

**BLUEHUB LOAN FUND, INC. AND AFFILIATE
(FORMERLY, BOSTON COMMUNITY LOAN FUND, INC.)**

**CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

BLUEHUB LOAN FUND, INC. AND AFFILIATE

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December 31, 2018 and 2017

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Independent Auditor's Report

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

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of BlueHub Loan Fund, Inc., formerly, Boston Community Loan Fund, Inc. (a Massachusetts corporation, not for profit) (the Loan Fund) and Affiliate which comprise the consolidated statements of financial position as of December 31, 2018 and 2017, and the related consolidated statements of activities, changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the BlueHub Loan Fund, Inc. and Affiliate as of December 31, 2018 and 2017, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As disclosed in Note 2 to the consolidated financial statements, during 2018, the Loan Fund and Affiliate changed the manner in which it accounts for its net asset funds as a result of the adoption of Accounting Standards Update No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*.

As explained in Note 1 to the consolidated financial statements, the Loan Fund and Affiliate are part of an affiliated group of companies and have entered into transactions with certain group members. As required under accounting principles generally accepted in the United States of America, the consolidated financial statements of the Loan Fund and Affiliate are also consolidated with those of the affiliated group.

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

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

Boston, Massachusetts
April 10, 2019

BLUEHUB LOAN FUND, INC. AND AFFILIATEConsolidated Statements of Financial Position
December 31, 2018 and 2017

Assets	2018	2017
Current Assets:		
Cash and cash equivalents	\$ 20,641,096	\$ 23,912,012
Marketable securities	461,773	10,329
Escrow funds and other	3,471,687	1,203,590
Current portion of loans and interest receivable, net of allowance for loan losses of \$386,801 and \$226,070 as of December 31, 2018 and 2017, respectively	<u>35,800,098</u>	<u>19,090,266</u>
Total current assets	<u>60,374,654</u>	<u>44,216,197</u>
Restricted Cash	8,024,674	8,003,288
Loans Receivable, net of current portion and allowance for loan losses of \$2,426,433 and \$2,587,164 as of December 31, 2018 and 2017, respectively	133,768,061	99,867,526
Affiliate Loans Receivable	<u>14,380,286</u>	<u>16,760,184</u>
Total assets	<u>\$ 216,547,675</u>	<u>\$ 168,847,195</u>
Liabilities and Net Assets		
Current Liabilities:		
Current portion of loans payable	\$ 6,735,751	\$ 6,901,215
Current portion of permanent loan capital - subordinated loans payable	4,517,162	105,042
Accounts payable	100,800	504,694
Accrued interest	352,245	399,993
Due to affiliate	261,278	255,586
Escrow funds and other	3,471,687	1,203,590
Conditional advances	<u>3,313,000</u>	<u>2,105,000</u>
Total current liabilities	<u>18,751,923</u>	<u>11,475,120</u>
Loans Payable, net	114,401,191	80,206,283
Permanent Loan Capital - Subordinated Loans Payable, net of current portion	<u>22,854,495</u>	<u>25,371,656</u>
Total liabilities	<u>156,007,609</u>	<u>117,053,059</u>
Net Assets:		
Without donor restrictions:		
General	36,225,963	33,924,605
Board designated for permanent loan capital and special programs	1,132,500	1,132,500
Board designated for loan loss reserves	<u>8,168,792</u>	<u>5,453,280</u>
Total without donor restrictions	<u>45,527,255</u>	<u>40,510,385</u>
With donor restrictions:		
Revolving loan capital	14,012,811	11,283,751
Other financial assistance	<u>1,000,000</u>	<u>-</u>
Total with donor restrictions	<u>15,012,811</u>	<u>11,283,751</u>
Total net assets	<u>60,540,066</u>	<u>51,794,136</u>
Total liabilities and net assets	<u>\$ 216,547,675</u>	<u>\$ 168,847,195</u>

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

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BLUEHUB LOAN FUND, INC. AND AFFILIATEConsolidated Statements of Activities
For the Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Net Assets Without Donor Restrictions:		
Operating revenues:		
Financial and earned revenues:		
Interest on loans, net	\$ 9,057,030	\$ 7,104,218
Loan fees and other	1,037,330	1,003,897
Realized gain on sale of state tax credit notes	-	246,109
Less - interest expense	<u>(3,188,350)</u>	<u>(2,744,761)</u>
Net financial and earned revenues	<u>6,906,010</u>	<u>5,609,463</u>
Operating expenses:		
Personnel	2,132,801	1,804,704
Office operations	790,273	639,427
Professional fees	247,913	107,050
Marketing	168,978	145,305
Other	<u>56,680</u>	<u>31,511</u>
Total operating expenses	<u>3,396,645</u>	<u>2,727,997</u>
Changes in net assets without donor restrictions from operations	3,509,365	2,881,466
Other changes in net assets without donor restrictions:		
Net assets released from restrictions for loan capital	-	2,000,000
Grants for loan capital	<u>1,507,505</u>	<u>-</u>
Changes in net assets without donor restrictions	<u>5,016,870</u>	<u>4,881,466</u>
Net Assets With Donor Restrictions:		
Grants and contributions	3,692,000	10,395,000
Interest income	37,060	5,430
Net assets released from restrictions	<u>-</u>	<u>(2,000,000)</u>
Changes in net assets with donor restrictions	<u>3,729,060</u>	<u>8,400,430</u>
Changes in net assets	<u>\$ 8,745,930</u>	<u>\$ 13,281,896</u>

BLUEHUB LOAN FUND, INC. AND AFFILIATE

Consolidated Statements of Changes in Net Assets
For the Years Ended December 31, 2018 and 2017

	Without Donor Restrictions	Without Donor Restrictions Board Designated		With Donor Restrictions		Total
	General	Permanent Loan Capital and Special Programs	Loan Loss Reserves	Revolving Loan Capital	Other Financial Assistance	
Net Assets , December 31, 2016	\$ 27,360,376	\$ 1,132,500	\$ 7,136,043	\$ 883,321	\$ 2,000,000	\$ 38,512,240
Changes in net assets	4,881,466	-	-	10,400,430	(2,000,000)	13,281,896
Transfers of net assets without donor restrictions	<u>1,682,763</u>	<u>-</u>	<u>(1,682,763)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Assets , December 31, 2017	33,924,605	1,132,500	5,453,280	11,283,751	-	51,794,136
Changes in net assets	5,016,870	-	-	2,729,060	1,000,000	8,745,930
Transfers of net assets without donor restrictions	<u>(2,715,512)</u>	<u>-</u>	<u>2,715,512</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Assets , December 31, 2018	<u><u>\$ 36,225,963</u></u>	<u><u>\$ 1,132,500</u></u>	<u><u>\$ 8,168,792</u></u>	<u><u>\$ 14,012,811</u></u>	<u><u>\$ 1,000,000</u></u>	<u><u>\$ 60,540,066</u></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, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash Flows from Operating Activities:		
Changes in net assets	\$ 8,745,930	\$ 13,281,896
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Realized gain on sale of state tax credit notes	-	(246,109)
Grants for loan capital, credit enhancement and investment uses	(5,199,505)	(10,395,000)
Interest - amortization	21,004	23,240
Changes in operating assets and liabilities:		
Interest receivable	(795,563)	(239,701)
Other accounts receivable	-	(252,525)
Accounts payable	(403,894)	(34,742)
Accrued interest	(47,748)	39,918
Due to affiliate	5,692	102,670
Deferred loan fees	148,366	123,830
	<u>2,474,282</u>	<u>2,403,477</u>
Net cash provided by operating activities		
Cash Flows from Investing Activities:		
Principal payments of affiliate loans receivable	2,379,898	596,371
Issuance of loans receivable	(76,374,493)	(53,017,942)
Principal payments of loans receivable	26,411,323	17,930,742
Purchase of marketable securities	(451,444)	-
Proceeds from sale of marketable securities	-	11,490,409
Proceeds from sale of state tax credit notes	-	246,109
Deposits to and interest earned on restricted cash	(21,386)	(8,003,288)
	<u>(48,056,102)</u>	<u>(30,757,599)</u>
Net cash used in investing activities		
Cash Flows from Financing Activities:		
Grants for loan capital, credit enhancement and investment uses	5,199,505	14,145,000
Proceeds from loans payable	40,952,184	19,744,381
Principal payments on loans payable	(6,908,204)	(1,075,628)
Proceeds from subordinated loans payable	2,000,000	-
Principal payments of subordinated loans payable	(105,041)	(102,963)
Conditional advances	1,208,000	2,105,000
Cash paid for debt issuance costs	(35,540)	-
	<u>42,310,904</u>	<u>34,815,790</u>
Net cash provided by financing activities		
Net Change in Cash and Cash Equivalents	(3,270,916)	6,461,668
Cash and Cash Equivalents:		
Beginning of year	<u>23,912,012</u>	<u>17,450,344</u>
End of year	<u>\$ 20,641,096</u>	<u>\$ 23,912,012</u>
Supplemental Disclosure of Cash Flow Information:		
Cash paid for interest	<u>\$ 3,215,094</u>	<u>\$ 2,681,603</u>

BLUEHUB LOAN FUND, INC. AND AFFILIATE

Notes to Consolidated Financial Statements
December 31, 2018 and 2017

1. OPERATIONS

BlueHub Loan Fund, Inc. (the Loan Fund), formerly, Boston Community Loan Fund, Inc., 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. Effective October 1, 2018, Boston Community Loan Fund, Inc. changed its name to BlueHub Loan Fund, Inc. 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 2018 and 2017.

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), formerly, Boston Community Capital, Inc., creates and preserves healthy communities where low-income people live and work.
- **BCLF Managed Assets Corporation d/b/a Boston Community Managed Assets** (Managed Assets) manages, designs, implements, and evaluates programs on behalf of third parties that provide loan underwriting, management, servicing, and financial and managerial technical assistance services.
- **BCLF Ventures, Inc. d/b/a Boston Community Venture Fund** (the Venture Fund) assists small community-based businesses and entrepreneurs in starting, growing, and expanding businesses which strengthen the low-income business community.

The Loan Fund and the three affiliated nonprofit corporations operate cooperatively and are collectively referred to as the Corporation within these notes. To carry out its mission, the Corporation provides capital for sustainable community-based projects. These projects increase or preserve low-income housing or provide jobs or services for low-income or disadvantaged people or communities. The Corporation receives the money it invests in community-based projects from socially concerned investors, which include individuals, religious organizations, banks and other financial intermediaries, foundations, and corporations. A significant portion of the Corporation's projects are in New England and the Mid-Atlantic states. Because the affiliated nonprofit corporations are controlled by a common Board of Directors and management, the affiliated nonprofits and other controlled affiliates report their collective financial results and financial position in separately issued consolidated financial statements.

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

- **SUN Initiative Financing, LLC** (SUN Financing), a Massachusetts limited liability company, established to finance the operations of the Stabilizing Urban Neighborhoods Initiative (SUN Initiative). SUN Financing is controlled by the Holding Company by virtue of common management. The goal of SUN Initiative is to stop the displacement of families and the neighborhood destabilizing effects of home vacancies and abandonment by enabling homeowners with overleveraged properties to stay in their homes.
- **BCC Solar Energy Advantage, Inc.** (SEA), a Massachusetts for-profit corporation, owned and controlled by the Holding Company, facilitates the delivery of solar energy to affordable housing projects and others.

BLUEHUB LOAN FUND, INC. AND AFFILIATE

Notes to Consolidated Financial Statements
December 31, 2018 and 2017

1. OPERATIONS (Continued)

- **BCC Solar USB Investment Fund, LLC** (the USB Investment Fund), a Missouri limited liability company, was formed in October 2013 for the purpose of making a QEI in BCC NMTC CDE XVI, LLC (CDE XVI). This entity is owned by a third-party investor, but is controlled by an affiliate of Holding Company as a non-member manager. This entity is part of a leveraged new markets tax credit structure to finance certain solar energy projects.

The Loan Fund entered into various loan agreements with some of these affiliates (see Note 3). The Loan Fund also owes BlueHub Capital \$261,278 and \$225,586 as of December 31, 2018 and 2017, respectively, for costs that are shared amongst the affiliate. 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 Code. The Loan Fund is also exempt from state income taxes. Donors may deduct contributions made to the Loan Fund within the requirements of the Code. BCC REO has elected to be treated as a disregarded entity of the Loan Fund for tax purposes.

Community Development Financial Institution

The Loan Fund has been granted status as a Community Development Financial Institution (CDFI) by the U.S. Department of the Treasury (the Treasury), qualifying it for certain awards and support from the Treasury. The Loan Fund has received permanent loan capital - subordinated loans payable from the Treasury (see Note 6). The Loan Fund received Capital Magnet Fund awards of \$3,900,000 and \$4,500,000 in 2018 and 2017, respectively and \$2,507,505 of Healthy Foods Financing Initiative funds in 2018. During 2019, the Loan Fund received an additional Capital Magnet Fund award of \$4,800,000.

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).

Recently Adopted Accounting Pronouncement

In 2018, the Loan Fund adopted FASB's Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This ASU addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources and the lack of consistency in the type of information provided about expenses and investment return. The Loan Fund has adjusted the presentation of these statements accordingly. The adoption of this ASU did not impact the Loan Fund's net asset classes, results of operations, or cash flows for the year ended December 31, 2018. This ASU has been applied retrospectively to all periods presented. This ASU provides an option to omit the following information for the 2017 consolidated financial statements:

- Analysis of expense by both natural classification and functional classification (see page 12).
- Disclosures about liquidity and availability of resources (see Note 8).

BLUEHUB LOAN FUND, INC. AND AFFILIATE

Notes to Consolidated Financial Statements
December 31, 2018 and 2017

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Principles of Consolidation

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

Estimates

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

Fair Value Measurements

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

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

Level 1 - Inputs that reflect unadjusted quoted prices in active markets for identical assets at the measurement date.

Level 2 - Inputs other than quoted prices that are observable for the asset either directly or indirectly, including inputs in markets that are not considered to be active.

Level 3 - Inputs that are unobservable and which require significant judgment or estimation.

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

Cash and Cash Equivalents and Concentration of Risk

For purposes of the consolidated statements of cash flows, cash and cash equivalents consist of depository accounts and all highly liquid investments purchased with an initial maturity of three months or less and available for general use, but exclude cash and cash equivalents set aside as escrow funds held for others and restricted cash balances (see page 9).

BLUEHUB LOAN FUND, INC. AND AFFILIATE

Notes to Consolidated Financial Statements
December 31, 2018 and 2017

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents and Concentration of Risk (Continued)

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

Marketable Securities

Marketable securities are comprised of an investment in a money market mutual fund. Marketable securities are reported at fair value using Level 1 inputs (see page 8).

Escrow Funds and Other

The Loan Fund held cash balances of \$1,344,925 and \$1,203,590 in escrow for outside parties as of December 31, 2018 and 2017, respectively. These amounts are escrowed for the Loan Fund's borrowers for various purposes, including working capital reserves, replacement reserves, and construction fund escrows.

The Loan Fund also held a cash balance of \$2,126,762 as of December 31, 2018, related to a donation of tax credits received from a project's sponsor, which the Loan Fund sold to an investor. The Loan Fund will be making a loan to the project's entity from the proceeds in 2019 under its special tax-credit lending program (see Note 3).

Escrow funds and other were as follows at December 31:

	<u>2018</u>	<u>2017</u>
Fund held for others	\$ 2,126,762	\$ -
Escrow funds	<u>1,344,925</u>	<u>1,203,590</u>
	<u>\$ 3,471,687</u>	<u>\$ 1,203,590</u>

Restricted Cash and Credit Enhancement

Using the proceeds of a grant received in 2017 from the U.S. Department of Education (see page 11), the Loan Fund enters into credit enhancement agreements with charter schools and third-party lenders to act as the guarantor of loans between the charter schools and the lenders (see Note 7). Under the terms of the agreements, the Loan Fund deposits amounts, as defined in the agreements, into credit enhancement reserves held by the Loan Fund for the benefit of the lenders as collateral for the charter schools' loans. The agreements are in effect until the earlier of the maturity of the loans or early pay-off of the loans. If the charter schools default on the loans, the lenders are entitled to the collateral to the extent of the default, not to exceed the designated credit enhancement reserve. All remaining collateral deposits and accrued income will be deposited back to the grant reserve funds at the expiration of the agreements and are then available for subsequent use in new credit enhancement transactions on a revolving basis. For accounting purposes, the Loan Fund accrues for losses against the credit enhancement reserves when losses are deemed probable. There were no losses incurred during 2018 or 2017 (see Note 7).

BLUEHUB LOAN FUND, INC. AND AFFILIATE

Notes to Consolidated Financial Statements
December 31, 2018 and 2017

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 loans payable are disclosed in Note 5. Interest rates on loans receivable are disclosed in Note 3. The Loan Fund believes that the benefits derived from below-market rate loans received are passed through to the borrowers via below-market rate loans made, and that there is no material difference between community development finance market rates and the stated rates of loans in their portfolios. Consequently, no adjustments have been made to the accompanying consolidated financial statements to reflect rate differentials.

Conditional Advances

The Loan Fund records the amount of proceeds of certain Federal award programs, which it has not committed to qualifying projects, as conditional advances as mandated by the grant agreements. During 2018 and 2017, the Loan Fund received Federal grants totaling \$3,900,000 and \$12,500,000, respectively. Due to timing of the awards, \$3,313,000 and \$2,105,000 of the funds were not yet committed to qualifying projects as of December 31, 2018 and 2017, respectively, and are reported as conditional advances in the consolidated statements of financial position. During 2018, the Loan Fund committed \$2,105,000 that was remaining as of December 31, 2017, to qualifying projects which is included in grants and contributions in the 2018 consolidated statement of activities. The conditional advances as of December 31, 2018, are expected to be deployed or committed for qualifying projects in future periods.

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 permanent loan capital (see page 11), special programs and loan loss reserves. The Loan Fund's Board of Directors' designated \$1,000,000 of net assets without donor restrictions, the proceeds of two grant awards from the Treasury (see Note 1), as permanent loan capital. The Loan Fund's Board of Directors also designated \$132,500 of net assets without donor restrictions to Board designated net assets for special programs.

Board designated net assets for loan loss reserves consist of amounts deemed available in the event of loan losses to provide a source of liquidity to meet financing and other obligations related to lending activities (see Note 4).

The Board of Directors of the Corporation may also authorize transfers of the general net assets without donor restrictions among the related affiliates, including the Loan Fund (see Note 1). There were no such transfers during 2018 and 2017.

BLUEHUB LOAN FUND, INC. AND AFFILIATE

Notes to Consolidated Financial Statements
December 31, 2018 and 2017

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>2018</u>	<u>2017</u>
Revolving Loan Capital:		
ED Credit Enhancement	\$ 8,024,674	\$ 8,003,288
CDFI Capital Magnet	5,104,816	2,397,142
Permanent loan capital	<u>883,321</u>	<u>883,321</u>
Subtotal revolving loan capital	14,012,811	11,283,751
Other Financial Assistance	<u>1,000,000</u>	-
	<u>\$ 15,012,811</u>	<u>\$ 11,283,751</u>

Revolving loan capital represents awards from the Department of Education for credit enhancement (see Note 7), CDFI Capital Magnet awards (see Note 1), and other permanent loan capital from donors (see below). The ED credit enhancement grant (see Note 7) is used to provide credit enhancement in the form of securable collateral in connection with the financing of charter school facilities (see page 9 and Note 7). The Capital Magnet awards are used to make loans to qualified projects. Each of these grants requires that the proceeds be revolved for recurring use during the term of the respective agreements. Accordingly, the expended grant proceeds plus applicable donor-designated accumulations remain in net assets with donor restrictions until depleted by losses or until the agreements expire. The ED credit enhancement grant expires in September 2040 and the Capital Magnet awards expire on various dates through May 2023.

Permanent loan capital is the term the Loan Fund uses to describe those capital resources which are intended to provide a permanent capital base for lending activities, meet debt covenants and provide for potential loan losses. The Loan Fund has three categories of permanent loan capital: net assets with donor restrictions, designated by the Board of Directors (see page 10), 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 have been classified as net assets with donor restrictions in the accompanying consolidated statements of financial position.

Other financial assistance represents unexpended awards from the Treasury (see Note 1) for the Healthy Foods Financing Initiative, which aims to provide low-income neighborhoods with access to affordable and healthy foods.

Consolidated Statement 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.

Revenue Recognition

Financial and earned revenues are generally recognized as unrestricted revenue as earned on an accrual basis. Interest income related to certain restricted revolving capital grants is restricted for use in qualified activities and is accordingly reported as net assets with donor restrictions.

BLUEHUB LOAN FUND, INC. AND AFFILIATE

Notes to Consolidated Financial Statements
December 31, 2018 and 2017

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition (Continued)

The Loan Fund amortizes loan origination fees over the terms of long-term loans. Unamortized deferred loan fees are included as an adjustment to the carrying value of loans receivable in the accompanying consolidated statements of financial position (see Note 3).

Grants and contributions with no restrictions or conditions are recognized as revenue without donor restrictions when received or unconditionally pledged to the Loan Fund. Donor restricted grants and contributions with time or purpose restrictions are recognized as net assets with donor restrictions when received or unconditionally pledged. Net assets with donor restrictions are transferred to net assets without donor restrictions when they are used in accordance with donor-imposed restrictions. Donor restricted grants and contributions received and expended for their intended use in the same year are reflected as net assets without donor restrictions.

Expense Allocation

Expenses related directly to a program are distributed to that program, while other expenses are allocated to programs based upon management's estimate of the percentage attributable to each function.

The consolidated financial statements contain certain categories of expenses that are attributable to program and supporting functions. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include salaries, employee benefits, payroll taxes, 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 function.

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

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

	<u>Program</u>	<u>General and Administration</u>	<u>Fundraising</u>	<u>Total</u>
Interest	\$ 3,188,350	\$ -	\$ -	\$ 3,188,350
Personnel	2,020,471	69,991	42,339	2,132,801
Office operations	43,205	747,068	-	790,273
Professional fees	187,916	59,997	-	247,913
Marketing	134,440	-	34,538	168,978
Other	4,414	52,266	-	56,680
	<u>\$ 5,578,796</u>	<u>\$ 929,322</u>	<u>\$ 76,877</u>	<u>\$ 6,584,995</u>

Income Taxes

The Loan Fund accounts for uncertainty in income taxes in accordance with ASC Topic, *Income Taxes*. This standard clarifies the accounting for uncertainty in tax positions and prescribes a recognition threshold and measurement attribute for the consolidated financial statements regarding a tax position taken or expected to be taken in a tax return. The Loan Fund has determined that there are no uncertain tax positions which qualify for either recognition or disclosure in the consolidated financial statements at December 31, 2018 and 2017. The Loan Fund's information returns are subject to examination by the Federal and state jurisdictions.

BLUEHUB LOAN FUND, INC. AND AFFILIATE

Notes to Consolidated Financial Statements
December 31, 2018 and 2017

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Subsequent Events

Subsequent events have been evaluated through April 10, 2019, which is the date the consolidated financial statements were available to be issued. Aside from the events disclosed in Note 1 and 5, there were no additional events that met the criteria for recognition and 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 zero to eight percent (0% - 8%) and mature at various dates through 2042. Borrowers generally include nonprofit community organizations, private developers, and businesses which benefit low-income individuals and communities. Loans receivable are generally made in connection with affordable housing and community development projects and are primarily collateralized by first or second mortgages on the property of the borrower. The Loan Fund also has some loans secured through third mortgages, all assets of the borrower, cash held by the lender, or other forms of collateral.

Loans receivable of the Loan Fund are presented net of third-party loan participations of \$24,240,176 and \$14,654,407 as of December 31, 2018 and 2017, 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 \$1,137,950 and \$653,189 collected on behalf of and paid to loan participants in 2018 and 2017, respectively.

BLUEHUB LOAN FUND, INC. AND AFFILIATE

Notes to Consolidated Financial Statements
December 31, 2018 and 2017

3. LOANS AND INTEREST RECEIVABLE (Continued)

Portfolio Lending (Continued)

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

<u>Type</u>	<u>2018</u>		<u>2017</u>	
	<u>Number of Loans</u>	<u>Net Loan Amount</u>	<u>Number of Loans</u>	<u>Net Loan Amount</u>
Construction	50	\$ 89,550,337	33	\$ 45,729,464
Organizational	10	4,923,945	9	9,377,667
Permanent	60	56,136,563	57	44,131,893
Predevelopment	2	704,146	2	1,547,251
Site acquisition	<u>23</u>	<u>19,605,368</u>	<u>23</u>	<u>20,170,913</u>
	<u>145</u>	170,920,359	<u>124</u>	120,957,189
Interest receivable on loans		<u>2,098,489</u>		<u>1,302,926</u>
		<u>\$ 173,018,848</u>		<u>\$ 122,260,115</u>

The majority of the Loan Fund's loans receivable is secured by real estate holdings in the New England and the Mid-Atlantic states and could be affected by adverse real estate markets in the region. Certain loans receivable from charter schools are also secured by approximately \$3,418,769 of the Loan Fund's restricted cash dedicated to credit enhancement activities (see Note 7) as of December 31, 2018.

Future minimum payments of principal (and accrued interest at December 31, 2018) for years ending after December 31, 2018, are as follows:

2019 (including \$2,098,489 of accrued interest)	\$ 36,186,899
2020	28,575,625
2021	17,235,087
2022	9,757,786
2023	9,699,479
Thereafter	<u>71,563,972</u>
	173,018,848
Adjustment for deferred loan fees (see Note 2)	(637,455)
Less - allowance for loan losses (see Note 4)	(2,813,234)
Less - current portion	<u>(35,800,098)</u>
	<u>\$ 133,768,061</u>

Loans and interest receivable are as follows as of December 31, 2017:

Gross loans and interest receivable	\$ 122,260,115
Adjustment for deferred loan fees (see Note 2)	(489,089)
Less - allowance for loan losses (see Note 4)	(2,813,234)
Less - current portion	<u>(19,090,266)</u>
Net long-term portion	<u>\$ 99,867,526</u>

BLUEHUB LOAN FUND, INC. AND AFFILIATE

Notes to Consolidated Financial Statements
December 31, 2018 and 2017

3. LOANS AND INTEREST RECEIVABLE (Continued)

Portfolio Lending (Continued)

All borrowers with loans that are currently amortizing are current with their payments as of December 31, 2018 and 2017. The following is an aging analysis of the Loan Fund's loans receivable at December 31:

	<u>2018</u>	<u>2017</u>
60 - 89 days	\$ 2,500	\$ 2,500
Greater than 90 days	<u>22,500</u>	<u>-</u>
Total past due	25,000	2,500
Current	<u>170,895,359</u>	<u>120,954,689</u>
	<u>\$ 170,920,359</u>	<u>\$ 120,957,189</u>

Commitments to Lend

The Loan Fund had committed \$63,962,218 and \$63,240,398 for future disbursements on existing loan commitments and lines of credit to unrelated borrowers as of December 31, 2018 and 2017, respectively. Among the tools available to manage liquidity are lines of credit with financial institutions (see Note 5), as well as the potential to initiate loan sales and loan participation agreements with lending partners.

Guarantee Agreement

The Loan Fund also has a non-expiring loan guarantee agreement with the United States Department of Agriculture (USDA). The guarantee is intended to strengthen the Loan Fund's ability to finance loans to businesses in rural areas and thus stimulate economic growth in these areas. As of December 31, 2018 and 2017, 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, 2018, the principal balance of this loan is \$4,170,388, of which \$3,961,852 has been participated out to a third party. As of December 31, 2017, the principal balance of this loan was \$4,234,569, of which \$4,022,824 was participated out to a third party.

Special Tax-Credit Lending

As of December 31, 2018 and 2017, the Loan Fund has entered into 105 and 93 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 1.2%, which the Loan Fund will receive on the maturity dates through July 2072. As part of each arrangement, the Loan Fund receives fees up to .05% of the total loan, not to be less than \$15,000. These fees are included in loan fees and other in the accompanying consolidated statements of activities and totaled \$246,664 and \$279,759 for 2018 and 2017, respectively.

Total outstanding principal balances are \$464,701,149 and \$404,760,094 as of December 31, 2018 and 2017, respectively. These loans have specific restrictions surrounding their use, and due to their long-term deferred nature and likelihood of collectability, the notes are substantially reserved at December 31, 2018 and 2017. The provision associated with these allowances is netted with the value of the tax credit donations. Interest earned on these loans totaled \$156,126 and \$114,891 for the years ended December 31, 2018 and 2017, respectively. As of December 31, 2018 and 2017, there was outstanding interest receivable on these loans of \$419,353 and \$263,227, respectively, which has been substantially reserved in the accompanying consolidated financial statements.

BLUEHUB LOAN FUND, INC. AND AFFILIATE

Notes to Consolidated Financial Statements
December 31, 2018 and 2017

3. LOANS AND INTEREST RECEIVABLE (Continued)

Special Tax-Credit Lending (Continued)

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

Affiliate Loans 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 4.3% per annum and interest is due quarterly. Interest paid to the Loan Fund was \$430,903 for 2018 and 2017. As of December 31, 2018 and 2017, principal outstanding under this agreement totaled \$10,000,000. All remaining unpaid principal and interest are due on the maturity date of December 31, 2020.

Venture Fund

The Loan Fund had loaned \$2,300,000 of the proceeds of the permanent loan capital - subordinated loans payable to the Venture Fund (see Notes 1 and 6) to finance a portion of certain investments of the Venture Fund. This intercompany loan bore interest at 3%, payable quarterly, was unsecured, and the original maturity date was in 2027. Interest on this borrowing totaled \$32,955 and \$49,500 in 2018 and 2017, respectively. As of December 31, 2017, the principal outstanding under this agreement totaled \$1,650,000. During 2018, the remaining principal balance was paid in full.

SEA

The Loan Fund loaned \$3,000,000 of the proceeds of the permanent loan capital - subordinated loans payable to SEA (see Notes 1 and 6) to finance a portion of certain assets of SEA. The entire principal is outstanding at December 31, 2018 and 2017. This intercompany loan bears interest at 3%, payable quarterly, is unsecured, and matures in 2020. Interest on these borrowings totaled \$90,000 in 2018 and 2017.

Investment Fund/SEA

The Loan Fund entered into a leverage loan agreement with BCC 481 NMTC Investment Fund, LLC (the Investment Fund) in the amount of \$1,472,876, which was used in the finance of solar panel installations within a new markets tax credit financing structure. Interest on this note accrues at 6%. On October 31st of each year, all accrued interest and unpaid principal, to the extent of cash flow as outlined in the agreement, are due. All remaining unpaid principal and interest are due on the maturity date of March 23, 2021. During 2018 and 2017, the Investment Fund made payments of principal of \$209,854 and \$116,190, respectively. During 2018, SEA assumed the outstanding balance of the loan payable. As of December 31, 2018 and 2017, the outstanding balance of the loan was \$369,489 and \$579,343, respectively. Total interest was \$32,924 and \$40,051 for 2018 and 2017, respectively. There was no unpaid interest as of December 31, 2018 and 2017.

BLUEHUB LOAN FUND, INC. AND AFFILIATE

Notes to Consolidated Financial Statements
December 31, 2018 and 2017

3. LOANS AND INTEREST RECEIVABLE (Continued)

Affiliate Loans Receivable (Continued)

USB Investment Fund

During 2013, the Loan Fund entered into a leverage loan with the USB Investment Fund (see Note 1) in the amount of \$5,224,207, which was used in the financing of solar panel installations within a new markets tax credit financing structure. Interest on this note accrues at 6% per annum, compounded annually. Beginning on December 31, 2013, and thereafter at each succeeding year, all accrued interest and unpaid principal, to the extent of net cash flow as outlined in the agreement, are due and payable. All remaining principal and interest are due on the maturity date of November 6, 2023. This loan may be prepaid without penalty. During 2018 and 2017, USB Investment Fund made payments of principal of \$520,044 and \$480,181, respectively. Total interest incurred was \$79,267 and \$108,289 for 2018 and 2017, respectively. There was no unpaid interest as of December 31, 2018 and 2017. As of December 31, 2018 and 2017, the principal outstanding under this agreement was \$1,010,797 and \$1,530,841, respectively.

Stated maturities of all affiliate loans receivable, not including net cash flow payments payable from the Investment Fund or USB Investment Fund (see page 16), as of December 31, 2018, are as follows:

<u>Year</u>	<u>SEA</u>	<u>USB Investment Fund</u>	<u>SUN Financing</u>	<u>Total</u>
2019	\$ -	\$ -	\$ -	\$ -
2020	3,000,000	-	10,000,000	13,000,000
2021	369,489	-	-	369,489
2022	-	-	-	-
2023	-	1,010,797	-	1,010,797
Total	<u>\$ 3,369,489</u>	<u>\$ 1,010,797</u>	<u>\$ 10,000,000</u>	<u>\$ 14,380,286</u>

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:

	<u>2018</u>	<u>2017</u>
Allowance for loan losses (see page 18 and Note 2)	\$ 2,813,234	\$ 2,813,234
Board designated net assets for general loan loss reserves (see Note 2)	<u>8,168,792</u>	<u>5,453,280</u>
	<u>\$ 10,982,026</u>	<u>\$ 8,226,514</u>

BLUEHUB LOAN FUND, INC. AND AFFILIATE

Notes to Consolidated Financial Statements
December 31, 2018 and 2017

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

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.

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

<u>2018</u>	<u>Construction</u>	<u>Organi- zational</u>	<u>Permanent</u>	<u>Pre- development</u>	<u>Site Acquisition</u>	<u>Total</u>
Allowance for loan losses, December 31, 2017	\$ 22,988	\$ 2,755	\$ 2,218,945	\$ 414,970	\$ 153,576	\$ 2,813,234
Provision	206,811	-	-	-	114,000	320,811
Recoveries	-	-	(320,811)	-	-	(320,811)
Allowance for loan losses, December 31, 2018	<u>\$ 229,799</u>	<u>\$ 2,755</u>	<u>\$ 1,898,134</u>	<u>\$ 414,970</u>	<u>\$ 267,576</u>	<u>\$ 2,813,234</u>
Ending balance: Individually evaluated for impairment	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,782,601</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,782,601</u>
Troubled Debt Restructuring	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,782,601</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,782,601</u>
<u>2017</u>	<u>Construction</u>	<u>Organi- zational</u>	<u>Permanent</u>	<u>Pre- development</u>	<u>Site Acquisition</u>	<u>Total</u>
Allowance for loan losses, December 31, 2016	\$ 22,988	\$ 2,755	\$ 2,218,945	\$ 822,076	\$ 153,576	\$ 3,220,340
Charge-offs	-	-	-	(407,106)	-	(407,106)
Allowance for loan losses, December 31, 2017	<u>\$ 22,988</u>	<u>\$ 2,755</u>	<u>\$ 2,218,945</u>	<u>\$ 414,970</u>	<u>\$ 153,576</u>	<u>\$ 2,813,234</u>
Ending balance: Individually evaluated for impairment	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,955,869</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,955,869</u>
Troubled Debt Restructuring	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,955,869</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,955,869</u>

BLUEHUB LOAN FUND, INC. AND AFFILIATE

Notes to Consolidated Financial Statements
December 31, 2018 and 2017

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

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

Category	Risk Rating	2018		2017	
		Loan Balance	Loan Loss Allowance	Loan Balance	Loan Loss Allowance
Pass	1 - 4	\$ 161,075,362	\$ -	\$ 112,345,459	\$ -
Special Mention	5 - 6	9,050,429	1,794,777	7,799,662	1,875,108
Substandard	7 - 8	794,568	794,568	812,068	812,068
General Reserve		-	223,889	-	126,058
		<u>\$ 170,920,359</u>	<u>\$ 2,813,234</u>	<u>\$ 120,957,189</u>	<u>\$ 2,813,234</u>

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 the ASC Topic, *Impairment (Recoverability) of a Loan*, management employs one of three methods to determine and measure impairment: the Present Value of Future Cash Flow Method; the Fair Value of Collateral Method; and the Observable Market Price of a Loan Method. To perform an impairment analysis, the Loan Fund reviews a loan's internally assigned risk rating, its outstanding balance, value of the collateral, guarantors, and a current report of the action being implemented. Based on the nature of the specific loan, one of the impairment methods is chosen and any impairment is determined, based on criteria established for impaired loans.

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

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

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

BLUEHUB LOAN FUND, INC. AND AFFILIATENotes to Consolidated Financial Statements
December 31, 2018 and 2017

5. LOANS PAYABLE (Continued)

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

	<u>2018</u>	<u>2017</u>
The Loan Fund has two \$10,000,000 unsecured non-revolving lines of credit with a financial institution, which expire on December 21, 2021 and September 28, 2025, respectively. The interest rate on the first line of credit is based on the applicable Federal Home Loan Bank of Boston (FHLBB) rate at the time of the borrowings. The interest rate on the second line of credit is based on the FHLBB rate at the time of the borrowing plus 1%. The interest rates are locked-in on the specific date of each draw.	\$ 20,000,000	\$ 10,000,000
The Loan Fund has a \$15,000,000 unsecured non-revolving line of credit with a financial institution, which originally expired on September 2017. During 2017, this line of credit was extended until September 30, 2019, under the same terms. During 2019, this line of credit was extended until March 2026. The interest rate on this line of credit is a thirty-day London Interbank Offered Rate (LIBOR) (2.4582% and 1.4925% as of December 31, 2018 and 2017, respectively), plus 1.5%, with a minimum rate of 1.65%. There was no balance on this line of credit as of December 31, 2017.	15,000,000	-
The Loan Fund has a \$15,000,000 unsecured revolving line of credit with a financial institution, which expires on October 31, 2026. The interest rate on this line of credit is 2.5% and interest is due in quarterly payments.	15,000,000	15,000,000
The Loan Fund has a \$10,000,000 unsecured revolving line of credit with a financial institution, which expires on November 30, 2022. The interest rate on this line of credit is 1.34% and interest is due in quarterly payments.	10,000,000	10,000,000
The Loan Fund has a \$10,000,000 unsecured non-revolving line of credit with a financial institution, which expires on November 30, 2026. The interest rate on this line of credit is 3.25% and interest is due at the end of each calendar year.	10,000,000	10,000,000
The Loan Fund has a \$10,000,000 unsecured revolving line of credit with a financial institution, which originally expired on May 31, 2018. During 2018, this line of credit was amended and extended until August 27, 2021. The interest rate on this line of credit is based on a thirty-day LIBOR (2.4582% and 1.4925% as of December 31, 2018 and 2017, respectively), plus 2.5%.	5,000,000	-
The Loan Fund has a \$5,000,000 unsecured non-revolving line of credit with a financial institution, which expires on December 11, 2025. The interest rate on this line of credit is based on the FHLBB Rate at the time of the borrowing plus 1.25%.	5,000,000	-

BLUEHUB LOAN FUND, INC. AND AFFILIATENotes to Consolidated Financial Statements
December 31, 2018 and 2017**5. LOANS PAYABLE (Continued)**

	<u>2018</u>	<u>2017</u>
The Loan Fund has a \$10,000,000 unsecured revolving line of credit with a financial institution, which expires on March 13, 2021. The interest rate on this line of credit is based on a thirty-day LIBOR (2.4582% at December 31, 2018), plus 2.05%.	5,000,000	-
The Loan Fund had a \$15,000,000 unsecured non-revolving line of credit agreement with a financial institution, which expired on June 30, 2018. Outstanding advances under this line of credit bore interest at the financial institution's seven-year cost of funds, plus 125 basis points on the date of the draw. Proceeds from this line of credit were used only to finance qualifying New Markets Tax Credit loans in certain states. Funds advanced under these draws bore interest at rates ranging from 3.24% to 3.73%. There was no available credit as of December 31, 2018 or 2017, as \$10,000,000 of the note was paid in previous years.	-	5,000,000
Total lines of credit	85,000,000	50,000,000
Other loans payable (see below)	<u>36,186,370</u>	<u>37,142,390</u>
	121,186,370	87,142,390
Less - unamortized debt issuance costs	(49,428)	(34,892)
Less - current portion	<u>(6,735,751)</u>	<u>(6,901,215)</u>
	<u>\$ 114,401,191</u>	<u>\$ 80,206,283</u>

Other loans payable of the Loan Fund represent loans by approximately 350 lenders ("investors") in principal amounts ranging from \$1,000 to \$5,300,000. Loans payable bear interest at rates ranging from 0% to 4.3%, payable at various dates through 2028.

In the ordinary course of operations, the Loan Fund may negotiate extensions of maturity with many investors. The current maturities as of December 31, 2018, include approximately \$1,155,000 of loan principal which has matured, but has not been paid or formally extended. Management is in the process of negotiating extensions of these loans. Current maturities as of December 31, 2018, also include approximately \$1,581,000 considered due on demand.

The Loan Fund has an additional line of credit with a financial institution for borrowings available up to \$2,500,000, which has no outstanding balance as of December 31, 2018 and 2017. As of December 31, 2018, the Loan Fund had \$12,500,000 of available credit on existing lines of credit. Subsequent to December 31, 2018, the Loan Fund obtained commitments and closed several lines of credit for up to an additional \$42,500,000 of financing.

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, 2018 and 2017, the Loan Fund was in compliance with these covenants.

BLUEHUB LOAN FUND, INC. AND AFFILIATE

Notes to Consolidated Financial Statements
December 31, 2018 and 2017

5. LOANS PAYABLE (Continued)

Debt issuance costs totaling \$169,779 and \$134,239 as of December 31, 2018 and 2017, respectively, are recorded at cost and are amortized over the lives of their respective loan payables. The Loan Fund uses the straight-line method of imputed interest associated with these costs, as the effective interest method does not materially impact the consolidated financial statements. Imputed interest totaled \$21,004 and \$23,240 for the years ended December 31, 2018 and 2017, respectively, and is included in interest expense in the accompanying consolidated statements of activities. Total accumulated amortization for the years ended December 31, 2018 and 2017, was \$120,351 and \$99,347, respectively.

Principal maturities on loans payable and imputed interest of debt issuance costs over the next five years as of December 31, 2018, are as follows:

<u>Year</u>	<u>Principal Maturities</u>	<u>Imputed Interest of Debt Issuance Costs</u>
2019	\$ 6,735,751	\$ 16,847
2020	\$ 21,937,417	\$ 16,847
2021	\$ 37,038,568	\$ 8,443
2022	\$ 26,286,857	\$ 2,500
2023	\$ 1,203,019	\$ 4,792

6. PERMANENT LOAN CAPITAL - SUBORDINATED LOANS PAYABLE

Permanent loan capital - subordinated loans payable consist of long-term subordinated loans payable of the Loan Fund (47 and 46 individual loans as of December 31, 2018 and 2017, respectively) from financial and other institutions, bearing simple interest at rates between 2% and 4%. These loans have substantially similar terms including annual interest-only payments until final maturity, occurring between 2019 and 2030. These loans are subordinate and junior to all other obligations of the Loan Fund. Only two notes with original principal of \$500,000 each are currently amortizing. An additional note with principal of \$2,000,000 requires interest-only payments until February 2028, at which time the note requires additional quarterly principal payments of \$250,000 until the balance is repaid.

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

Permanent loan capital - subordinated loans payable also include a \$4,410,000 Equity Equivalent Security (EQ2 Security) with the Treasury (see Note 1), which the Loan Fund entered into in 2011. Outstanding amounts under this agreement bear interest at 2% through the maturity date in September 2019. The Loan Fund is required to make quarterly interest payments until maturity. The Loan Fund can elect to extend the maturity date of the EQ2 Security through September 2021. If the Loan Fund elects to extend the maturity date, any interest payments occurring after September 2021, will be calculated at 9% of the outstanding principal balance.

BLUEHUB LOAN FUND, INC. AND AFFILIATENotes to Consolidated Financial Statements
December 31, 2018 and 2017**6. PERMANENT LOAN CAPITAL - SUBORDINATED LOANS PAYABLE (Continued)**

Principal maturities are as follows:

2019	\$ 4,517,162
2020	81,606
2021	22,889
2022	500,000
2023	-
Thereafter	<u>22,250,000</u>
Total loans	27,371,657
Less - current portion	<u>(4,517,162)</u>
	<u>\$ 22,854,495</u>

Permanent loan capital - subordinated loans payable are as follows as of December 31, 2017:

Total loans	\$ 25,476,698
Less - current portion	<u>(105,042)</u>
Net long-term portion	<u>\$ 25,371,656</u>

7. CREDIT ENHANCEMENTS

During 2017, the Loan Fund received proceeds of an \$8 million conditional grant from the Department of Education (ED) (see Note 2). The Loan Fund collaborates with Nonprofit Finance Fund to use the grant proceeds plus interest earned to provide credit enhancement for twenty-five charter schools or 7,150 student slots. Under the agreement, the Loan Fund facilitates additional security to lenders and investors by using the ED grant funds for the fulfillment of debt service reserve requirements on behalf of the charter school bond holders and lenders, as well as provide loan guarantees and collateral funds. Un-deployed funds must be returned to and are refundable to ED in the case of default. The ED agreement expires in September 2040.

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

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

	<u>2018</u>	<u>2017</u>
Cash collateral (eleven and seven active arrangements as of December 31, 2018 and 2017, respectively)	\$ 6,777,795	\$ 4,584,797
Grant reserve funds	<u>1,246,879</u>	<u>3,418,491</u>
	<u>\$ 8,024,674</u>	<u>\$ 8,003,288</u>

Approximately \$3,418,769 of the cash collateral escrowed secures loans receivable of the Loan Fund as of December 31, 2018 (see Note 3).

Maturity dates of the active arrangements as of December 31, 2018 and 2017, range from February 1, 2022 through February 28, 2037. Interest income reinvested for loans committed not yet financed totaled \$21,386 and \$3,287 for the years ended December 31, 2018 and 2017, respectively.

BLUEHUB LOAN FUND, INC. AND AFFILIATE

Notes to Consolidated Financial Statements
December 31, 2018 and 2017

8. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The Loan Fund's financial assets available within one year from December 31, 2018, for general operating expenses are as follows:

Cash and cash equivalents	\$ 20,641,096
Marketable securities	461,773
Current portion of loans and interest receivable, net	<u>35,800,098</u>
Total financial assets	56,902,967
Board designated reserves (see page 10)	<u>9,301,292</u>
Total financial assets available to meet cash needs for general expenditures within one year	<u>\$ 47,601,675</u>

The Loan Fund's financial resources are generally dedicated to its lending operations. The operations are supported substantially with borrowed capital (see Note 5) 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. 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, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

9. RECLASSIFICATION

Certain amounts in the 2017 consolidated financial statements have been reclassified to conform with the 2018 presentation.