

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

**CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2023 AND 2022**

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

Contents  
December 31, 2023 and 2022

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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, 2023 and 2022, 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 consolidated financial position of BlueHub Loan Fund, Inc. and Affiliate as of December 31, 2023 and 2022, 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 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 is not modified with respect to this matter.

Also, as discussed in Note 2 to the consolidated financial statements, effective January 1, 2023, the Loan Fund and Affiliate adopted Accounting Standards Update 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. Our opinion is not modified with respect to that matter.

### **Responsibilities of Management for the 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 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.

*AAFCPA, Inc.*

Westborough, Massachusetts  
April 16, 2024

**BLUEHUB LOAN FUND, INC. AND AFFILIATE**Consolidated Statements of Financial Position  
December 31, 2023 and 2022

<b>Assets</b>	<b>2023</b>	<b>2022</b>
Current Assets:		
Cash and cash equivalents	\$ 79,505,256	\$ 92,228,469
Escrow funds	866,196	729,182
Accounts receivable and other	183,811	71,299
Accrued interest receivable	2,659,379	2,402,320
Subtotal	<u>83,214,642</u>	<u>95,431,270</u>
Current portion of loans receivable	54,380,897	37,333,449
Allowance for credit losses as of December 31, 2023 and allowance for loan losses as of December 31, 2022	<u>(457,791)</u>	<u>(2,146,919)</u>
Net current portion of loans receivable	<u>53,923,106</u>	<u>35,186,530</u>
Total current assets	<u>137,137,748</u>	<u>130,617,800</u>
Restricted Cash	<u>20,412,157</u>	<u>8,058,623</u>
Loans Receivable, net of current portion	194,049,867	146,189,159
Allowance for credit losses as of December 31, 2023 and allowance for loan losses as of December 31, 2022	<u>(2,702,479)</u>	<u>(1,376,314)</u>
Net loans receivable	<u>191,347,388</u>	<u>144,812,845</u>
Affiliate Loans Receivable	<u>5,000,000</u>	<u>6,500,000</u>
Total assets	<u>\$ 353,897,293</u>	<u>\$ 289,989,268</u>
<b>Liabilities and Net Assets</b>		
Current Liabilities:		
Current portion of loans payable	\$ 8,223,391	\$ 6,734,162
Accounts payable	398,508	495,555
Accrued interest	1,587,437	1,501,779
Due to affiliate	209,968	185,904
Escrow funds	866,196	729,182
Conditional advances	4,336,446	6,260,000
Total current liabilities	<u>15,621,946</u>	<u>15,906,582</u>
Bonds Payable, net	74,508,428	74,430,524
Loans Payable, net of current portion	108,777,290	71,076,679
Permanent Loan Capital - Subordinated Loans Payable	<u>24,250,000</u>	<u>24,250,000</u>
Total liabilities	<u>223,157,664</u>	<u>185,663,785</u>
Net Assets:		
Without donor restrictions:		
General	72,794,946	63,720,129
Board designated for loan loss reserves	9,555,826	6,565,280
Total without donor restrictions	<u>82,350,772</u>	<u>70,285,409</u>
With donor restrictions:		
Revolving loan capital	44,413,970	30,940,074
Other financial assistance	3,974,887	3,100,000
Total with donor restrictions	<u>48,388,857</u>	<u>34,040,074</u>
Total net assets	<u>130,739,629</u>	<u>104,325,483</u>
Total liabilities and net assets	<u>\$ 353,897,293</u>	<u>\$ 289,989,268</u>

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

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**BLUEHUB LOAN FUND, INC. AND AFFILIATE**Consolidated Statements of Activities  
For the Years Ended December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
<b>Net Assets Without Donor Restrictions:</b>		
Operating revenues:		
Financial and earned revenues:		
Interest on loans, net	\$ 12,858,276	\$ 11,200,394
Interest on cash and cash equivalents	2,576,989	195,241
Loan fees and other	1,535,347	1,021,481
Less - net credit loss provision	(165,225)	-
Less - interest expense	<u>(5,304,935)</u>	<u>(4,935,027)</u>
Net financial and earned revenues	11,500,452	7,482,089
Net assets released from purpose restrictions	<u>175,000</u>	<u>-</u>
Total operating revenues	<u>11,675,452</u>	<u>7,482,089</u>
Operating expenses:		
Personnel	4,224,308	3,562,102
Office operations	637,244	487,948
Consultants	405,008	244,119
Other	345,940	223,445
Professional fees	261,986	99,470
Marketing	<u>198,167</u>	<u>183,554</u>
Total operating expenses	<u>6,072,653</u>	<u>4,800,638</u>
Changes in net assets without donor restrictions from operations	5,602,799	2,681,451
Other changes in net assets without donor restrictions:		
Net assets released from restrictions for loan capital	4,500,000	2,750,000
Grants for loan capital	<u>1,962,564</u>	<u>2,615,000</u>
Changes in net assets without donor restrictions	<u>12,065,363</u>	<u>8,046,451</u>
<b>Net Assets With Donor Restrictions:</b>		
Grants and contributions	18,473,441	7,010,000
Interest income	550,342	26,215
Net assets released from purpose restrictions	(175,000)	-
Net assets released from restrictions for loan capital	<u>(4,500,000)</u>	<u>(2,750,000)</u>
Changes in net assets with donor restrictions	<u>14,348,783</u>	<u>4,286,215</u>
Changes in net assets	<u>\$ 26,414,146</u>	<u>\$ 12,332,666</u>

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

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

Consolidated Statements of Changes in Net Assets  
For the Years Ended December 31, 2023 and 2022

	<u>Without Donor Restrictions</u>		<u>With Donor Restrictions</u>		<u>Total</u>
	<u>General</u>	<u>Board Designated for Loan Loss Reserves</u>	<u>Revolving Loan Capital</u>	<u>Other Financial Assistance</u>	
<b>Net Assets</b> , December 31, 2021	\$ 54,594,570	\$ 7,644,388	\$ 27,003,859	\$ 2,750,000	\$ 91,992,817
Changes in net assets	8,046,451	-	3,936,215	350,000	12,332,666
Transfers of net assets without donor restrictions	<u>1,079,108</u>	<u>(1,079,108)</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Net Assets</b> , December 31, 2022	63,720,129	6,565,280	30,940,074	3,100,000	104,325,483
Changes in net assets	12,065,363	-	13,473,896	874,887	26,414,146
Transfers of net assets without donor restrictions	<u>(2,990,546)</u>	<u>2,990,546</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Net Assets</b> , December 31, 2023	<u>\$ 72,794,946</u>	<u>\$ 9,555,826</u>	<u>\$ 44,413,970</u>	<u>\$ 3,974,887</u>	<u>\$ 130,739,629</u>

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

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

Consolidated Statements of Cash Flows  
For the Years Ended December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
<b>Cash Flows from Operating Activities:</b>		
Changes in net assets	\$ 26,414,146	\$ 12,332,666
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Grants for loan capital, credit enhancement and investment uses	(20,436,005)	(9,625,000)
Interest - amortization	115,453	121,268
Net credit loss provision	(165,225)	-
Changes in operating assets and liabilities:		
Interest receivable	(454,798)	1,021,854
Accounts receivable and other	(112,512)	42,810
Accounts payable	(97,047)	118,541
Accrued interest	85,658	31,472
Due to affiliate	24,064	60,788
Deferred loan fees	319,407	(167,746)
Net cash provided by operating activities	<u>5,693,141</u>	<u>3,936,653</u>
<b>Cash Flows from Investing Activities:</b>		
Principal payments of affiliate loans receivable	1,500,000	1,500,000
Issuance of loans receivable	(97,612,004)	(44,030,201)
Principal payments of loans receivable	32,384,442	59,304,168
Net increase (decrease) in escrow funds liability	137,014	(181,360)
Net cash provided by (used in) investing activities	<u>(63,590,548)</u>	<u>16,592,607</u>
<b>Cash Flows from Financing Activities:</b>		
Proceeds from loans payable	52,007,806	4,096,015
Principal payments on loans payable	(12,812,754)	(4,601,447)
Conditional advances	3,500,000	3,500,000
Grants for loan capital	15,012,451	5,715,000
Cash paid for debt issuance costs	(42,761)	(23,908)
Net cash provided by financing activities	<u>57,664,742</u>	<u>8,685,660</u>
<b>Net Change in Cash, Cash Equivalents and Restricted Cash</b>	(232,665)	29,214,920
<b>Cash, Cash Equivalents and Restricted Cash:</b>		
Beginning of year	<u>101,016,274</u>	<u>71,801,354</u>
End of year	<u>\$ 100,783,609</u>	<u>\$ 101,016,274</u>
<b>Reconciliation of Cash, Cash Equivalents and Restricted Cash Reported Within the Consolidated Statements of Financial Position:</b>		
Cash and cash equivalents	\$ 79,505,256	\$ 92,228,469
Escrow funds	866,196	729,182
Restricted cash	<u>20,412,157</u>	<u>8,058,623</u>
Total cash, cash equivalents and restricted cash shown in the consolidated statements of cash flows	<u>\$ 100,783,609</u>	<u>\$ 101,016,274</u>
<b>Supplemental Disclosure of Cash Flow Information:</b>		
Cash paid for interest	<u>\$ 5,103,824</u>	<u>\$ 4,782,287</u>



## BLUEHUB LOAN FUND, INC. AND AFFILIATE

Notes to Consolidated Financial Statements  
December 31, 2023 and 2022

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### 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, if any, are included in these consolidated financial statements. BCC REO had no activity during 2023 and 2022.

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.

The Loan Fund entered into loan agreements with some of these affiliates (see Note 3). The Loan Fund also owes the Holding Company \$209,968 and \$185,904 as of December 31, 2023 and 2022, 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.

## BLUEHUB LOAN FUND, INC. AND AFFILIATE

Notes to Consolidated Financial Statements  
December 31, 2023 and 2022

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### 1. OPERATIONS (Continued)

#### 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 (IRC). The Loan Fund is also exempt from state income taxes. Donors may deduct contributions made to the Loan Fund within the requirements of the 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 2023 and 2022, the Loan Fund received Capital Magnet Fund awards (see Note 2) of \$3,500,000 in each year.

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 years 2023 and 2022, the Loan Fund was awarded \$3,000,000 and \$5,440,000, respectively, of conditional grants for additional CDFI awards for a variety of uses.

### 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.

#### Recently Issued Accounting Pronouncement

In June 2016, the FASB issued Accounting Standards Update (ASU) 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which significantly changed how entities will measure credit losses for most financial assets and certain other instruments that are not measured at fair value through net income. The most significant change in this standard is a shift from the incurred loss model to the expected loss model. Under the standard, disclosures are required to provide users of the consolidated financial statements with useful information in analyzing an entity's exposure to credit risk and the measurement of credit losses. Financial assets held by the Loan Fund that were most impacted and subject to the guidance in Topic 326 were loans receivable. The Loan Fund adopted the standard effected January 1, 2023, using the modified retrospective method.

## BLUEHUB LOAN FUND, INC. AND AFFILIATE

Notes to Consolidated Financial Statements  
December 31, 2023 and 2022

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### 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Recently Adopted Accounting Pronouncement (Continued)

The impact of adoption of ASC Topic 326 on the Loan Fund's consolidated statement of financial position as of January 1, 2023, was as follows:

	<u>As Previously Reported</u>	<u>Effect of Adoption</u>	<u>As Adjusted</u>
Allowance for credit losses	\$ -	\$ 3,523,233	\$ 3,523,233
Allowance for loan losses	\$ 3,523,233	\$ (3,523,233)	\$ -
Net assets without donor restrictions	\$ 70,285,409	\$ -	\$ 70,285,409

Results for reporting periods beginning after January 1, 2023, are presented under ASC Topic 326.

The Loan Fund had previously monitored the performance of its loan portfolio with its management team and its loan loss mitigation department on a frequent basis to align its perceived credit risk with the allowance for loan losses recognized in the consolidated financial statements. The Loan Fund adjusted its allowance for loan losses annually based on credit exposure and not on an incurred loss method. Due to this annual assessment, there was no material impact to the consolidated statement of financial position from the adoption of ASC Topic 326.

In conjunction with the adoption of ASU 2016-13 noted above, on January 1, 2023, the Loan Fund also adopted ASU 2022-02, *Financial Instruments – Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures* (ASU 2022-02), removing the recognition and measurement guidance on troubled debt restructurings for creditors and enhancing disclosures provided about certain modifications or receivables to debtors experiencing financial difficulty.

#### Estimates

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

#### Fair Value Measurements

The 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.

## BLUEHUB LOAN FUND, INC. AND AFFILIATE

Notes to Consolidated Financial Statements  
December 31, 2023 and 2022

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### 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Fair Value Measurements (Continued)

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, fixed income bonds 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 \$866,196 and \$729,182 in escrow for outside parties as of December 31, 2023 and 2022, respectively. These amounts are escrowed for the Loan Fund's borrowers for various purposes, including working capital reserves, replacement reserves, and construction fund escrows.

#### Restricted Cash and Credit Enhancement

Using the proceeds of grants 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 2023 or 2022. Due to the fact the Loan Fund has no credit exposure on loans deployed using these funds, those specific loans have been excluded in the ASC Topic 326 analysis for credit losses (see Note 4).

## BLUEHUB LOAN FUND, INC. AND AFFILIATE

Notes to Consolidated Financial Statements  
December 31, 2023 and 2022

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### 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Loans Receivable and Allowance for Credit Losses (ACL)

Loans receivable are reported net of related allowance for expected credit losses.

The allowance for credit losses (ACL) represents an amount which, in management's judgment, reflects the lifetime expected losses that may be sustained on outstanding loans at the consolidated statement of financial position date based on the evaluation of the size and current risk characteristics of the loan portfolio, past events, current conditions, reasonable and supportable forecasts of future economic conditions, and prepayment experience utilizing both quantitative and qualitative assessments. The allowance is measured and recorded upon the initial recognition of a financial asset. The allowance is reduced by charge-offs (net of recoveries of previous losses) and is increased or decreased by a provision (recovery) for credit losses, which is recorded as a current period expense (revenue). Such allowance is based on credit losses over the contractual term of the loan adjusted for expected prepayments, if any.

In connection with the adoption of ASU 2016-13, the Loan Fund made an accounting policy election to exclude interest receivable from the measurement of the ACL and follows a non-accrual policy to reverse any accrued, uncollected interest income as loans are moved to non-accrual status. The Loan Fund considers the length of time without payment from the borrower and other triggering events when determining that a loan should be moved to nonaccrual status and no longer recognize interest revenue on the loan.

The methodology for estimating the ACL includes a calculated allowance using the weighted-average remaining life to maturity (WARM) method as well as a specifically identified analysis for individual loans categorized as delinquent or have shown deterioration where utilizing the WARM method no longer represents an accurate credit loss exposure.

#### *Allowance for Credit Losses – WARM Method*

The Loan Fund determined the ACL for the portion of the allowance calculated using the WARM method by pooling loans into segments based on similar characteristics, contract terms, collateral types, types of associated industries, and business purposes of the loans. The Loan Fund segregated its portfolio into the following loan pools:

- Construction/Mini-Permanent
- Construction/Permanent
- Expansion
- Mini Permanent
- New Construction
- New Construction/Permanent
- Organizational
- Permanent
- Predevelopment
- Predevelopment/Mini-Permanent
- Rehabilitation
- Rehabilitation/Mini-Permanent
- Rehabilitation/Permanent
- Site Acquisition
- Startup

The Loan Fund elected to utilize a twenty-two-year lookback period for the WARM method calculation for all pools based on a lending portfolio that is comprised of amortizing loans to borrowers with varying maturities from the date of issuance. The twenty-two-year lookback period aligns with the most accurate depiction of management's assessment of history of loss and available quality data information in their systems.

## BLUEHUB LOAN FUND, INC. AND AFFILIATE

Notes to Consolidated Financial Statements  
December 31, 2023 and 2022

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### 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Loans Receivable and Allowance for Credit Losses (ACL) (Continued)

##### *Allowance for Credit Losses – WARM Method (Continued)*

The reasonable and supportable forecast period represents a current economic outlook (as of December 31, 2023) for the applicable economic variables for the lifetime of the loan through maturity. Based on management's analysis, it was determined that the Rehabilitation (Mini-Permanent/Permanent), Predevelopment and Site Acquisition pools were the only pools that have experienced a history of loss within their lookback period. All other pools with no historical loss experience were removed from the WARM method calculations and are not part of the quantitative ACL. Although for consolidated financial statement disclosure purposes, the Loan Fund has historically grouped its lending portfolio into five broad categories (see Note 3), when analyzing credit exposure and risk of loss for CECL purposes, the Loan Fund has more defined categories within a broader set of criteria outlined in Note 3.

##### *Allowance for Credit Losses – Individually Assessed Loans – Not Performing*

The Loan Fund determines the ACL for specifically identified delinquent and other loans - representing borrowers who are past due in payments, have shown negative trends financially and/or significantly past due on principal and interest payments, by segregating these certain loans and conducting a separate ACL analysis distinct from the WARM method. The Loan Fund internally uses a number-based credit rating system, with "1" representing the highest quality/lowest credit risk and "8" representing the lowest quality/highest credit risk. Loans that are internally rated 5 through 8 were determined to be delinquent and removed from the overall WARM methodology performed on the remainder of the portfolio and analyzed individually under CECL. The Loan Fund has determined specific loss percentages to be applied to the loans in the internal rating categories of 5 through 8. These percentages were set based on if there is a potential weakness in the borrower and loan quality (5 rating assigned 10%), a definite weakness, but full loss is still unlikely (6 rating assigned 20%), if loss is possible as determined by management and the loan loss mitigation departments (7 rating assigned 50%), or if a full loss is probable (8 rating assigned 100%).

##### *Off-Balance Sheet Credit Exposures*

Unfunded lending commitments are reviewed to determine if they are considered unconditionally cancellable. The Loan Fund establishes reserves for unfunded commitments that do not meet that criteria, as a liability in the consolidated statements of financial position. Changes to the liability are recorded through the provision for credit losses in the consolidated statements of activities. The establishment of the reserves for unfunded commitments considers both the likelihood that the funding will occur and an estimate of the expected credit losses over the life of the respective commitments. The Loan Fund generally has two types of unfunded lending commitments. The first being general commitments on loans yet to be closed where the Loan Fund is still in the process of due diligence and has no credit exposure. The second being closed loans where all or a portion of the total commitment has yet to be drawn (see Note 3). There is also no credit exposure with the second type of commitments as the Loan Fund is not legally obligated to fund the remainder of the exposed loan if the borrowers do not meet certain milestones or provide proper requisitions for the funding. The borrower does not have the unilateral right to draw down additional funds without proper approvals by the Loan Fund. There were no unfunded lending commitments as of the adoption date (January 1, 2023) nor, at December 31, 2023, that would be required to recognize a liability in the consolidated statement of financial position.

## BLUEHUB LOAN FUND, INC. AND AFFILIATE

Notes to Consolidated Financial Statements  
December 31, 2023 and 2022

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### 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Loans Receivable and Allowance for Credit Losses (ACL) (Continued)

##### *Legacy Disclosure - Allowance for Loan Losses*

As of December 31, 2022, the Loan Fund followed the accounting and disclosure standards pertaining to ASC Topic, *Disclosure about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*, standard under U.S. GAAP. This standard required disclosure on the accounting policies and methodology used to estimate the allowance for loan losses (see Note 4).

Provisions were made for estimated loan losses based on management's evaluation of each loan. Loss recoveries were recorded in the year the recovery was known. The allowance for loan losses (see Note 4) was established through a provision for loan losses, which was charged to operations. The allowance was an amount that management believed would be adequate to absorb expected losses on existing loans that may have become uncollectible. Management evaluated 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 have affected the borrower's ability to repay.

Loan loss recoveries consisted of recovery of the initial loan loss reserve applied to loans receivable recognized when loans were repaid in full by the borrower or upon management's periodic assessment of the loan portfolio. Conversely, additional provision for loan losses may have been recognized upon management's assessment that additional reserves were necessary based upon a review of the performance of the loan portfolio (see Note 4).

#### **Below-Market Rate Loans**

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).

## BLUEHUB LOAN FUND, INC. AND AFFILIATE

Notes to Consolidated Financial Statements  
December 31, 2023 and 2022

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### 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:

	<u>2023</u>	<u>2022</u>
Revolving Loan Capital:		
CDFI Capital Magnet	\$ 23,118,492	\$ 21,998,130
ED Credit Enhancement	20,412,157	8,058,623
Permanent loan capital	<u>883,321</u>	<u>883,321</u>
Subtotal revolving loan capital	<u>44,413,970</u>	<u>30,940,074</u>
Other Financial Assistance:		
CDFI Fund awards	3,862,436	2,825,000
Other grants	<u>112,451</u>	<u>275,000</u>
Subtotal other financial assistance	<u>3,974,887</u>	<u>3,100,000</u>
Total	<u>\$ 48,388,857</u>	<u>\$ 34,040,074</u>

Revolving loan capital represents awards from the Department of Education for credit enhancement (see Note 8), CDFI Capital Magnet (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 grants expire in September 2040 and September 2046, respectively. The Capital Magnet awards expire on various dates through May 2027.

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.

Other CDFI Fund awards as of December 31, 2023 and 2022, relate to proceeds from the Healthy Food Financing Initiative and the Equitable Recovery Program. Other grants as of December 31, 2023, relate to miscellaneous awards received by private donors and foundations to support impoverished and low-income rural and urban communities.



## BLUEHUB LOAN FUND, INC. AND AFFILIATE

Notes to Consolidated Financial Statements  
December 31, 2023 and 2022

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### 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### 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 includes loan capital transactions.

#### 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 13) is restricted for use in qualified activities and is accordingly reported as net assets with donor restrictions.

The Loan Fund amortizes loan 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 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 when unconditionally committed or when conditions are substantially met. Grants and contributions with donor restrictions are recorded as revenues with donor restrictions. Transfers are made to net assets without donor restrictions as costs are incurred or time restrictions or program restrictions have lapsed. Donor restricted grants received and satisfied in the same period are included in net assets without donor restrictions.

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 2023 and 2022, the Loan Fund received certain Federal grants totaling \$3,500,000 in both years, which meets this criteria. Due to timing of the awards, \$4,336,446 and \$6,260,000 of the funds were not yet committed to qualifying projects as of December 31, 2023 and 2022, respectively, and are reported as conditional advances in the accompanying consolidated statements of financial position. The conditional advances as of December 31, 2023, 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.

**BLUEHUB LOAN FUND, INC. AND AFFILIATE**Notes to Consolidated Financial Statements  
December 31, 2023 and 2022**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, 2023 and 2022, by their natural and functional classifications, are as follows:

	<b>2023</b>			
	<u>Program</u>	<u>General and Admin- istration</u>	<u>Fund- raising</u>	<u>Total</u>
Personnel	\$ 3,175,638	\$ 1,048,670	\$ -	\$ 4,224,308
Office operations	74,256	562,988	-	637,244
Consultants	121,892	283,116	-	405,008
Other	197,195	148,745	-	345,940
Professional fees	204,447	57,539	-	261,986
Marketing	-	-	<u>198,167</u>	<u>198,167</u>
Subtotal operating	3,773,428	2,101,058	198,167	6,072,653
Interest expense	5,304,935	-	-	5,304,935
Provision for credit losses	<u>165,225</u>	-	-	<u>165,225</u>
Total	<u>\$ 9,243,588</u>	<u>\$ 2,101,058</u>	<u>\$ 198,167</u>	<u>\$ 11,542,813</u>
	<b>2022</b>			
	<u>Program</u>	<u>General and Admin- istration</u>	<u>Fund- raising</u>	<u>Total</u>
Personnel	\$ 2,992,262	\$ 569,840	\$ -	\$ 3,562,102
Office operations	53,690	434,258	-	487,948
Consultants	37,618	206,501	-	244,119
Other	135,552	87,893	-	223,445
Professional fees	60,608	38,862	-	99,470
Marketing	-	-	<u>183,554</u>	<u>183,554</u>
Subtotal operating	3,279,730	1,337,354	183,554	4,800,638
Interest expense	<u>4,935,027</u>	-	-	<u>4,935,027</u>
Total	<u>\$ 8,214,757</u>	<u>\$ 1,337,354</u>	<u>\$ 183,554</u>	<u>\$ 9,735,665</u>

## BLUEHUB LOAN FUND, INC. AND AFFILIATE

Notes to Consolidated Financial Statements  
December 31, 2023 and 2022

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### 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, 2023 and 2022. 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 16, 2024, which is the date the consolidated financial statements were available to be issued. There were no events that met the criteria for recognition or disclosure in the consolidated financial statements.

### 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 0% to 8.5% and mature at various dates through 2055. The weighted-average rate of interest on loans was 5.91% and 5.71% as of December 31, 2023 and 2022, 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 \$45,603,842 and \$39,427,868 as of December 31, 2023 and 2022, 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 \$2,432,858 and \$2,629,022 collected on behalf of and paid to loan participants in 2023 and 2022, respectively.

**BLUEHUB LOAN FUND, INC. AND AFFILIATE**Notes to Consolidated Financial Statements  
December 31, 2023 and 2022**3. LOANS AND INTEREST RECEIVABLE (Continued)****Portfolio Lending (Continued)**

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

<u>Type</u>	<u>2023</u>		<u>2022</u>	
	<u>Number of Loans</u>	<u>Net Loan Amount</u>	<u>Number of Loans</u>	<u>Net Loan Amount</u>
Permanent	62	\$ 86,448,428	61	\$ 74,601,476
Site acquisition	30	51,713,917	29	46,677,567
Construction	39	90,083,139	36	46,553,116
Predevelopment	20	15,061,956	20	8,668,654
Organizational	<u>4</u>	<u>6,014,486</u>	<u>4</u>	<u>7,593,550</u>
	<u>155</u>	<u>\$ 249,321,926</u>	<u>150</u>	<u>\$ 184,094,363</u>

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 approximately \$2,125,000 and \$3,526,000 of the Loan Fund's restricted cash dedicated to credit enhancement activities (see Note 8) as of December 31, 2023 and 2022, respectively.

Future minimum payments of principal for years ending after December 31, 2023, are as follows:

2024	\$ 54,380,897
2025	36,814,658
2026	24,397,318
2027	35,223,872
2028	46,896,686
Thereafter	<u>51,608,495</u>
	249,321,926
Adjustment for deferred loan fees (see Note 2)	(891,162)
Less - allowance for credit losses (see Note 4)	<u>(3,160,270)</u>
Net loans receivable	245,270,494
Less - current portion of loans receivable	(54,380,897)
Plus - current portion of allowance for credit losses	<u>457,791</u>
Net long-term portion	<u>\$ 191,347,388</u>

Loans receivable are as follows as of December 31, 2022:

Gross loans receivable	\$ 184,094,363
Adjustment for deferred loan fees (see Note 2)	(571,755)
Less - allowance for loan losses (see Note 4)	<u>(3,523,233)</u>
Net loans receivable	179,999,375
Less - current portion of loans receivable	(37,333,449)
Plus - current portion of allowance for loan losses	<u>2,146,919</u>
Net long-term portion	<u>\$ 144,812,845</u>

## BLUEHUB LOAN FUND, INC. AND AFFILIATE

Notes to Consolidated Financial Statements  
December 31, 2023 and 2022

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### 3. LOANS AND INTEREST RECEIVABLE (Continued)

#### Portfolio Lending (Continued)

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

	<u>2023</u>	<u>2022</u>
Total past due (30 - 90 days)	\$ 2,316,775	\$ 18,179
Total past due (greater than 90 days)	<u>426,144</u>	<u>433,492</u>
Total payments past due	<u>\$ 2,742,919</u>	<u>\$ 451,671</u>
Principal balance of 90-day delinquent loans (see page 19)	\$ 726,771	\$ 1,891,245
Current principal	<u>248,595,155</u>	<u>182,203,118</u>
Total loans receivable	<u>\$ 249,321,926</u>	<u>\$ 184,094,363</u>

#### Commitments to Lend

The Loan Fund had committed \$118,394,575 and \$79,999,913 for future disbursements on existing loan commitments and lines of credit to unrelated borrowers as of December 31, 2023 and 2022, respectively. Among the tools available to manage liquidity (see Note 10) 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. As of December 31, 2023, approximately \$35 million of the total was from commitments not closed and the remainder of approximately \$83 million was undisbursed amounts on closed loans of line of credits (see Notes 2 and 4).

#### 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.

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

<u>Asset Class</u>	<u>2023</u>	<u>2022</u>
Education	\$ 104,169,079	\$ 60,972,915
Housing	95,095,960	68,830,238
Commercial/Manufacturing	23,613,583	23,360,502
Other	16,088,198	13,731,221
Healthcare	<u>10,355,106</u>	<u>17,199,487</u>
Total	<u>\$ 249,321,926</u>	<u>\$ 184,094,363</u>

**BLUEHUB LOAN FUND, INC. AND AFFILIATE**Notes to Consolidated Financial Statements  
December 31, 2023 and 2022**3. LOANS AND INTEREST RECEIVABLE (Continued)****Concentrations (Continued)**

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

<u>Location</u>	<u>2023</u>	<u>2022</u>
Massachusetts	\$ 45,448,624	\$ 46,287,977
Texas	36,500,569	14,148,732
Tennessee	26,197,255	16,337,429
New York	25,902,116	10,869,147
Connecticut	20,768,704	17,433,273
Missouri	12,311,729	4,756,114
Pennsylvania	12,202,545	10,071,622
New Jersey	9,333,991	9,167,498
California	8,446,174	11,059,855
Indiana	7,077,523	2,301,203
Ohio	6,875,749	5,896,039
Louisiana	5,261,990	5,321,496
Virginia	5,201,170	1,237,500
District of Columbia	5,028,619	3,499,925
Mississippi	4,763,272	4,842,632
Alabama	4,054,441	3,184,122
Georgia	3,802,062	-
Illinois	3,792,760	3,880,740
Maine	2,613,657	335,806
Rhode Island	1,663,595	2,875,864
Maryland	1,228,486	-
New Hampshire	846,895	859,456
Delaware	-	6,413,442
Florida	-	2,389,491
North Carolina	-	925,000
Total	<u>\$ 249,321,926</u>	<u>\$ 184,094,363</u>

**Loan Portfolio Quality and Leverage**

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

	<u>2023</u>	<u>2022</u>
90-day Delinquency Rate	0.3%	1.0%
Principal Balance of 90-day Delinquent Loans	\$ 726,771	\$ 1,891,245
Credit Impaired Assets (TDR) (see Note 4)	N/A	1.58%
Credit Impaired (TDR) Principal Balance	N/A	\$ 2,915,619
Annual Loan Write-offs/Loans Outstanding	0.00%	0.00%
Cumulative Historical Net Loss Ratio	0.20%	0.23%
Loan Loss Reserves (see Note 4)/Loans Outstanding (including Affiliate Loans)	5.00%	5.29%

## BLUEHUB LOAN FUND, INC. AND AFFILIATE

Notes to Consolidated Financial Statements  
December 31, 2023 and 2022

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### 3. LOANS AND INTEREST RECEIVABLE (Continued)

#### 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, 2023 and 2022, 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, 2023, the principal balance of this loan was \$3,769,637, of which \$3,581,139 was participated out to a third party. As of December 31, 2022, the principal balance of this loan was \$3,861,778, of which \$3,668,673 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, 2023 and 2022, there was a guaranty for approximately \$15,000,000 for 12 loans receivable under this agreement. As of December 31, 2023 and 2022, the principal balances of the loans were \$6,019,993 and \$9,461,732, respectively.

#### Special Tax-Credit Lending

As of December 31, 2023 and 2022, the Loan Fund has entered into 171 and 159 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 4.34%, which the Loan Fund will receive on the maturity dates through September 2075. 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 \$350,963 and \$289,165 for 2023 and 2022, respectively.

Total outstanding principal balances are \$735,653,856 and \$668,963,104 as of December 31, 2023 and 2022, respectively. These loans have specific restrictions, and due to their long-term deferred nature and likelihood of collectability, the notes are fully reserved at December 31, 2023 and 2022. 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, 2023 and 2022. As of December 31, 2023 and 2022, there was outstanding interest receivable on these loans of \$442,870 and \$390,733, respectively, which has been fully reserved in the accompanying consolidated financial statements.

#### 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 \$177,431 for 2023 and 2022. As of December 31, 2023 and 2022, principal outstanding under this agreement totaled \$5,000,000.

## BLUEHUB LOAN FUND, INC. AND AFFILIATE

Notes to Consolidated Financial Statements  
December 31, 2023 and 2022

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### 3. LOANS AND INTEREST RECEIVABLE (Continued)

#### Affiliate Loans Receivable (Continued)

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. As of December 31, 2022, there was \$1,500,000 outstanding. The loan was paid off in full during 2023. This intercompany loan bore interest at 3%, payable quarterly, was unsecured, and initially was set to mature in September 2029. Interest on these borrowings totaled \$3,822 and \$45,000 in 2023 and 2022, respectively.

No ACL has been recorded on any of the affiliate loan balances as there is no credit exposure history with the related entities.

### 4. ALLOWANCE FOR CREDIT LOSSES

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 ACL is a valuation account that is deducted from the loans' amortized cost basis to present the net amount expected to be collected on the loans, in accordance with ASC Topic 326. Loans are charged-off against the ACL when management believes the lack of collectability of a loan balance is confirmed.

The Loan Fund's allowance for credit losses consists of the following as of December 31:

	<u>2023</u>	<u>2022</u>
Allowance for credit losses, in accordance with Topic 326 (see below and Note 2)	\$ 3,160,270	\$ 3,523,233
Board designated net assets for general loan loss reserves	<u>9,555,826</u>	<u>6,565,280</u>
	<u>\$ 12,716,096</u>	<u>\$ 10,088,513</u>

The Loan Fund estimates the allowance balance using relevant information, from internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. Historical credit loss experience provides the basis for the estimation of expected credit losses. Adjustments to historical loss information are made for differences in current risk characteristics such as differences in underwriting standards, portfolio mix, delinquency level, or term as well as for changes in environmental conditions, such as changes in interest rates or other relevant factors. After the reasonable and supportable forecast period, the Loan Fund's model reverts to historical loss trends. As described, the Loan Fund has analyzed its loan portfolio using the WARM method for the vast majority of its lending and a specifically identified analysis on loans categorized as delinquent or borrowers beginning to exhibit financial difficulty.



## BLUEHUB LOAN FUND, INC. AND AFFILIATE

Notes to Consolidated Financial Statements  
December 31, 2023 and 2022

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### 4. ALLOWANCE FOR CREDIT LOSSES (Continued)

#### Loans Under the WARM Method

The Loan Fund's historical average annual loss rate for the three pools with past loss history are as follows as of both the adoption date (January 1, 2023) and December 31, 2023:

Rehabilitation (Mini-Permanent/Permanent)	0.4%
Predevelopment	1.1%
Site acquisition	0.1%

Based on the historical average annual loss rates noted above, the Loan Fund's WARM calculated loss rates range before any qualitative adjustments is calculated at 0.4% - 4.0% and 0.3% - 3.6% as of the adoption date (January 1, 2023) and December 31, 2023, respectively (see below). This is driven from analyzing scheduled principal payments over the life of the loans in these pools beyond the origination date which is based on when management estimates payments in full will occur. Management has assessed no further qualitative factors are applicable to these loan pools as the loans are largely short-term in nature as temporary means of financing and no additional credit risks have been identified above and beyond the history of loss.

Based on the various accounting policy elections made by the Loan Fund in connection with the application of the WARM method (see Note 2), the rate used to calculate the allowance for credit losses applied to the amortized cost basis of loans receivable was comprised of the following inputs:

	<b>Adoption Date (January 1, 2023)</b>	<b>December 31, 2023</b>
Average Annual Loss Rate:		
Rehabilitation (Mini-Permanent/Permanent)	0.4%	0.4%
Predevelopment	1.1%	1.1%
Site acquisition	0.1%	0.1%
WARM Calculated Loss Rate:		
Rehabilitation (Mini-Permanent/Permanent)	4.0%	3.6%
Predevelopment	1.7%	1.0%
Site acquisition	0.4%	0.3%
Allowance for Credit Losses – WARM rate range	0.4% - 4.0%	0.3% - 3.6%

#### Loans Specifically Identified as Delinquent

For loans specifically identified as delinquent, the Loan Fund applies a fixed percentage to the outstanding loans receivable balance to calculate the allowance for credit losses based on individual assessments of the loans, then applied to the risk rating bucket the credit exposure is linked to.

<b>Internal Rating</b>	<b>Applied Fixed Percentage as of January 1, 2023</b>	<b>Applied Fixed Percentage as of December 31, 2023</b>
5	10%	10%
6	20%	20%
7	50%	50%
8	100%	100%

**BLUEHUB LOAN FUND, INC. AND AFFILIATE**Notes to Consolidated Financial Statements  
December 31, 2023 and 2022**4. ALLOWANCE FOR CREDIT LOSSES (Continued)****Loans Specifically Identified as Delinquent (Continued)**

The applied percentage for delinquent loans all shows varying degrees of signs of weakness that warrants an additional allowance for credit losses outside of the WARM method allowance calculated on performing loans.

The percentage applied was based on current economic factors at the individual borrower level associated with varying degrees of past due considerations to arrive at the allowance for credit loss applied. Although, grouped into four buckets of risk exposure, each loan is evaluated individually before being assigned a fixed percentage of loss based on management's assessment of overall credit exposure to the Loan Fund.

**Credit Loss Activity**

<u>Category</u>	<u>Principal Balance</u>	<u>Applied Percentage</u>	<u>Allowance for Credit Losses</u>
WARM Method:			
Rehabilitation	\$ 8,066,852	3.6%	\$ 187,490
Predevelopment	15,282,383	1.0%	152,107
Site acquisition	58,048,298	0.3%	141,281
Other **	<u>161,734,460</u>	0%	<u>-</u>
	<u>243,131,993</u>		<u>480,878</u>
Specifically Identified Loans:			
5 rating (special mention category 1)	3,611,244	10%	361,124
6 rating (special mention category 2)	325,526	20%	65,105
7 rating (substandard)	-	75%	-
8 rating (uncollectible)	<u>2,253,163</u>	100%	<u>2,253,163</u>
	<u>6,189,933</u>		<u>2,679,392</u>
Total	<u>\$ 249,321,926</u>		<u>\$ 3,160,270</u>

\*\* As described previously, of the various loan pool segments determined by the Loan Fund, only three pools have experienced past loss history and, therefore, the remaining loan pool segments have no allowance percentage applied to those loans.

Activity within the loan loss allowance consists of the following for the years ended December 31:

	<u>2023</u>	<u>2022</u>
Beginning balance (as previously reported)	\$ 3,523,233	\$ 3,523,233
Provision for credit losses	165,225	225,000
Transfer to special tax credit lending reserve (see Note 3)	(442,870)	-
Other general reserve reclassifications	(85,318)	-
Recoveries	<u>-</u>	<u>(225,000)</u>
Ending balance	<u>\$ 3,160,270</u>	<u>\$ 3,523,233</u>

The above table does not break out the activity within the loan loss allowance by segment due to the change in segments from 2022 to 2023 with the adoption of Topic 326 in the current year and will show the detail going forward in 2024.

## BLUEHUB LOAN FUND, INC. AND AFFILIATE

Notes to Consolidated Financial Statements  
December 31, 2023 and 2022

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### 4. ALLOWANCE FOR CREDIT LOSSES (Continued)

#### Credit Loss Activity (Continued)

Prior to the adoption of ASU 2016-13, the Loan Fund used a number-based credit rating system, with "1" representing the highest quality/lowest credit risk and "8" representing the lowest quality/highest credit risk. The following table presents the Loan Fund's loans receivable balances and related allowance by risk rating at December 31, 2022:

<u>Category</u>	<u>Risk Rating</u>	<u>Loan Balance</u>	<u>Loan Loss Allowance</u>
Pass	1 - 4	\$ 175,048,003	\$ -
Special Mention	5 - 6	6,466,547	680,235
Substandard	7 - 8	2,579,813	2,107,001
General Reserve (including HTC of \$390,733)		<u>-</u>	<u>735,997</u>
		<u>\$ 184,094,363</u>	<u>\$ 3,523,233</u>

The allowance for loan losses consisted of the following at December 31, 2022:

#### Impaired Loans and Troubled Debt Restructurings

Prior to the adoption of ASU 2016-13, the Loan Fund identified a loan as impaired when it was probable that interest and/or principal would 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 employed 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 reviewed 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 was chosen and any impairment was determined, based on criteria established for impaired loans.

A troubled debt restructuring (TDR) occurred when a creditor, for economic or legal reasons related to a borrower's financial condition, granted 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 considered all loans modified in a TDR to be impaired.

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

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

**BLUEHUB LOAN FUND, INC. AND AFFILIATE**Notes to Consolidated Financial Statements  
December 31, 2023 and 2022**4. ALLOWANCE FOR CREDIT LOSSES (Continued)****Impaired Loans and Troubled Debt Restructurings (Continued)**

As of December 31, 2022, loans that were impaired and classified as TDRs were as follows:

<u>Troubled Debt Restructuring</u>	<u>Number of Loans Restructured</u>	<u>Amount of Restructured Loans</u>	<u>Related Allowance for Loan Loss</u>
Construction Financings - Multiple extensions resulting from financial difficulty	2	\$ 1,891,245	\$ 1,418,433
Permanent Financings - Multiple extensions resulting from financial difficulty	2	688,568	688,568
Organizational Financings - Multiple extensions resulting from financial difficulty	<u>1</u>	<u>335,806</u>	<u>67,162</u>
	<u>5</u>	<u>\$ 2,915,619</u>	<u>\$ 2,174,163</u>

The above loans were all on “non-accrual” status as of December 31, 2022.

**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:

	<u>2023</u>	<u>2022</u>
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, 2022, was \$871,594. There was no accrued interest as of December 31, 2023. 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, 2022, was \$270,938. There was no accrued interest as of December 31, 2023. The bonds are rated A- by S&P Global Ratings.	<u>18,750,000</u>	<u>18,750,000</u>
Total bonds payable	75,000,000	75,000,000
Less - unamortized debt issuance costs	<u>(491,572)</u>	<u>(569,476)</u>
	<u>\$ 74,508,428</u>	<u>\$ 74,430,524</u>

## BLUEHUB LOAN FUND, INC. AND AFFILIATE

Notes to Consolidated Financial Statements  
December 31, 2023 and 2022

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### 5. BONDS PAYABLE (Continued)

Debt issuance costs totaling \$904,193 and \$887,692 as of December 31, 2023 and 2022, respectively, 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 \$94,405 for the years ended December 31, 2023 and 2022, and is included in interest expense in the accompanying consolidated statements of activities. Total accumulated amortization as of December 31, 2023 and 2022, was \$412,621 and \$318,216, 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, 2023 and 2022.

### 6. LOANS PAYABLE

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

	<u>2023</u>	<u>2022</u>
The Loan Fund has a \$20,000,000 and a \$10,000,000 unsecured revolving line of credit with a financial institution, which originally expires in 2025, but were extended through December 31, 2028. The interest rate on these lines of credit is 2% and interest is due in quarterly payments.	\$ 30,000,000	\$ 30,000,000
The Loan Fund has a \$15,000,000 unsecured non-revolving line of credit with a financial institution, which expires on February 24, 2025. The loan bears a fixed interest rate of 2.75% on the outstanding balance.	15,000,000	-
The Loan Fund has a \$15,000,000 unsecured non-revolving line of credit with a financial institution, which expires on March 31, 2027. The loan bears a fixed interest rate of 2.5% on the outstanding balance. Quarterly principal payments of \$187,500 commence in March 2024 with the remainder due at maturity.	15,000,000	-
The Loan Fund has a \$20,000,000 unsecured term loan with a financial institution, which expires on December 29, 2030. The loan is to be disbursed in two tranches with separate interest rates. The first tranche of \$10,000,000 disbursed as of December 31, 2023, bears interest at a fixed rate of 5.68%. The second tranche of \$10,000,000 to be disbursed in 2024 is to bear interest at the Federal Home Loan Bank of Boston Classic Advance Rate as of the date the second tranche is disbursed, plus eighty basis points. Interest only shall accrue and be payable monthly on both tranches through December 29, 2028, at which time quarterly principal payments of \$500,000 shall begin as outlined in the agreement through maturity.	10,000,000	-

**BLUEHUB LOAN FUND, INC. AND AFFILIATE**Notes to Consolidated Financial Statements  
December 31, 2023 and 2022**6. LOANS PAYABLE (Continued)**

	<u>2023</u>	<u>2022</u>
The Loan Fund has a \$10,000,000 unsecured non-revolving line of credit with a financial institution, which expires on December 15, 2033. The interest rate on this line of credit is 3.3% and interest is due in quarterly payments. Principal payments of \$2,500,000 begin in 2030 through maturity.	10,000,000	-
The Loan Fund has a \$10,000,000 unsecured non-revolving line of credit with a financial institution, which expires on December 22, 2028. The interest rate on this line of credit is 3.5% and interest is due quarterly on the first day of each quarter. Principal payments of \$2,500,000 are set to commence in 2025 through maturity. The \$2,500,000 payment due in 2025 was made early during 2023.	7,500,000	10,000,000
The Loan Fund had 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. This loan was paid in full in April 2023.	-	<u>8,500,000</u>
Total lines of credit	87,500,000	48,500,000
Other loans payable (see below)	<u>29,559,258</u>	<u>29,364,206</u>
	117,059,258	77,864,206
Less - unamortized debt issuance costs	(58,577)	(53,365)
Less - current portion	<u>(8,223,391)</u>	<u>(6,734,162)</u>
	<u>\$ 108,777,290</u>	<u>\$ 71,076,679</u>

The Loan Fund had a total of \$35,000,000 of additional available credit on lines of credit with financial institutions as of December 31, 2023. 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, 2023 and 2022, the Loan Fund was in compliance with these covenants.

Other loans payable of the Loan Fund represent loans by approximately 310 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%, 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, 2023, include approximately \$395,000 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, 2023, also include approximately \$1,053,000 considered due on demand. As of December 31, 2023 and 2022, there was \$29,559,258 and \$29,364,206, respectively, of outstanding other notes payable.

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

Notes to Consolidated Financial Statements  
December 31, 2023 and 2022

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**6. LOANS PAYABLE (Continued)**

Debt issuance costs totaling \$327,004 and \$300,744 as of December 31, 2023 and 2022, 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 \$21,048 and \$26,862 for the years ended December 31, 2023 and 2022, respectively, and is included in interest expense in the accompanying consolidated statements of activities. Total accumulated amortization as of December 31, 2023 and 2022, was \$268,427 and \$247,379, 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, 2023, are as follows:

<u>Year</u>	<u>Bonds Payable</u>		<u>Loans Payable</u>	
	<u>Principal Maturities</u>	<u>Imputed Interest of Debt Issuance Costs - Bonds</u>	<u>Principal Maturities - Loans</u>	<u>Imputed Interest of Debt Issuance Costs - Loans</u>
2024	\$ -	\$ 110,905	\$ 8,223,391	\$ 9,453
2025	\$ -	\$ 94,405	\$ 20,587,211	\$ 5,011
2026	\$ -	\$ 94,405	\$ 9,297,072	\$ 4,825
2027	\$ 18,750,000	\$ 63,952	\$ 22,372,500	\$ 2,778
2028	\$ -	\$ 63,952	\$ 33,600,295	\$ 2,546
Thereafter	\$ 56,250,000	\$ 63,953	\$ 22,978,789	\$ 33,964

**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 individual loans as of December 31, 2023 and 2022) from financial and other institutions, bearing simple interest at rates ranging from 1.9% to 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.

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 as of December 31, 2023 and 2022.

**BLUEHUB LOAN FUND, INC. AND AFFILIATE**Notes to Consolidated Financial Statements  
December 31, 2023 and 2022**7. PERMANENT LOAN CAPITAL - SUBORDINATED LOANS PAYABLE (Continued)**

Principal maturities on subordinated loans payable over the next five years as of December 31, 2023, are as follows:

<u>Year</u>	<u>Principal Maturities</u>
2024	\$ -
2025	\$ -
2026	\$ -
2027	\$ -
2028	\$ 1,000,000
Thereafter	\$ 23,250,000

**8. CREDIT ENHANCEMENTS**

The Loan Fund administers proceeds of two grants 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. The first conditional grant of \$8 million was received in 2017 and the second conditional grant of \$12 million was received in 2023. Under the agreements, 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 for the first grant and September 2046 for the second grant. The Loan Fund actively monitors this program, and no losses are deemed probable for 2023 or 2022.

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:

	<u>2023</u>	<u>2022</u>
Cash collateral (six and nine arrangements as of December 31, 2023 and 2022, respectively)	\$ 2,642,000	\$ 4,768,501
Grant reserve funds	<u>17,770,157</u>	<u>3,290,122</u>
	<u>\$ 20,412,157</u>	<u>\$ 8,058,623</u>

Approximately \$2.1 million and \$3.5 million of the cash collateral escrow secures loans receivable of the Loan Fund as of December 31, 2023 and 2022, respectively (see Note 3).

Interest income reinvested to the grant reserve totaled \$353,534 and \$9,974 for the years ended December 31, 2023 and 2022, respectively, and is included in net assets with donor restrictions in the accompanying consolidated statements of activities.



## BLUEHUB LOAN FUND, INC. AND AFFILIATE

Notes to Consolidated Financial Statements  
December 31, 2023 and 2022

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### 8. CREDIT ENHANCEMENTS (Continued)

Maturity dates of the active arrangements as of December 31, 2023, range from June 30, 2023 through February 28, 2037, as follows:

2024	\$ 1,073,000
2025	\$ 300,000
2026	\$ -
2027	\$ -
2028	\$ -
Thereafter	\$ 1,269,000

During 2023, the Corporation received a commitment to receive another \$15 million in funding to enter into credit enhancement agreements with charter schools and third-party lenders, which has not been received or committed as of December 31, 2023, thus not recognized in the accompanying consolidated financial statements.

### 9. CONDITIONAL GRANT

As of December 31, 2022, the Corporation was awarded a conditional commitment for \$3,500,000 from Capital Magnet Fund awards for fiscal year 2023, which contain funder-imposed conditions that represent a barrier that must be overcome, as well as a release from obligations. This amount was received in 2023, however, not applied to qualified projects and is recognized as a conditional advance liability in the accompanying 2023 consolidated statement of financial position (see Note 2).

### 10. 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, 2023 and 2022, for general operating expenses are as follows:

	<u>2023</u>	<u>2022</u>
Cash and cash equivalents	\$ 79,505,256	\$ 92,228,469
Accounts receivable and other	183,811	71,299
Accrued interest receivable	2,659,379	2,402,320
Current portion of loans receivable, net	<u>53,923,106</u>	<u>35,186,530</u>
Total financial assets	136,271,552	129,888,618
Board designated reserves (see Note 2)	(9,555,826)	(6,565,280)
Net assets with donor restrictions and conditional advances, less restricted cash	<u>(32,313,146)</u>	<u>(32,241,451)</u>
Total financial assets available to meet cash needs for general expenditures within one year	<u>\$ 94,402,580</u>	<u>\$ 91,081,887</u>

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.

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

Notes to Consolidated Financial Statements  
December 31, 2023 and 2022

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### **10. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS (Continued)**

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.

### **11. RECLASSIFICATIONS**

Certain amounts in the December 31, 2022 consolidated financial statements have been reclassified to conform with the December 31, 2023 presentation.