# BLUEHUB LOAN FUND, INC. AND AFFILIATE

**CONSOLIDATED FINANCIAL STATEMENTS**
**DECEMBER 31, 2021 AND 2020**

**BLUEHUB LOAN FUND, INC. AND AFFILIATE**

Contents
December 31, 2021 and 2020

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Independent Auditor's Report

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

**Opinion**

We have audited the consolidated financial statements of BlueHub 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, 2021 and 2020, 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.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the BlueHub Loan Fund, Inc. and Affiliate as of December 31, 2021 and 2020, 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.

**Basis for Opinion**

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the consolidated Financial Statements section of our report. We are required to be independent of the Loan Fund and Affiliate and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Emphasis of Matters***

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 on the consolidated financial statements was not modified with respect to this matter.

**Responsibilities of Management for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, which raise substantial doubt about the Loan Fund and Affiliate's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

**Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance, and therefore, is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.

- Obtain an understanding of internal control relevant to the audit 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 Loan Fund and Affiliate's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, which raise substantial doubt about the Loan Fund and Affiliate's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

AAFCPAs, Inc.

Westborough, Massachusetts
April 8, 2022

**BLUEHUB LOAN FUND, INC. AND AFFILIATE**

Consolidated Statements of Financial Position
December 31, 2021 and 2020

| **Assets** | **2021** | **2020** |
|---|---|---|
| Current Assets: | | |
| Cash and cash equivalents | $ 62,842,163 | $ 40,565,044 |
| Escrow funds | 910,542 | 905,176 |
| Current portion of loans and interest receivable, net of allowance for loan losses of $1,368,847 and $457,791 as of December 31, 2021 and 2020, respectively | 45,268,688 | 65,245,335 |
| Accounts receivable and other | 114,109 | - |
| Total current assets | 109,135,502 | 106,715,555 |
| Restricted Cash | 8,048,649 | 8,045,845 |
| Loans Receivable, net of current portion and allowance for loan losses of $2,154,386 and $3,065,442 as of December 31, 2021 and 2020, respectively | 153,261,082 | 149,064,120 |
| Affiliate Loans Receivable | 8,000,000 | 8,000,000 |
| Total assets | $ 278,445,233 | $ 271,825,520 |
| **Liabilities and Net Assets** | | |
| Current Liabilities: | | |
| Current portion of loans payable | $ 8,459,196 | $ 9,730,144 |
| Accounts payable | 377,014 | 261,882 |
| Accrued interest | 1,470,307 | 1,433,082 |
| Due to affiliate | 125,116 | 109,607 |
| Escrow funds | 910,542 | 905,176 |
| Conditional advances | 6,670,000 | 5,005,000 |
| Total current liabilities | 18,012,175 | 17,444,891 |
| Bonds Payable, net | 74,336,118 | 74,236,229 |
| Loans Payable, net of current portion | 69,854,123 | 72,329,830 |
| Permanent Loan Capital - Subordinated Loans Payable, net of current portion | 24,250,000 | 24,750,000 |
| Total liabilities | 186,452,416 | 188,760,950 |
| Net Assets: | | |
| Without donor restrictions: | | |
| General | 54,594,570 | 46,589,733 |
| Board designated for loan loss reserves | 7,644,388 | 10,001,349 |
| Total without donor restrictions | 62,238,958 | 56,591,082 |
| With donor restrictions: | | |
| Revolving loan capital | 27,003,859 | 23,162,337 |
| Other financial assistance | 2,750,000 | 3,311,151 |
| Total with donor restrictions | 29,753,859 | 26,473,488 |
| Total net assets | 91,992,817 | 83,064,570 |
| Total liabilities and net assets | $ 278,445,233 | $ 271,825,520 |

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

**BLUEHUB LOAN FUND, INC. AND AFFILIATE**

Consolidated Statements of Activities
For the Years Ended December 31, 2021 and 2020

| | 2021 | 2020 |
|---|---|---|
| **Net Assets Without Donor Restrictions:** | | |
| Operating revenues: | | |
| Financial and earned revenues: | | |
| Interest on loans, net | $ 12,453,078 | $ 13,211,491 |
| Loan fees and other | 1,017,043 | 877,187 |
| Net provision for loan losses | - | (710,000) |
| Less - interest expense | (5,177,152) | (5,712,176) |
| Net financial and earned revenues | 8,292,969 | 7,666,502 |
| Net assets released from purpose restrictions | - | 20,000 |
| Total operating revenues | 8,292,969 | 7,686,502 |
| Operating expenses: | | |
| Personnel | 3,883,631 | 3,573,785 |
| Office operations | 392,452 | 418,882 |
| Consultants | 327,138 | 263,815 |
| Marketing | 183,997 | 123,380 |
| Other | 168,877 | 107,914 |
| Professional fees | 76,414 | 84,410 |
| Total operating expenses | 5,032,509 | 4,572,186 |
| Changes in net assets without donor restrictions from operations | 3,260,460 | 3,114,316 |
| Other changes in net assets without donor restrictions: | | |
| Grants for loan capital | 1,826,265 | 1,256,599 |
| Net assets released from restrictions for loan capital | 561,151 | - |
| Changes in net assets without donor restrictions | 5,647,876 | 4,370,915 |
| **Net Assets With Donor Restrictions:** | | |
| Grants and contributions | 3,835,000 | 7,405,705 |
| Interest income | 6,522 | 3,973 |
| Net assets released from purpose restrictions | - | (20,000) |
| Net assets released from restrictions for loan capital | (561,151) | - |
| Changes in net assets with donor restrictions | 3,280,371 | 7,389,678 |
| Changes in net assets | $ 8,928,247 | $ 11,760,593 |

Consolidated Statements of Changes in Net Assets
For the Years Ended December 31, 2021 and 2020

| | Without Donor Restrictions | | With Donor Restrictions | | |
|---|---|---|---|---|---|
| | General | Board Designated for Loan Loss Reserves | Revolving Loan Capital | Other Financial Assistance | Total |
| **Net Assets,** December 31, 2019 | $ 42,385,180 | $ 9,834,987 | $ 19,063,810 | $ 20,000 | $ 71,303,977 |
| Changes in net assets | 4,370,915 | - | 4,098,527 | 3,291,151 | 11,760,593 |
| Transfers of net assets without donor restrictions | (166,362) | 166,362 | - | - | - |
| **Net Assets,** December 31, 2020 | 46,589,733 | 10,001,349 | 23,162,337 | 3,311,151 | 83,064,570 |
| Changes in net assets | 5,647,876 | - | 3,841,522 | (561,151) | 8,928,247 |
| Transfers of net assets without donor restrictions | 2,356,961 | (2,356,961) | - | - | - |
| **Net Assets,** December 31, 2021 | $ 54,594,570 | $ 7,644,388 | $ 27,003,859 | $ 2,750,000 | $ 91,992,817 |

**BLUEHUB LOAN FUND, INC. AND AFFILIATE**

Consolidated Statements of Cash Flows
For the Years Ended December 31, 2021 and 2020

| | 2021 | 2020 |
|---|---|---|
| **Cash Flows from Operating Activities:** | | |
| Changes in net assets | $ 8,928,247 | $ 11,760,593 |
| Adjustments to reconcile changes in net assets to net cash provided by operating activities: | | |
| Grants for loan capital, credit enhancement and investment uses | (3,835,000) | (8,662,304) |
| Interest - amortization | 138,488 | 154,313 |
| Net provision for loan losses | - | 710,000 |
| Changes in operating assets and liabilities: | | |
| Interest receivable | (34,552) | (993,673) |
| Accounts receivable and other | (114,109) | - |
| Accounts payable | 115,132 | 102,497 |
| Accrued interest | 37,225 | 1,122,987 |
| Due to affiliate | 15,509 | (183,165) |
| Deferred loan fees | 157,892 | (20,610) |
| Net cash provided by operating activities | 5,408,832 | 3,990,638 |
| **Cash Flows from Investing Activities:** | | |
| Principal payments of affiliate loans receivable | - | 715,314 |
| Issuance of loans receivable | (51,809,765) | (40,358,382) |
| Principal payments of loans receivable | 67,466,110 | 32,075,930 |
| Net increase (decrease) in escrow funds liability | 5,366 | (161,566) |
| Net cash provided by (used in) investing activities | 15,661,711 | (7,728,704) |
| **Cash Flows from Financing Activities:** | | |
| Grants for loan capital, credit enhancement and investment uses | - | 8,662,304 |
| Proceeds from bonds payable | - | 75,000,000 |
| Proceeds from loans payable | 5,806,507 | 4,351,010 |
| Principal payments on loans payable | (9,576,761) | (77,443,593) |
| Proceeds from subordinated loans payable | - | 1,000,000 |
| Principal payments of subordinated loans payable | (500,000) | (104,495) |
| Conditional advances | 5,500,000 | 1,910,000 |
| Cash paid for debt issuance costs | (15,000) | (839,265) |
| Net cash provided by financing activities | 1,214,746 | 12,535,961 |
| **Net Change in Cash, Cash Equivalents and Restricted Cash** | 22,285,289 | 8,797,895 |
| **Cash, Cash Equivalents and Restricted Cash:** | | |
| Beginning of year | 49,516,065 | 40,718,170 |
| End of year | $ 71,801,354 | $ 49,516,065 |
| **Reconciliation of Cash, Cash Equivalents and Restricted Cash Reported Within the Consolidated Statements of Financial Position:** | | |
| Cash and cash equivalents | $ 62,842,163 | $ 40,565,044 |
| Escrow funds | 910,542 | 905,176 |
| Restricted cash | 8,048,649 | 8,045,845 |
| Total cash, cash equivalents and restricted cash shown in the consolidated statements of cash flows | $ 71,801,354 | $ 49,516,065 |
| **Supplemental Disclosure of Cash Flow Information:** | | |
| Cash paid for interest | $ 5,001,439 | $ 4,434,876 |

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

## 1. OPERATIONS

BlueHub 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 during 2021 and 2020.

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:

- **BlueHub Capital, Inc.** (the Holding Company) creates and preserves healthy communities where low-income people live and work.

- **BCLF Managed Assets Corporation d/b/a BlueHub 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 BlueHub 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.

## 1. OPERATIONS (Continued)

The Loan Fund entered into loan agreements with some of these affiliates (see Note 3). The Loan Fund also owes the Holding Company $125,116 and $109,607 as of December 31, 2021 and 2020, respectively, for costs that are shared among the related affiliates (see Note 2). These amounts are reflected as due to affiliate in the accompanying consolidated statements of financial position.

### 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 Internal Revenue Code (IRS). The Loan Fund is also exempt from state income taxes. Donors may deduct contributions made to the Loan Fund within the requirements of the Internal Revenue Code (IRC). 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. During 2021 and 2020, the Loan Fund received Capital Magnet Fund awards (see Note 2) of $5,500,000 and $6,000,000, respectively. The Loan Fund also received $2,750,000 of Healthy Foods Financing Initiative awards in 2020.

In connection with the assistance received from the Treasury, the Loan Fund is generally required to pursue specific performance goals and adhere to other requirements as outlined in each agreement with the Treasury. 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.

During fiscal year 2021, the Loan Fund was awarded a $1,826,265 conditional grant. Payment of this grant was conditional upon the Loan Fund meeting certain requirements and incurring costs as defined in the agreement. As of December 31, 2021, the Loan Fund had met the requirements and the full amount is shown as a grant for loan capital in the accompanying 2021 consolidated statement of activities.

## 2. SIGNIFICANT ACCOUNTING POLICIES

The Loan Fund 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

The consolidated financial statements include the accounts of the Loan Fund and BCC REO (see Note 1). All intercompany transactions, if any, 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.

## 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 the purpose of the consolidated statements of cash flows, cash and cash equivalents consist of deposits and other highly liquid investments purchased with a maturity of three months or less, certain restricted depository accounts held in connection with the credit enhancement agreements (see Note 8), and escrow funds (see below).

Cash and cash equivalents are maintained in Massachusetts banks and are insured within limits of the Federal Deposit Insurance Corporation (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.

### Escrow Funds

The Loan Fund held cash balances of $910,542 and $905,176 in escrow for outside parties as of December 31, 2021 and 2020, respectively. These amounts are escrowed for the Loan Fund's borrowers for various purposes, including working capital reserves, replacement reserves, and construction fund escrows.

## 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, the Loan Fund enters into credit enhancement agreements with charter schools and third-party lenders to act as the guarantor of loans to charter schools (see Note 8). Under the terms of the agreements, the Loan Fund deposits amounts 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 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 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 and can be estimated. There were no losses incurred during 2021 or 2020.

### 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 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.

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 bonds and loans payable are disclosed in Notes 5 and 6. 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.

### Net Assets

***Net Assets Without Donor Restrictions*** 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 loan loss reserves. 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).

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Net Assets** (Continued)

***Net Assets With Donor Restrictions*** are unexpended financial resources restricted by donors as to the purpose or timing of expenditure. Net assets with donor restrictions are restricted for the following as of December 31:

| | 2021 | 2020 |
|---|---|---|
| Revolving Loan Capital: | | |
| CDFI Capital Magnet | $ 18,074,348 | $ 14,235,573 |
| ED Credit Enhancement | 8,046,190 | 8,043,443 |
| Permanent loan capital | 883,321 | 883,321 |
| Subtotal revolving loan capital | 27,003,859 | 23,162,337 |
| CDFI Fund Awards | 2,750,000 | 3,311,151 |
| | $ 29,753,859 | $ 26,473,488 |

Revolving loan capital represents awards from the Department of Education for credit enhancement (see Note 8), CDFI Capital Magnet and other programmatic awards (see Note 1), 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 Note 8). The Capital Magnet awards are used to make loans to qualified projects. Each of these grants require 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 May 2026.

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, and subordinated loans payable (see Note 6). 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 are not considered to be perpetual in nature.

CDFI Fund Awards as of December 31, 2021 and 2020, relate to proceeds from the Healthy Food Financing Initiative.

**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.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 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 (see page 10) is restricted for use in qualified activities and is accordingly reported as net assets with donor restrictions.

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 may be conditional or unconditional in accordance with Accounting Standards Update (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 Loan Fund fails to overcome one or more barriers. Assets received before the barrier is overcome are accounted for as conditional advances.

Grants and contributions are recorded as revenue when unconditionally received or 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.

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 2021 and 2020, the Loan Fund received certain Federal grants totaling $5,500,000 and $6,000,000, respectively, which meets this criteria. Due to timing of the awards, $6,670,000 and $5,005,000 of the funds were not yet committed to qualifying projects as of December 31, 2021 and 2020, respectively, and are reported as conditional advances in the accompanying consolidated statements of financial position. The conditional advances as of December 31, 2021, are expected to be deployed or committed for qualifying projects in future periods.

All other revenue is recorded when earned.

### 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.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Expense Allocation** (Continued)

Expenses related directly to the Loan Fund's lending program are distributed to that program, while other expenses are allocated based upon management's estimate of the percentage attributable to different functions. 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 and office operations, which are allocated based on an estimate of time and level of effort spent on the Loan Fund's program and supporting administrative and fundraising functions. The Loan Fund's operating expenses for the years ended December 31, 2021 and 2020, by their natural and functional classifications, are as follows:

| | 2021 | | | |
|---|---|---|---|---|
| | Program | General and Administration | Fund-raising | Total |
| Personnel | $ 3,350,808 | $ 532,823 | $ - | $ 3,883,631 |
| Office operations | 32,150 | 360,302 | - | 392,452 |
| Consultants | 76,315 | 250,823 | - | 327,138 |
| Marketing | - | - | 183,997 | 183,997 |
| Other | 87,896 | 80,981 | - | 168,877 |
| Professional fees | 30,480 | 45,934 | - | 76,414 |
| Subtotal operating | 3,577,649 | 1,270,866 | 183,997 | 5,032,509 |
| Interest expense | 5,177,152 | - | - | 5,177,152 |
| Total | $ 8,754,801 | $ 1,270,866 | $ 183,997 | $ 10,209,661 |

| | 2020 | | | |
|---|---|---|---|---|
| | Program | General and Administration | Fund-raising | Total |
| Personnel | $ 3,164,912 | $ 408,873 | $ - | $ 3,573,785 |
| Office operations | 54,139 | 364,743 | - | 418,882 |
| Consultants | 103,902 | 159,913 | - | 263,815 |
| Marketing | - | - | 123,380 | 123,380 |
| Other | 62,451 | 45,463 | - | 107,914 |
| Professional fees | 33,710 | 50,700 | - | 84,410 |
| Subtotal operating | 3,419,114 | 1,029,692 | 123,380 | 4,572,186 |
| Interest expense | 5,712,176 | - | - | 5,712,176 |
| Provision for loan losses | 710,000 | - | - | 710,000 |
| Total | $ 9,841,290 | $ 1,029,692 | $ 123,380 | $ 10,994,362 |

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 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, 2021 and 2020. 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 8, 2022, which is the date the consolidated financial statements were available to be issued. An event that met the criteria for disclosure in the consolidated financial statements is included in Note 8.

## 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 percent to eight percent (0% - 8%) and mature at various dates through 2042. The weighted average rate of interest on loans was 5.82% and 5.93% as of December 31, 2021 and 2020, respectively. 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 $50,820,470 and $30,941,242 as of December 31, 2021 and 2020, 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 is presented net of interest of $2,487,658 and $1,956,648 collected on behalf of and paid to loan participants in 2021 and 2020, respectively.

## 3. LOANS AND INTEREST RECEIVABLE (Continued)

**Portfolio Lending** (Continued)

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

| Type | 2021 Number of Loans | 2021 Net Loan Amount | 2020 Number of Loans | 2020 Net Loan Amount |
|---|---|---|---|---|
| Permanent | 67 | $ 70,027,584 | 66 | $ 90,503,237 |
| Construction | 44 | 59,067,739 | 45 | 62,946,768 |
| Site acquisition | 30 | 49,911,011 | 31 | 52,590,778 |
| Organizational | 8 | 10,265,790 | 9 | 5,043,997 |
| Predevelopment | 15 | 10,096,207 | 8 | 3,939,896 |
| | 164 | 199,368,331 | 159 | 215,024,676 |
| Interest receivable on loans | | 3,424,173 | | 3,389,621 |
| | | $ 202,792,504 | | $ 218,414,297 |

The majority of the Loan Fund's loans receivable are 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 $4,422,664 and $5,617,020 of the Loan Fund's restricted cash dedicated to credit enhancement activities (see Note 8) as of December 31, 2021 and 2020, respectively.

Future minimum payments of principal (and accrued interest at December 31, 2021) for years ending after December 31, 2021, are as follows:

| | |
|---|---|
| 2022 (including $3,424,173 of accrued interest) | $ 46,637,535 |
| 2023 | 19,711,812 |
| 2024 | 21,494,484 |
| 2025 | 18,137,171 |
| 2026 | 28,123,535 |
| Thereafter | 68,687,967 |
| | 202,792,504 |
| Adjustment for deferred loan fees (see Note 2) | (739,501) |
| Less - allowance for loan losses (see Note 4) | (3,523,233) |
| Net loans and interest receivable | 198,529,770 |
| Less - current portion | (45,268,688) |
| Net long-term portion | $ 153,261,082 |

## 3. LOANS AND INTEREST RECEIVABLE (Continued)

### Portfolio Lending (Continued)

Loans and interest receivable are as follows as of December 31, 2020:

| | |
|---|---|
| Gross loans and interest receivable | $ 218,414,297 |
| Adjustment for deferred loan fees (see Note 2) | (581,609) |
| Less - allowance for loan losses (see Note 4) | (3,523,233) |
| Net loans and interest receivable | 214,309,455 |
| Less - current portion (including $3,389,621 of accrued interest) | (65,245,335) |
| Net long-term portion | $ 149,064,120 |

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

| | 2021 | 2020 |
|---|---|---|
| 60 - 89 days | $ 1,500 | $ 1,500 |
| Greater than 90 days | 505,992 | 59,456 |
| Total past due | 507,492 | 60,956 |
| Principal balance of 90-day delinquent loans (see page 17) | 2,185,230 | 2,185,230 |
| Current | 196,675,609 | 212,778,490 |
| | $ 199,368,331 | $ 215,024,676 |

### Commitments to Lend

The Loan Fund had committed $82,839,894 and $53,953,112 for future disbursements on existing loan commitments and lines of credit to unrelated borrowers as of December 31, 2021 and 2020, respectively. Among the tools available to manage liquidity (see Note 9) are collections of existing loans receivable, lines of credit with financial institutions (see Note 6), as well as the potential to initiate loan sales and loan participation agreements with lending partners.

### Concentrations

The Loan Fund's loans receivable are subject to the economic conditions present in both the industry and the geographic region in which the funds have been deployed. Any economic disruptions experienced by the underlying borrower could potentially have an adverse effect on the Loan Fund's financial operations.

## 3. LOANS AND INTEREST RECEIVABLE (Continued)

**Concentrations** (Continued)

Below is a breakout of the Loan Fund's portfolio by asset class as of December 31:

| Asset Class | 2021 | 2020 |
|---|---|---|
| Housing | $ 83,137,498 | $ 93,068,410 |
| Education | 67,196,944 | 65,656,178 |
| Commercial/Manufacturing | 22,689,314 | 22,433,124 |
| Other | 13,161,912 | 8,664,305 |
| Healthcare | 7,306,083 | 17,158,732 |
| Healthy Food | 5,876,580 | 8,043,927 |
| Total | $ 199,368,331 | $ 215,024,676 |

Below is a breakout of the Loan Fund's portfolio by geographical location as of December 31:

| Location | 2021 | 2020 |
|---|---|---|
| Massachusetts | $ 48,859,893 | $ 48,001,810 |
| Connecticut | 23,623,020 | 26,908,008 |
| New York | 23,480,967 | 26,958,907 |
| Tennessee | 16,889,298 | 18,768,456 |
| New Jersey | 12,564,722 | 18,775,588 |
| California | 12,021,131 | 24,836,333 |
| Pennsylvania | 9,409,183 | 6,943,622 |
| Texas | 7,978,602 | 1,527,529 |
| Delaware | 6,608,286 | 6,789,994 |
| Louisiana | 5,777,144 | 5,358,302 |
| Missouri | 4,592,787 | 4,437,346 |
| Mississippi | 4,342,224 | - |
| Illinois | 3,961,675 | 6,837,166 |
| Rhode Island | 3,660,869 | 10,542,090 |
| District of Columbia | 3,049,924 | 3,000,000 |
| Alabama | 3,032,082 | - |
| Ohio | 2,794,246 | - |
| Virginia | 2,337,500 | 1,781,250 |
| Florida | 2,255,467 | - |
| North Carolina | 925,000 | 925,000 |
| New Hampshire | 862,500 | - |
| Maine | 341,811 | 341,811 |
| Maryland | - | 2,291,464 |
| Total | $ 199,368,331 | $ 215,024,676 |

## 3. LOANS AND INTEREST RECEIVABLE (Continued)

### Loan Portfolio Quality and Leverage

Below is analysis of the Loan Fund's portfolio quality and leverage as of December 31:

| | 2021 | 2020 |
|---|---|---|
| 90-day Delinquency Rate | 1.1% | 1.0% |
| Principal Balance of 90-day Delinquent Loans | $ 2,185,230 | $ 2,185,230 |
| Credit Impaired Assets (TDR) (see Note 4) | 1.52% | 1.26% |
| Credit Impaired Principal Balance | $ 3,035,622 | $ 2,715,075 |
| Annual Loan Write-offs/Loans Outstanding | 0.00% | 0.00% |
| Cumulative Historical Net Loss Ratio | 0.24% | 0.27% |
| Loan Loss Reserves (see Note 4)/Loans Outstanding (including Affiliate Loans) | 5.38% | 6.06% |

### Guarantee Agreements

The Loan Fund has a non-expiring loan guarantee agreement with the United States Department of Agriculture. 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, 2021 and 2020, 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. As of December 31, 2021, the principal balance of this loan was $3,947,490, of which $3,750,100 was participated out to a third party. As of December 31, 2020, the principal balance of this loan was $4,027,223, of which $3,825,845 was participated out to a third party.

The Loan Fund has an eight-year loan guarantee agreement with a Virginia limited liability company. The guarantee is intended to strengthen the Loan Fund's ability to finance loans to affordable and supported housing communities and low-income communities. As of December 31, 2021, the guarantee was in the development period and there were no outstanding loan receivables under the agreement.

### Special Tax-Credit Lending

As of December 31, 2021 and 2020, the Loan Fund has entered into 144 and 126 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 December 2073. 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 loan fees and other in the accompanying consolidated statements of activities and totaled $283,896 and $229,702 for 2021 and 2020, respectively.

Total outstanding principal balances are $610,592,137 and $531,148,081 as of December 31, 2021 and 2020, respectively. These loans have specific restrictions, and due to their long-term deferred nature and likelihood of collectability, the notes are substantially reserved at December 31, 2021 and 2020. 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 years ended December 31, 2021 and 2020. As of December 31, 2021 and 2020, there was outstanding interest receivable on these loans of $398,511 and $492,554, respectively, which has been fully reserved in the accompanying consolidated financial statements (see Note 4).

## 3. LOANS AND INTEREST RECEIVABLE (Continued)

**Affiliate Loans Receivable**

*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 3.5% per annum and interest is due quarterly through maturity of December 31, 2025, when all remaining principal is due. Interest paid to the Loan Fund was $177,535 and $216,042 for 2021 and 2020, respectively. As of December 31, 2021 and 2020, principal outstanding under this agreement totaled $5,000,000.

*SEA*

The Loan Fund loaned $3,000,000 of the proceeds of permanent loan capital - subordinated loans payable to SEA (see Note 6) to finance a portion of certain assets of SEA. The entire principal is outstanding at December 31, 2021 and 2020. This intercompany loan bears interest at 3%, payable quarterly, is unsecured, and matures in September 2029. Interest on these borrowings totaled $90,000 in 2021 and 2020.

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

## 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 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:

| | 2021 | 2020 |
|---|---|---|
| Allowance for loan losses (see below and Note 2) | $ 3,523,233 | $ 3,523,233 |
| Board designated net assets for general loan loss reserves (see Note 2) | 7,644,388 | 10,001,349 |
| | $ 11,167,621 | $ 13,524,582 |

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 19). 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 loan loss reserves equals at least 5% of total loans receivable of the Loan Fund.

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

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

| 2021 | Construction | Organi-zational | Permanent | Pre-development | Site Acquisition | Total |
|---|---|---|---|---|---|---|
| Allowance for loan losses, December 31, 2020 | $ 1,142,027 | $ 14,577 | $ 1,798,083 | $ 414,970 | $ 153,576 | $ 3,523,233 |
| Provision | 472,811 | 61,833 | - | - | - | 534,644 |
| Recoveries | (173,416) | - | (265,678) | - | (95,550) | (534,644) |
| Allowance for loan losses, December 31, 2021 | $ 1,441,423 | $ 76,410 | $ 1,532,405 | $ 414,970 | $ 58,026 | $ 3,523,233 |
| Ending balance: Individually evaluated for impairment | $ 1,418,434 | $ 72,462 | $ 782,068 | $ - | $ - | $ 2,272,963 |
| Troubled Debt Restructuring | $ 1,418,434 | $ 72,462 | $ 782,068 | $ - | $ - | $ 2,272,963 |

| 2020 | Construction | Organi-zational | Permanent | Pre-development | Site Acquisition | Total |
|---|---|---|---|---|---|---|
| Allowance for loan losses, December 31, 2019 | $ 420,126 | $ 8,388 | $ 1,816,174 | $ 414,970 | $ 153,576 | $ 2,813,234 |
| Provision | 721,901 | 6,189 | - | - | - | 728,090 |
| Recoveries | - | - | (18,091) | - | - | (18,091) |
| Allowance for loan losses, December 31, 2020 | $ 1,142,027 | $ 14,577 | $ 1,798,083 | $ 414,970 | $ 153,576 | $ 3,523,233 |
| Ending balance: Individually evaluated for impairment | $ 945,622 | $ 8,353 | $ 782,068 | $ - | $ - | $ 1,736,043 |
| Troubled Debt Restructuring | $ 945,622 | $ 8,353 | $ 782,068 | $ - | $ - | $ 1,736,043 |

The Loan Fund uses a 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:

| | | 2021 | | 2020 | |
|---|---|---|---|---|---|
| Category | Risk Rating | Loan Balance | Loan Loss Allowance | Loan Balance | Loan Loss Allowance |
| Pass | 1 - 4 | $ 189,350,323 | $ - | $ 200,800,641 | $ - |
| Special Mention | 5 - 6 | 7,344,695 | 770,700 | 11,550,722 | 1,159,249 |
| Substandard | 7 - 8 | 2,673,313 | 2,200,502 | 2,673,313 | 1,727,690 |
| General Reserve | | - | 552,031 | - | 636,294 |
| | | $ 199,368,331 | $ 3,523,233 | $ 215,024,676 | $ 3,523,233 |

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

### Impaired Loans and Troubled Debt Restructurings

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 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

As of December 31, 2021 and 2020, loans that were impaired and classified as TDRs were as follows:

| | 2021 | | |
|---|---|---|---|
| Troubled Debt Restructuring | Number of Loans Restructured | Amount of Restructured Loans | Related Allowance for Loan Loss |
| Construction Financings - Multiple extensions resulting from financial difficulty | 2 | $ 1,891,245 | $ 1,418,433 |
| Permanent Financings - Multiple extensions resulting from financial difficulty | 2 | 782,068 | 782,068 |
| Organizational Financings - Multiple extensions resulting from financial difficulty | 2 | 362,309 | 72,462 |
| | 6 | $ 3,035,622 | $ 2,272,963 |

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

**Impaired Loans and Troubled Debt Restructurings** (Continued)

| Troubled Debt Restructuring | 2020 Number of Loans Restructured | Amount of Restructured Loans | Related Allowance for Loan Loss |
|---|---|---|---|
| Construction Financings - Multiple extensions resulting from financial difficulty | 2 | $ 1,891,245 | $ 945,622 |
| Permanent Financings - Multiple extensions resulting from financial difficulty | 2 | 782,068 | 782,068 |
| Organizational Financings - Multiple extensions resulting from financial difficulty | 1 | 41,762 | 8,353 |
| | 5 | $ 2,715,075 | $ 1,736,043 |

The above loans are all on "non-accrual" status.

## 5. BONDS PAYABLE

During 2020, the Loan Fund completed its first public debt offering, $75 million in unsecured Sustainability Bonds (the Bonds). Proceeds from sustainability bonds are exclusively applied to finance or re-finance a combination of both green and social projects. The proceeds of the Bonds were used primarily to refinance certain existing fixed and floating debt obligations of the Loan Fund (see Note 6).

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

| | 2021 | 2020 |
|---|---|---|
| The Loan Fund issued a public debt offering of Sustainability Bonds comprised of ten-year term bonds for $56,250,000 in January 2020. The issued bonds have a maturity date of January 1, 2030, and an interest rate of 3.099% per annum, payable semiannually. Accrued interest as of December 31, 2021 and 2020, is $871,594. The bonds are rated A- by S&P Global Ratings. | $ 56,250,000 | $ 56,250,000 |
| The Loan Fund issued a public debt offering of Sustainability Bonds comprised of seven-year serial bonds for $18,750,000 in January 2020. The issued bonds have a maturity date of January 1, 2027, and an interest rate of 2.89% per annum, payable semiannually. Accrued interest as of December 31, 2021 and 2020, is $270,938. The bonds are rated A- by S&P Global Ratings. | 18,750,000 | 18,750,000 |
| Total bonds payable | 75,000,000 | 75,000,000 |
| Less - unamortized debt issuance costs | (663,882) | (763,771) |
| | $ 74,336,118 | $ 74,236,229 |

## 5. BONDS PAYABLE (Continued)

Debt issuance costs totaling $887,692 as of December 31, 2021 and 2020, are recorded at cost and are amortized over the lives of the Bonds. 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 $99,889 and $105,405 for the years ended December 31, 2021 and 2020, respectively, and is included in interest expense in the accompanying consolidated statements of activities. Total accumulated amortization as of December 31, 2021 and 2020, was $223,810 and $123,921, respectively.

The Loan Fund must comply with various reporting covenants under the Bonds' agreements, all of which the Loan Fund was in compliance as of December 31, 2021 and 2020.

## 6. LOANS PAYABLE

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

| | 2021 | 2020 |
|---|---|---|
| The Loan Fund has a $20,000,000 unsecured revolving line of credit with a financial institution, which expires on December 31, 2025. The interest rate on this line of credit is 2% and interest is due in quarterly payments. | $ 20,000,000 | $ 20,000,000 |
| The Loan Fund has a $10,000,000 unsecured revolving line of credit with a financial institution, which expires on December 31, 2025. The interest rate on this line of credit is 2% 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 October 31, 2026. The interest rate on this line of credit is 2.4% 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. The loan bears a fixed interest rate of 3.63% on the outstanding balance. | 10,000,000 | 10,000,000 |
| The Loan Fund has a $15,000,000 unsecured non-revolving line of credit with a financial institution, which as amended in 2019, and expires on August 1, 2026. The interest rate on this line of credit is fixed at 3.49%. | - | 5,000,000 |
| Total lines of credit | 50,000,000 | 55,000,000 |
| Other loans payable (see Page 23) | 28,369,638 | 27,139,892 |
| | 78,369,638 | 82,139,892 |
| Less - unamortized debt issuance costs | (56,319) | (79,918) |
| Less - current portion | (8,459,196) | (9,730,144) |
| | $ 69,854,123 | $ 72,329,830 |

## 6. LOANS PAYABLE (Continued)

Other loans payable of the Loan Fund represent loans by approximately 350 lenders (investors) in principal amounts ranging from $1,000 to $3,000,000. Other loans payable bear interest at rates ranging from 0% to 3.5%, payable at various dates through 2040. In the ordinary course of operations, the Loan Fund may negotiate extensions of maturity with many investors. The current maturities as of December 31, 2021, include approximately $451,000 of loan principal which have 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, 2021, also include approximately $1,224,000 considered due on demand.

The Loan Fund had a total of $40,000,000 of available credit on lines of credit with financial institutions as of December 31, 2021. 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, 2021 and 2020, the Loan Fund was in compliance with these covenants.

Debt issuance costs totaling $276,836 and $261,836 and as of December 31, 2021 and 2020, 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 $38,599 and $48,907 for the years ended December 31, 2021 and 2020, respectively, and is included in interest expense in the accompanying consolidated statements of activities. Total accumulated amortization as of December 31, 2021 and 2020, was $220,517 and $181,918, respectively.

Principal maturities on loans payable, bonds payable (see Note 5) and imputed interest of debt issuance costs over the next five years of loans and bonds payable as of December 31, 2021, are as follows:

| | Bonds Payable | | Loans Payable | |
|---|---|---|---|---|
| Year | Principal Maturities | Imputed Interest of Debt Issuance Costs | Principal Maturities - Loans | Imputed Interest of Debt Issuance Costs - Loans |
| 2022 | $ - | $ 94,405 | $ 8,459,196 | $ 17,745 |
| 2023 | $ - | $ 94,405 | $ 2,605,247 | $ 13,963 |
| 2024 | $ - | $ 94,405 | $ 14,422,058 | $ 9,453 |
| 2025 | $ - | $ 94,405 | $ 32,035,200 | $ 5,011 |
| 2026 | $ - | $ 94,405 | $ 14,182,900 | $ 4,825 |
| Thereafter | $ 75,000,000 | $ 191,857 | $ 6,665,037 | $ 5,324 |

## 7. PERMANENT LOAN CAPITAL - SUBORDINATED LOANS PAYABLE

Permanent loan capital - subordinated loans payable consist of long-term subordinated loans payable of the Loan Fund (45 and 46 individual loans as of December 31, 2021 and 2020, respectively) from financial and other institutions, bearing simple interest at rates between 1.9% and 4%. These loans have substantially similar terms, including annual interest-only payments until final maturity, occurring between 2030 and 2040. 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. These loans are subordinate and junior to all other obligations of the Loan Fund.

## 7. 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.

The permanent loan capital - subordinated loans payable was $24,250,000 and $24,750,000, as of December 31, 2021 and 2020, respectively.

## 8. CREDIT ENHANCEMENTS

The Loan Fund administers proceeds of an $8 million conditional grant from the Department of Education (ED) (see Note 2) in collaboration with the 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 providing 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. The Loan Fund actively monitors this program, and no losses are deemed probable for 2021 or 2020.

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 the 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.

Restricted cash of the credit enhancement program consisted of the following as of December 31:

| | 2021 | 2020 |
|---|---|---|
| Cash collateral (thirteen and fourteen arrangements as of December 31, 2021 and 2020, respectively) | $ 6,835,601 | $ 8,028,952 |
| Grant reserve funds | 1,213,048 | 16,893 |
| | $ 8,048,649 | $ 8,045,845 |

Approximately $4.4 million and $5.6 million of the cash collateral escrow secures loans receivable of the Loan Fund as of December 31, 2021 and 2020, respectively (see Note 3).

Interest income reinvested to the grant reserve totaled $2,804 and $3,973 for the years ended December 31, 2021 and 2020, respectively, and is included in net assets with donor restrictions in the accompanying consolidated statements of activities.

**8. CREDIT ENHANCEMENTS** (Continued)

Maturity dates of the active arrangements as of December 31, 2021, range from February 1, 2022 through February 28, 2037, as follows:

| | |
|---|---|
| 2022 | $ 471,816 |
| 2023 | $ 684,900 |
| 2024 | $ 508,780 |
| 2025 | $ 301,344 |
| 2026 | $ 1,271,351 |
| Thereafter | $ 3,597,410 |

Subsequent to December 31, 2021, the Corporation received a commitment to receive another $12 million in funding to enter into credit enhancement agreements with charter schools and third-party lenders.

**9. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS**

The Loan Fund's financial assets available within one year from the consolidated statements of financial position date as of December 31, 2021 and 2020, for general operating expenses are as follows:

| | 2021 | 2020 |
|---|---|---|
| Cash and cash equivalents | $ 62,842,163 | $ 40,565,044 |
| Current portion of loans and interest receivable, net | 45,268,688 | 65,245,335 |
| Total financial assets | 108,110,851 | 105,810,379 |
| Board designated reserves (see Note 2) | (7,644,388) | (10,001,349) |
| Net assets with donor restrictions and conditional advances | (28,377,669) | (23,435,045) |
| Total financial assets available to meet cash needs for general expenditures within one year | $ 72,088,794 | $ 72,373,985 |

The Loan Fund's financial resources are generally dedicated to its lending operations. The operations are supported substantially with borrowed capital (see Notes 5 and 6) in proportion with equity resources that reduce the overall cost of funds. The Loan Fund has access to capital to meet loan commitments and demand in the form of repayments of existing loans receivable and available lines of credit and a recently executed public debt offering (see Note 5). To supplement liquidity for mission-related financing, the Loan Fund also utilizes participation strategies and other co-lending agreements with mission-related partners.

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

## 10. CONTINGENCY

In 2020 and continuing into 2022, 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 have impacted some of the Loan Fund's borrowers and their ability to repay the loans receivable of the Loan Fund. Though the future financial effects cannot be reasonably estimated at this time, these circumstances may have adverse effects on the Loan Fund, its operations, pipeline of loan closings and financing, and future consolidated financial statements. The accompanying consolidated financial statements, including loan loss allowances (see Note 4), have not been adjusted for any potential financial effects that may occur in the future related to the current uncertainty.

Management of the Loan Fund is continually 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 Loan Fund is unable to accurately predict how the future effects of the Coronavirus may affect the results of its operations.