,321</u>
Total net assets	<u>51,794,136</u>	<u>38,512,240</u>
Total liabilities and net assets	<u>\$ 168,847,195</u>	<u>\$ 134,792,526</u>

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

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BOSTON COMMUNITY LOAN FUND, INC. AND AFFILIATE

Consolidated Statements of Activities
For the Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Unrestricted Net Assets:		
Operating revenues:		
Financial and earned revenues:		
Interest on loans, net	\$ 7,104,218	\$ 6,065,020
Loan fees and other	1,003,897	654,496
Realized gain on sale of state tax credit notes	246,109	-
Net loan loss recovery	-	140,280
Less - interest expense	<u>(2,744,761)</u>	<u>(2,485,247)</u>
Net financial and earned revenues	<u>5,609,463</u>	<u>4,374,549</u>
Operating expenses:		
Personnel	1,804,704	1,612,361
Office operations	639,427	576,257
Marketing	145,305	127,801
Professional fees	107,050	99,872
Other	<u>31,511</u>	<u>31,627</u>
Total operating expenses	<u>2,727,997</u>	<u>2,447,918</u>
Changes in unrestricted net assets from operations	2,881,466	1,926,631
Other changes in unrestricted net assets:		
Net assets released from restrictions for loan capital	2,000,000	-
Grants for loan capital	<u>-</u>	<u>1,750,000</u>
Changes in unrestricted net assets	<u>4,881,466</u>	<u>3,676,631</u>
Temporarily Restricted Net Assets:		
Grants and contributions	10,395,000	2,000,875
Interest income	5,430	-
Net assets released from restrictions	<u>(2,000,000)</u>	<u>-</u>
Changes in temporarily restricted net assets	<u>8,400,430</u>	<u>2,000,875</u>
Changes in net assets	<u>\$ 13,281,896</u>	<u>\$ 5,677,506</u>

BOSTON COMMUNITY LOAN FUND, INC. AND AFFILIATE

Consolidated Statements of Changes in Net Assets
For the Years Ended December 31, 2017 and 2016

	Unrestricted	Unrestricted - Board Designated		Temporarily Restricted		
		Permanent Loan Capital and Special Programs	Loan Loss Reserves	Revolving Capital	Other Financial Assistance	Total
	General					
Net Assets, December 31, 2015	\$ 21,795,918	\$ 1,132,500	\$ 9,023,870	\$ 882,446	\$ -	\$ 32,834,734
Changes in net assets	3,676,631	-	-	875	2,000,000	5,677,506
Transfers of unrestricted net assets	1,887,827	-	(1,887,827)	-	-	-
Net Assets, December 31, 2016	27,360,376	1,132,500	7,136,043	883,321	2,000,000	38,512,240
Changes in net assets	4,881,466	-	-	10,400,430	(2,000,000)	13,281,896
Transfers of unrestricted net assets	1,682,763	-	(1,682,763)	-	-	-
Net Assets, December 31, 2017	<u>\$ 33,924,605</u>	<u>\$ 1,132,500</u>	<u>\$ 5,453,280</u>	<u>\$ 11,283,751</u>	<u>\$ -</u>	<u>\$ 51,794,136</u>

BOSTON COMMUNITY LOAN FUND, INC. AND AFFILIATE

Consolidated Statements of Cash Flows
For the Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash Flows from Operating Activities:		
Changes in net assets	\$ 13,281,896	\$ 5,677,506
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Net loan loss recovery	-	(140,280)
Realized gain on sale of state tax credit notes	(246,109)	-
Grants for loan capital, credit enhancement and investment uses	(10,395,000)	(3,750,875)
Interest - amortization	23,240	17,066
Changes in operating assets and liabilities:		
Interest receivable	(239,701)	(117,277)
Other accounts receivable	(252,525)	26,074
Accounts payable	(34,742)	445,109
Accrued interest	39,918	532
Due to affiliate	102,670	(3,401)
Deferred loan fees	123,830	22,274
Net cash provided by operating activities	<u>2,403,477</u>	<u>2,176,728</u>
Cash Flows from Investing Activities:		
Principal payments of affiliate loans receivable	596,371	1,555,663
Issuance of loans receivable	(53,017,942)	(29,144,933)
Principal payments of loans receivable	17,930,742	30,085,821
Purchase of marketable securities	-	(11,500,738)
Proceeds from sale of marketable securities	11,490,409	-
Proceeds from sale of state tax credit notes	246,109	-
Increase in restricted cash	(8,003,288)	-
Net cash used in investing activities	<u>(30,757,599)</u>	<u>(9,004,187)</u>
Cash Flows from Financing Activities:		
Grants for loan capital, credit enhancement and investment uses	14,145,000	875
Proceeds from loans payable	19,744,381	17,403,712
Principal payments on loans payable	(1,075,628)	(6,866,865)
Proceeds from subordinated loans payable	-	2,000,000
Principal payments of subordinated loans payable	(102,963)	(100,927)
Conditional advances	2,105,000	-
Cash paid for debt issuance costs	-	(36,480)
Net cash provided by financing activities	<u>34,815,790</u>	<u>12,400,315</u>
Net Change in Cash and Cash Equivalents	<u>6,461,668</u>	<u>5,572,856</u>
Cash and Cash Equivalents:		
Beginning of year	<u>17,450,344</u>	<u>11,877,488</u>
End of year	<u>\$ 23,912,012</u>	<u>\$ 17,450,344</u>
Supplemental Disclosure of Cash Flow Information:		
Cash paid for interest	<u>\$ 2,681,603</u>	<u>\$ 2,484,715</u>

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

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BOSTON COMMUNITY LOAN FUND, INC. AND AFFILIATE

Notes to Consolidated Financial Statements
December 31, 2017 and 2016

1. OPERATIONS

Boston Community Loan Fund, Inc. (the Loan Fund), a Massachusetts nonprofit corporation, was organized in December 1984, to provide below market rate capital to community-based organizations for the development of affordable housing. During 2011, BCC REO LLC (BCC REO), a Massachusetts limited liability company, was formed to hold real and personal property. The Loan Fund is the sole member of BCC REO and its activities are included in these consolidated financial statements. BCC REO had no activity as of December 31, 2017 and 2016.

In 1994, the Loan Fund's Board of Directors voted to expand its corporate purposes to include broader community development lending, which directly or indirectly benefits low-income or disadvantaged people or communities. The Loan Fund formed three affiliated Massachusetts nonprofit corporations:

- **Boston Community Capital, Inc.** (the Holding Company) creates and preserves healthy communities where low-income people live and work.
- **BCLF Managed Assets Corporation d/b/a Boston Community Managed Assets** (Managed Assets) manages, designs, implements, and evaluates 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 Boston Community Venture Fund** (the Venture Fund) assists small community-based businesses and entrepreneurs in starting, growing, and expanding businesses which strengthen the low-income business community.

The Loan Fund and the three affiliated nonprofit corporations operate cooperatively and are collectively referred to as the Corporation within these notes. 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. Because the affiliated nonprofit corporations are controlled by a common Board of Directors and management, the affiliated nonprofits and other controlled affiliates report their collective financial results and financial position in separately issued consolidated financial statements.

The four affiliated nonprofits also maintain interests in other affiliates, including the following entities with which the Loan Fund conducts substantive business:

- **SUN Initiative Financing, LLC** (SUN Financing), a Massachusetts limited liability company, established to finance the operations of the Stabilizing Urban Neighborhoods Initiative (SUN Initiative). SUN Financing is controlled by the Holding Company by virtue of common management. The goal of SUN Initiative 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.
- **BCC Solar Energy Advantage, Inc. (SEA)**, a Massachusetts for-profit corporation, owned and controlled by the Holding Company, facilitates the delivery of solar energy to affordable housing projects and others.

BOSTON COMMUNITY LOAN FUND, INC. AND AFFILIATE

Notes to Consolidated Financial Statements
December 31, 2017 and 2016

1. OPERATIONS (Continued)

- **BCC 481 NMTC Investment Fund, LLC** (the Investment Fund), a Maine limited liability company, was activated in January 2011 for the purpose of making a qualified equity investment (QEI) as defined in Section 45D(b) of the Internal Revenue Code (the Code), in BCC NMTC CDE X, LLC (CDE X). This entity is owned by a third-party investor, but is controlled by an affiliate of the Holding Company as a non-member manager. These entities are part of a leveraged new markets tax credit structure to finance certain solar energy projects.
- **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 BCC NMTC CDE XVI, LLC (CDE XVI). This entity is owned by a third-party investor, but is controlled by an affiliate of Holding Company as a non-member manager. These entities are part of a leveraged new markets tax credit structure to finance certain solar energy projects.

Nonprofit Status

The Loan Fund is exempt from Federal income taxes as an organization formed for charitable purposes under Section 501(c)(3) of the Code. The Loan Fund is also exempt from state income taxes. Donors may deduct contributions made to the Loan Fund within the requirements of the Code. BCC REO has elected to be treated as a disregarded entity of the Loan Fund for tax purposes.

Community Development Financial Institution

The Loan Fund has been granted status as a Community Development Financial Institution (CDFI) by the U.S. Department of the Treasury (the Treasury), qualifying it for certain awards and support from the Treasury. The Loan Fund has received permanent loan capital - subordinated loans payable from the Treasury (see Note 6). The Loan Fund also has received grants from the Treasury totaling \$3,750,000 for financial assistance in 2016. The Loan Fund received a Capital Magnet Fund award of \$4,500,000 in 2017.

2. SIGNIFICANT ACCOUNTING POLICIES

The Loan Fund prepares its consolidated financial statements in accordance with generally accepted accounting standards and principles 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

The consolidated financial statements include the accounts of the Loan Fund and BCC REO (see Note 1). All intercompany transactions have been eliminated in the accompanying consolidated financial statements.

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.

BOSTON COMMUNITY LOAN FUND, INC. AND AFFILIATE

Notes to Consolidated Financial Statements
December 31, 2017 and 2016

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurements

The Loan Fund 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 Loan Fund would receive upon selling an asset or pay to settle a liability in an orderly transaction between market participants.

The Loan Fund 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 Loan Fund. 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.

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 an initial maturity of three months or less and available for general use, but exclude cash and cash equivalents set aside as escrow funds (see below) held for others and restricted cash balances (see page 9).

Cash and cash equivalents are maintained by the Loan Fund in banks in Massachusetts and are insured within the limits of the Federal Deposit Insurance Corporation Fund (FDIC). 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 Loan Fund's balances, to minimize potential risk.

Marketable Securities

Marketable securities are comprised of an investment in a money market mutual fund. Marketable securities are reported at fair value using Level 1 inputs (see above).

Escrow Funds

The Loan Fund held cash balances of \$1,203,590 and \$1,232,693 in escrow for outside parties as of December 31, 2017 and 2016, respectively. These amounts are escrowed for the Loan Fund's borrowers for various purposes, including working capital reserves, replacement reserves, and construction fund escrows.

BOSTON COMMUNITY LOAN FUND, INC. AND AFFILIATE

Notes to Consolidated Financial Statements
December 31, 2017 and 2016

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Restricted Cash and Credit Enhancement

Using the proceeds of a grant received in 2017 from the U.S. Department of Education (see page 10), 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 7). Under the terms of the agreements, the Loan Fund deposits amounts, as defined in the agreement, 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, then 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 will be 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 2017 (see Note 7).

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.

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 3 and 4). 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 4) is established through the provision for loan losses and 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.

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 5. Interest rates on loans receivable are disclosed in Note 3. 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.

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. During 2017, the Loan Fund received Federal grants totaling \$12,500,000. Due to timing of the awards, \$2,105,000 of the funds were not yet committed to qualifying projects as of December 31, 2017. Such amounts are expected to be reported as temporarily restricted revenue when deployed or committed for qualifying projects in future periods.

BOSTON COMMUNITY LOAN FUND, INC. AND AFFILIATE

Notes to Consolidated Financial Statements
December 31, 2017 and 2016

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets

Unrestricted net assets include those net resources of the Loan Fund that bear no external restrictions. These include the Loan Fund's general net assets and net assets designated by the Board of Directors for permanent loan capital (see below), special programs and loan loss reserves. The Loan Fund's Board of Directors designated \$1,000,000 of unrestricted net assets, the proceeds of two unrestricted grant awards from the Treasury (see Note 1), as permanent loan capital. The Loan Fund's Board of Directors also designated \$132,500 of unrestricted net assets to Board designated net assets for special programs.

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 4).

The Board of Directors of the Corporation may also authorize transfers of the unrestricted general net assets among the related affiliates, including the Loan Fund (see Note 1). There were no such transfers during 2017 and 2016.

Temporarily restricted net assets are unexpended financial resources restricted by donors as to the purpose or timing of expenditure. Temporarily restricted net assets are restricted for the following as of December 31:

	<u>2017</u>	<u>2016</u>
Revolving Capital:		
ED Credit Enhancement	\$ 8,003,288	\$ -
CDFI Capital Magnet	2,397,142	-
Permanent loan capital	<u>883,321</u>	<u>883,321</u>
Subtotal revolving capital	11,283,751	883,321
Other Financial Assistance	<u>-</u>	<u>2,000,000</u>
	<u>\$ 11,283,751</u>	<u>\$ 2,883,321</u>

Revolving capital as of December 31, 2017, represented awards from the Department of Education for credit enhancement (see Note 7), CDFI Capital Magnet awards (see Note 1) and other permanent loan capital from donors (see below). The ED credit enhancement grant (see Note 7) is used to provide credit enhancement in the form of securable collateral in connection with the financing of charter school facilities (see page 9 and Note 7). The Capital Magnet award is 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 temporarily restricted net assets until depleted by losses or until the agreements expire. The ED credit enhancement grant expires in September 2040 and the Capital Magnet award expires in January 2022.

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 temporarily restricted by donors, net assets designated by the Board of Directors, and subordinated loans payable. 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 temporarily restricted net assets in the accompanying consolidated statements of financial position.

Other Financial assistance as of December 31, 2016, represented unexpended awards from the Treasury (see Note 1) for the Healthy Foods Financing Initiative, which are to provide low-income neighborhoods with access to affordable and healthy foods. These funds were used to make qualified loans receivable in 2017 and, accordingly, released from restrictions.

BOSTON COMMUNITY LOAN FUND, INC. AND AFFILIATE

Notes to Consolidated Financial Statements
December 31, 2017 and 2016

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition

Financial and earned revenues are generally recognized as unrestricted revenue 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 temporarily restricted net assets. Interest on loans is presented net of interest of \$653,189 and \$1,221,159 collected on behalf of and paid to loan participants (see Note 3) in 2017 and 2016, respectively.

The Loan Fund amortizes loan origination fees over the terms of long-term 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 3).

Grants and contributions with no restrictions or conditions are recognized as unrestricted revenue when received or unconditionally pledged to the Loan Fund. Donor restricted grants and contributions with time or purpose restrictions are recognized as temporarily restricted net assets when received or unconditionally pledged. Temporarily restricted net assets are transferred to unrestricted net assets when they are used in accordance with donor restrictions. Donor restricted grants and contributions received and expended for their intended use in the same year are reflected as unrestricted net assets.

Expense Allocation

The affiliated companies comprising the Corporation (see Note 1) share various common expenses, including management salaries, benefits, and facility expenses. The accompanying consolidated financial statements include the share of these expenses allocable to the Loan Fund.

The Loan Fund's total expenses, including interest expense, as allocated to program services and general and administrative, are as follows for the years ended December 31:

	<u>2017</u>	<u>2016</u>
Program	\$ 4,757,196	\$ 4,299,421
General and Administrative	<u>715,562</u>	<u>633,744</u>
Total	<u>\$ 5,472,758</u>	<u>\$ 4,933,165</u>

Income Taxes

The Loan Fund accounts for uncertainty in income taxes in accordance with ASC Topic, *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 Loan Fund has determined that there are no uncertain tax positions which qualify for either recognition or disclosure in the consolidated financial statements at December 31, 2017 and 2016. The Loan Fund's information returns are subject to examination by the Federal and state jurisdictions.

Subsequent Events

Subsequent events have been evaluated through April 10, 2018, which is the date the consolidated financial statements were available to be issued. There were no events that met the criteria for recognition and disclosure in the consolidated financial statements.

BOSTON COMMUNITY LOAN FUND, INC. AND AFFILIATE

Notes to Consolidated Financial Statements
December 31, 2017 and 2016

3. LOANS AND INTEREST RECEIVABLE

Portfolio Lending

The Loan Fund offers a variety of loan products of both short and long-term maturity. The Loan Fund offers 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.

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.

Loans receivable of the Loan Fund are presented net of third-party loan participations of \$14,654,407 and \$9,638,268 as of December 31, 2017 and 2016, respectively. All loan participations qualify as loan sales in accordance with the ASC Topic, *Accounting for Transfers and Servicing of Assets and Liabilities*.

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

Type	2017		2016	
	Number of Loans	Net Loan Amount	Number of Loans	Net Loan Amount
Construction	33	\$ 45,729,464	30	\$ 40,424,090
Organizational	9	9,377,667	8	3,048,700
Permanent	57	44,131,893	46	29,791,209
Predevelopment	2	1,547,251	6	1,147,473
Site acquisition	23	20,170,913	20	11,865,623
	<u>124</u>	120,957,189	<u>110</u>	86,277,095
Interest receivable on above loans		<u>999,590</u>		<u>759,889</u>
		<u>\$ 121,956,779</u>		<u>\$ 87,036,984</u>

BOSTON COMMUNITY LOAN FUND, INC. AND AFFILIATE

Notes to Consolidated Financial Statements
December 31, 2017 and 2016

3. LOANS AND INTEREST RECEIVABLE (Continued)

Portfolio Lending (Continued)

Future minimum payments of principal (and accrued interest at December 31, 2017) for years ending after December 31, 2017, are as follows:

2018 (including \$999,590 of accrued interest)	\$ 19,058,000
2019	17,343,913
2020	8,807,113
2021	11,771,986
2022	6,204,986
Thereafter	<u>58,770,799</u>
	121,956,779
Adjustment for deferred loan fees (see Note 2)	(489,089)
Less - allowance for loan losses (see Note 4)	(2,813,234)
Less - current portion	<u>(18,831,930)</u>
	<u>\$ 99,822,526</u>

Loans receivable are as follows as of December 31, 2016:

Gross loans receivable	\$ 87,036,984
Adjustment for deferred loan fees (see Note 2)	(365,259)
Less - allowance for loan losses (see Note 4)	(3,220,340)
Less - current portion	<u>(23,644,507)</u>
Net long-term portion	<u>\$ 59,806,878</u>

The majority of the Loan Fund's loans receivable is secured by real estate holdings in Massachusetts and could be affected by adverse real estate markets in the region.

All borrowers with loans that are currently amortizing are current with their payments as of December 31, 2017 and 2016.

Commitments to Lend

The Loan Fund had committed approximately \$28,625,000 and \$37,259,000 for future disbursements on existing loan commitments and lines of credit to unrelated borrowers as of December 31, 2017 and 2016, respectively. Among the tools available to manage liquidity are lines of credit with financial institutions (see Note 5), as well as the potential to initiate loan sales and loan participation agreements with lending partners.

Guarantee Agreement

The Loan Fund also has a non-expiring loan guarantee agreement with the United States Department of Agriculture (USDA). The guarantee is intended to strengthen the Loan Fund's ability to finance loans to businesses in rural areas and thus stimulate economic growth in these areas. As of December 31, 2017 and 2016, there was an original guarantee of \$4,600,000 for one loan receivable under this agreement. This loan is set to mature on September 1, 2042. During 2017 and 2016, the Loan Fund did not receive any cash payments under this agreement. The principal balance of this loan is \$4,234,569, of which \$4,022,824 has been participated out to a third party.

BOSTON COMMUNITY LOAN FUND, INC. AND AFFILIATE

Notes to Consolidated Financial Statements
December 31, 2017 and 2016

3. LOANS AND INTEREST RECEIVABLE (Continued)

Special Tax-Credit Lending

As of December 31, 2017 and 2016, the Loan Fund has entered into ninety and sixty-five 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 a loan 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 1%, which the Loan Fund will receive on the maturity date. These loans have various maturity dates through December 2071. As part of the 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 loan fees and other in the accompanying consolidated statements of activities and totaled \$279,759 and \$185,146 for 2017 and 2016, respectively.

Total outstanding principal balances are \$404,760,094 and \$372,038,725 as of December 31, 2017 and 2016, respectively. These loans have specific restrictions surrounding their use, and due to their long-term deferred nature and likelihood of collectability, the notes are substantially reserved at December 31, 2017 and 2016. The provision associated with these allowances is netted with the value of the tax credit donation. Interest earned on these loans, net of applicable allowances, totaled \$263,227 for the year ended December 31, 2017, and is included in interest on loans in the accompanying consolidated statements of activities. Interest earned for the year ended December 31, 2016, was fully reserved.

During 2017, the Loan Fund sold two of the loans yielding proceeds of \$246,109. These proceeds are reflected as realized gain on sale of state tax credit notes in the accompanying 2017 consolidated statement of activities.

Affiliate Loans

SUN Financing

The Loan Fund entered into a Note Purchase Agreement and an initial unsecured note under this agreement with SUN Financing (see Note 1). 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 \$430,903 and \$432,083 for 2017 and 2016, respectively. As of December 31, 2017 and 2016, principal outstanding under this agreement totaled \$10,000,000. All remaining unpaid principal and interest are due on the maturity date of December 31, 2020.

Venture Fund

The Loan Fund had loaned \$2,300,000 of the proceeds of the permanent loan capital - subordinated loans payable to the Venture Fund (see Notes 1 and 6) to finance a portion of certain investments of the Venture Fund. This intercompany loan bears interest at 3%, payable quarterly, is unsecured, and matures in 2018. Interest on this borrowing totaled \$49,500 in 2017 and 2016. As of December 31, 2017 and 2016, the principal outstanding under this agreement totaled \$1,650,000 and is due in December 2027.

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, 2017 and 2016. This intercompany loan bears interest at 3%, payable quarterly, is unsecured, and matures in 2020. Interest on these borrowings totaled \$90,000 in 2017 and 2016.

BOSTON COMMUNITY LOAN FUND, INC. AND AFFILIATE

Notes to Consolidated Financial Statements
December 31, 2017 and 2016

3. LOANS AND INTEREST RECEIVABLE (Continued)**Affiliate Loans (Continued)***Investment Fund*

The Loan Fund entered into a leverage loan agreement with the Investment Fund (see Note 1) 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. 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 2017 and 2016, the Investment Fund made payments of principal of \$116,190 and \$308,090, respectively. As of December 31, 2017 and 2016, the outstanding balance of the loan was \$579,343 and \$695,533, respectively. Total interest was \$40,051 and \$52,910 for 2017 and 2016, respectively. There was no unpaid interest as of December 31, 2017 and 2016.

USB Investment Fund

During 2013, the Loan Fund entered into a leverage loan with the USB Investment Fund (see Note 1) 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 2017 and 2016, USB Investment Fund made payments of principal of \$480,181 and \$901,135, respectively. Total interest incurred was \$108,289 and \$151,316 for 2017 and 2016, respectively. There was no unpaid interest as of December 31, 2017 and 2016. As of December 31, 2017 and 2016, the principal outstanding under this agreement was \$1,530,841 and \$2,011,022, respectively.

Stated maturities of all affiliate loans receivable, not including net cash flow payments payable from the Investment Fund or USB Investment Fund (see above), as of December 31, 2017, are as follows:

<u>Year</u>	<u>SEA</u>	<u>USB Investment Fund</u>	<u>Venture Fund</u>	<u>Investment Fund</u>	<u>SUN Financing</u>	<u>Total</u>
2018	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2019	-	-	-	-	-	-
2020	3,000,000	-	-	-	10,000,000	13,000,000
2021	-	-	-	579,343	-	579,343
2022	-	-	-	-	-	-
Thereafter	-	<u>1,530,841</u>	<u>1,650,000</u>	-	-	<u>3,180,841</u>
Total	<u>\$ 3,000,000</u>	<u>\$ 1,530,841</u>	<u>\$ 1,650,000</u>	<u>\$ 579,343</u>	<u>\$ 10,000,000</u>	<u>\$ 16,760,184</u>

No allowance for loan losses has been recorded on any of the affiliate loan balances.

The Loan Fund owed the Holding Company \$255,586 and \$152,916 as of December 31, 2017 and 2016, respectively, which is reflected as due to affiliate in the accompanying consolidated statements of financial position.

BOSTON COMMUNITY LOAN FUND, INC. AND AFFILIATE

Notes to Consolidated Financial Statements
December 31, 2017 and 2016

4. ALLOWANCE FOR LOAN LOSSES AND LOAN LOSS RESERVES

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 unrestricted net assets 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>2017</u>	<u>2016</u>
Allowance for loan losses (see page 17 and Note 2)	\$ 2,813,234	\$ 3,220,340
Board designated net assets for loan loss reserves (see Note 2):		
General loan loss reserves	5,453,280	3,654,550
CDFI funds released from restrictions for specified loans	<u>-</u>	<u>3,481,493</u>
Subtotal - Board designated net assets for loan loss reserves	<u>5,453,280</u>	<u>7,136,043</u>
	<u>\$ 8,266,514</u>	<u>\$ 10,356,383</u>

An allowance for loan losses is an estimate of expected loan losses expressed as a reduction of the carrying value of loans receivable (see Note 3). The loan loss allowance is based on expected losses as determined under the Loan Fund's risk rating system (see page 18). In addition, the Loan Fund's Board of Directors designates unrestricted net assets for loan loss reserves so that the sum of the loan loss allowance and Board designated general loan loss reserves equals at least 5% of total loans receivable of the Loan Fund.

The Loan Fund also received CDFI financial assistance grants that required a matching component, which required the Loan Fund to set aside additional reserves that are specific to certain types of loans. The loans that fall under these grants are either for a community facility project where the project has a low collateral value or for predevelopment loans that support early feasibility and planning activities. The CDFI funds were matched with an equivalent amount of unrestricted funds which were also transferred to Board designated net assets. The CDFI funds are released from Board designated at the expiration of the CDFI grant compliance period. Board designated net assets related to qualifying loan commitments were:

CDFI Board Designated balance as of December 31, 2015	\$ 5,601,612
Additions	37,108
Releases	<u>(2,157,227)</u>
CDFI Board Designated balance as of December 31, 2016	3,481,493
Additions	-
Releases	<u>(3,481,493)</u>
CDFI Board Designated balance as of December 31, 2017	\$ <u>-</u>

BOSTON COMMUNITY LOAN FUND, INC. AND AFFILIATE

Notes to Consolidated Financial Statements
December 31, 2017 and 2016

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

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

<u>2017</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, 2016	\$ 22,988	\$ 2,755	\$ 2,218,945	\$ 822,076	\$ 153,576	\$ 3,220,340
Charge-offs	-	-	-	(407,106)	-	(407,106)
Allowance for loan losses, December 31, 2017	<u>\$ 22,988</u>	<u>\$ 2,755</u>	<u>\$ 2,218,945</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>\$ 1,955,869</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,955,869</u>
Troubled Debt Restructuring	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,955,869</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,955,869</u>
<u>2016</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, 2015	\$ 1,022,988	\$ 2,755	\$ 1,767,399	\$ 412,428	\$ 829,111	\$ 4,034,681
Charge-offs	(674,061)	-	-	-	-	(674,061)
Recoveries	(325,939)	-	(174,347)	(104,481)	(675,535)	(1,280,302)
Provision	-	-	625,893	514,129	-	1,140,022
Allowance for loan losses, December 31, 2016	<u>\$ 22,988</u>	<u>\$ 2,755</u>	<u>\$ 2,218,945</u>	<u>\$ 822,076</u>	<u>\$ 153,576</u>	<u>\$ 3,220,340</u>
Ending balance: Individually evaluated for impairment	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,839,561</u>	<u>\$ 514,129</u>	<u>\$ -</u>	<u>\$ 2,353,690</u>
Troubled Debt Restructuring	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,839,561</u>	<u>\$ 514,129</u>	<u>\$ -</u>	<u>\$ 2,353,690</u>

The loan loss allowance is allocated between the current and long-term portions of the loan portfolio based upon the maturities of the underlying reserved loan balances.

BOSTON COMMUNITY LOAN FUND, INC. AND AFFILIATE

Notes to Consolidated Financial Statements
December 31, 2017 and 2016

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

The Loan Fund 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 the Loan Fund's loans receivable balances and related allowance by risk rating at December 31:

Category	Risk Rating	2017		2016	
		Loan Balance	Loan Loss Allowance	Loan Balance	Loan Loss Allowance
Pass	1 - 4	\$ 112,345,459	\$ -	\$ 76,679,831	\$ -
Special Mention	5 - 6	7,799,662	1,875,108	8,246,368	1,780,336
Substandard	7 - 8	812,068	812,068	1,350,896	1,350,896
General Reserve		-	126,058	-	89,108
		<u>\$ 120,957,189</u>	<u>\$ 2,813,234</u>	<u>\$ 86,277,095</u>	<u>\$ 3,220,340</u>

Impaired Loans

The Loan Fund 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.

Impaired loans are set forth in the table below as of December 31:

Loan Category	Number of Impaired Loans	2017	
		Amount of Impaired Loans	Related Allowance for Loan Loss
Permanent	<u>4</u>	<u>\$ 3,099,670</u>	<u>\$ 1,955,869</u>
Loan Category	Number of Impaired Loans	2016	
		Amount of Impaired Loans	Related Allowance for Loan Loss
Permanent	4	\$ 3,224,370	\$ 1,839,561
Construction	<u>2</u>	<u>514,129</u>	<u>514,129</u>
Total impaired loans	<u>6</u>	<u>\$ 3,738,499</u>	<u>\$ 2,353,690</u>

BOSTON COMMUNITY LOAN FUND, INC. AND AFFILIATE

Notes to Consolidated Financial Statements
December 31, 2017 and 2016

4. ALLOWANCE FOR LOAN LOSSES AND LOAN LOSS RESERVES (Continued)**Troubled Debt Restructuring**

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

As of December 31, 2017 and 2016, loans that were impaired and classified as TDRs were as follows:

<u>Troubled Debt Restructuring</u>	<u>Number of Loans Restructured</u>	<u>2017</u>	
		<u>Amount of Restructured Loans</u>	<u>Related Allowance for Loan Loss</u>
Multiple extensions resulting from financial difficulty	<u>4</u>	<u>\$ 3,099,670</u>	<u>\$ 1,955,869</u>
<u>Troubled Debt Restructuring</u>	<u>Number of Loans Restructured</u>	<u>2016</u>	
		<u>Amount of Restructured Loans</u>	<u>Related Allowance for Loan Loss</u>
Multiple extensions resulting from financial difficulty	<u>4</u>	<u>\$ 3,224,370</u>	<u>\$ 1,839,561</u>
Extended under forbearance	<u>2</u>	<u>514,129</u>	<u>514,129</u>
Total TDRs	<u>6</u>	<u>\$ 3,738,499</u>	<u>\$ 2,353,690</u>

The above loans are all on a "non-accrual" basis. During 2016, the one loan that was extended under forbearance as of 2015 was paid off. During 2017, two loans that were extended under forbearance as of 2016 were paid off.

5. LOANS PAYABLE

Loans payable of the Loan Fund represent loans by approximately 350 lenders ("investors") in principal amounts ranging from \$1,000 to \$15,000,000. Loans payable bear interest at rates ranging from 0% to 4.3%, payable at various dates through 2028.

BOSTON COMMUNITY LOAN FUND, INC. AND AFFILIATE

Notes to Consolidated Financial Statements
December 31, 2017 and 2016

5. LOANS PAYABLE (Continued)

Lines of Credit

The Loan Fund has a \$15,000,000 unsecured revolving line of credit with a financial institution, which originally expired on September 2017. During 2017, this line of credit was extended until September 30, 2019, under the same terms. The interest rate on this line of credit is a thirty-day London Interbank Offered Rate (LIBOR) (1.4925% and 0.7164% as of December 31, 2017 and 2016, respectively), plus 1.5%, with a minimum rate of 1.65%. There was no balance on this line of credit as of December 31, 2017 and 2016.

The Loan Fund has a \$15,000,000 unsecured non-revolving line of credit agreement with a financial institution, which expires on June 30, 2018. Outstanding advances under this line of credit bear interest at the financial institution's seven-year cost of funds, plus 125 basis points on the date of the draw. Proceeds from this line of credit are to be used only to finance qualifying New Markets Tax Credit loans in certain states. As of December 31, 2017 and 2016, \$5,000,000 was outstanding on this line of credit. Funds advanced under these draws bear interest at rates ranging from 3.24% to 3.73%. The interest rates are locked-in on the specific date of each draw. There was no available credit as of December 31, 2017 and 2016, as \$10,000,000 of the note was paid in previous years.

The Loan Fund has a \$2,500,000 unsecured revolving line of credit with a financial institution, which expires on August 31, 2019. The interest rate on this line of credit is a thirty-day LIBOR (1.4925% and 0.7164% as of December 31, 2017 and 2016, respectively), plus 1.5%. There was no balance on this line of credit as of December 31, 2017 and 2016. The Loan Fund also has an additional \$10,000,000 unsecured non-revolving line of credit with this financial institution, which expires on December 21, 2021. The interest rate on this line of credit is based on the applicable Federal Home Loan Bank of Boston (FHLBB) Rate at the time of the borrowings. The interest rates are locked-in on the specific date of each draw. During 2017 and 2016, the line of credit was drawn in full at an interest rate of 4%. As of December 31, 2017 and 2016, \$10,000,000 was outstanding on this line of credit.

The Loan Fund has a \$10,000,000 unsecured revolving line of credit with a financial institution, which expires on November 21, 2021. The interest rate on this line of credit is 1.34% and interest is due in quarterly payments. As of December 31, 2017 and 2016, \$10,000,000 was outstanding on this line of credit.

The Loan Fund has a \$15,000,000 unsecured revolving line of credit with a financial institution, which expires on October 31, 2026. The interest rate on this line of credit is 2.5% and interest is due in quarterly payments. As of December 31, 2017, \$15,000,000 was outstanding on this line of credit. There was no outstanding balance on this line of credit as of December 31, 2016.

The Loan Fund had a \$10,000,000 unsecured non-revolving line of credit with a financial institution, which expires on November 30, 2026. The interest rate on this line of credit is 3.25% and interest is due at the end of each calendar quarter. As of December 31, 2017 and 2016, \$10,000,000 was outstanding on this line of credit.

The Loan Fund has a \$5,000,000 unsecured revolving line of credit with a financial institution, which expires on May 31, 2018. The interest rate on this line of credit is a thirty-day LIBOR (1.4925% and 0.7164% as of December 31, 2017 and 2016, respectively), plus 2.5%. There was no outstanding balance on this line of credit as of December 31, 2017 and 2016.

The above loans payable and lines of credit require the Loan Fund to maintain certain financial ratios and other covenants as specified in the agreements. As of December 31, 2017 and 2016, the Loan Fund was in compliance with these covenants. As of December 31, 2017 and 2016, the Loan Fund had \$22,500,000 and \$37,500,000, respectively, available on lines of credit.

BOSTON COMMUNITY LOAN FUND, INC. AND AFFILIATE

Notes to Consolidated Financial Statements
December 31, 2017 and 2016

5. LOANS PAYABLE (Continued)**Lines of Credit (Continued)**

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

	<u>2017</u>	<u>2016</u>
Lines of credit	\$ 50,000,000	\$ 35,000,000
Other loans payable	<u>37,142,390</u>	<u>33,473,637</u>
	87,142,390	68,473,637
Less - unamortized debt issuance costs	(34,892)	(58,132)
Less - current portion	<u>(6,901,215)</u>	<u>(7,267,784)</u>
	<u>\$ 80,206,283</u>	<u>\$ 61,147,721</u>

Debt issuance costs totaling \$134,239 as of December 31, 2017 and 2016, are recorded at cost and are amortized over the lives of their respected loan payables. The Loan Fund uses the straight-line method of imputed interest associated with these costs, as the effective interest method does not materially impact the consolidated financial statements. Imputed interest totaled \$23,240 and \$17,066 for the years ended December 31, 2017 and 2016, respectively, and is included in interest expense in the accompanying consolidated statements of activities. Total accumulated amortization for the years ended December 31, 2017 and 2016, was \$99,347 and \$76,107, respectively. Imputed interest is expected to be \$23,240 in 2018 and \$11,652 in 2019.

Maturities on loans payable over the next five years as of December 31, 2017, are as follows:

<u>Year</u>	
2018	\$ 6,901,215
2019	\$ 3,150,946
2020	\$ 6,668,080
2021	\$ 41,190,112
2022	\$ 16,099,036

In the ordinary course of operations, the Loan Fund may negotiate extensions of maturity with many investors. The current maturities as of December 31, 2017, include approximately \$554,000 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, 2017, also include approximately \$1,442,000 considered due on demand.

6. PERMANENT LOAN CAPITAL - SUBORDINATED LOANS PAYABLE

Permanent loan capital - subordinated loans payable consist of long-term subordinated loans payable of the Loan Fund (46 individual loans as of December 31, 2017 and 2016) 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 2019 and 2028. 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.

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.

BOSTON COMMUNITY LOAN FUND, INC. AND AFFILIATE

Notes to Consolidated Financial Statements
December 31, 2017 and 2016

6. PERMANENT LOAN CAPITAL - SUBORDINATED LOANS PAYABLE (Continued)

Permanent loan capital - subordinated loans payable also include 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 bear interest at 2% through the maturity date in September 2019. The Loan Fund is required to make quarterly interest payments until maturity. The Loan Fund can elect to extend the maturity date of the EQ2 Security through September 2021. If the Loan Fund elects to extend the maturity date, any interest payments occurring after September 2021, will be calculated at 9% of the outstanding principal balance.

Principal maturities are as follows:

2018	\$ 105,042
2019	4,517,162
2020	81,606
2021	22,889
2022	500,000
Thereafter	<u>20,249,999</u>
Total loans	25,476,698
Less - current portion	<u>(105,042)</u>
	<u>\$ 25,371,656</u>

Permanent loan capital - subordinated loans payable are as follows as of December 31, 2016:

Total loans	\$ 25,579,661
Less - current portion	<u>(102,963)</u>
Net long-term portion	<u>\$ 25,476,698</u>

7. CREDIT ENHANCEMENTS

During 2017, the Loan Fund received proceeds of an \$8 million conditional grant from the Department of Education (ED) (see Note 2). The Loan Fund collaborates with Nonprofit Finance Fund to use the grant proceeds to provide credit enhancement for twenty-five charter schools or 7,150 student slots. 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. Un-deployed funds are refundable to ED in the case of default. The ED agreement expires in September 2040.

Restricted activity consisted of the following as of December 31, 2017:

Cash collateral (seven active arrangements)	\$ 4,584,797
Reinvested interest income	<u>3,287</u>
	4,588,084
Loans committed not yet financed	<u>3,415,204</u>
	<u>\$ 8,003,288</u>

Maturity dates of the seven active arrangements as of December 31, 2017, range from February 1, 2022 through February 28, 2037.