BOSTON COMMUNITY LOAN FUND, INC. AND AFFILIATE

CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015
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To the Board of Directors of  
Boston Community Loan Fund, Inc.:

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Boston Community Loan Fund, Inc. (a Massachusetts corporation, not for profit) (the Loan Fund) and Affiliate which comprise the consolidated statements of financial position as of December 31, 2016 and 2015, and the related consolidated statements of activities, changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management’s Responsibility for the Consolidated Financial Statements

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

Auditor’s Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Boston Community Loan Fund, Inc. and Affiliate as of December 31, 2016 and 2015, 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 explained in Note 1 to the consolidated financial statements, the Loan Fund and Affiliate is part of an affiliated group of companies and has 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.

During 2016, the Loan Fund and Affiliate adopted Accounting Standards Update No. 2015-03, Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs, which modifies the classification of debt issuance costs in the consolidated statements of financial position (see Note 2).

During 2016, the Loan Fund and Affiliate adopted Accounting Standards Update No. 2016-01, Financial Instruments - Overall. As explained in Note 2, this new guidance no longer requires the Loan Fund to disclose such information regarding the fair value of financial instruments in the footnotes.

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

Boston, Massachusetts
April 12, 2017
BOSTON COMMUNITY LOAN FUND, INC. AND AFFILIATE

Consolidated Statements of Financial Position
December 31, 2016 and 2015

<table>
<thead>
<tr>
<th>Assets</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Current Assets:</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Cash and cash equivalents</td>
<td>$ 17,450,344</td>
</tr>
<tr>
<td></td>
<td>Marketable securities</td>
<td>11,500,738</td>
</tr>
<tr>
<td></td>
<td>Escrow funds</td>
<td>1,232,693</td>
</tr>
<tr>
<td></td>
<td>Grants receivable</td>
<td>3,750,000</td>
</tr>
<tr>
<td></td>
<td>Current portion of loans and interest receivable, net of allowance for loan losses of $739,126 and $1,963,448 as of December 31, 2016 and 2015, respectively</td>
<td>23,644,507</td>
</tr>
<tr>
<td></td>
<td>Current portion of affiliate loans</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>Other accounts receivable</td>
<td>50,811</td>
</tr>
<tr>
<td></td>
<td>Total current assets</td>
<td>57,629,093</td>
</tr>
<tr>
<td></td>
<td>Loans and Interest Receivable, net of current portion and allowance for loan losses of $2,481,214 and $2,071,233 as of December 31, 2016 and 2015, respectively</td>
<td>59,806,878</td>
</tr>
<tr>
<td></td>
<td>Affiliate Loans, net of current portion</td>
<td>17,356,555</td>
</tr>
<tr>
<td></td>
<td>Total assets</td>
<td>$ 134,792,526</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Liabilities and Net Assets</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current Liabilities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>$ 7,267,784</td>
<td>$ 6,966,295</td>
</tr>
<tr>
<td>Marketable securities</td>
<td>102,963</td>
<td>100,926</td>
</tr>
<tr>
<td>Accounts payable</td>
<td>539,436</td>
<td>94,327</td>
</tr>
<tr>
<td>Accrued interest</td>
<td>360,075</td>
<td>359,543</td>
</tr>
<tr>
<td>Due to affiliate</td>
<td>152,916</td>
<td>156,317</td>
</tr>
<tr>
<td>Escrow funds</td>
<td>1,232,693</td>
<td>2,628,280</td>
</tr>
<tr>
<td>Total current liabilities</td>
<td>9,655,867</td>
<td>10,945,688</td>
</tr>
<tr>
<td>Loans Payable, net of current portion</td>
<td>61,147,721</td>
<td>50,931,777</td>
</tr>
<tr>
<td>Permanent Loan Capital - Subordinated Loans Payable, net of current portion</td>
<td>25,476,698</td>
<td>23,579,662</td>
</tr>
<tr>
<td>Total liabilities</td>
<td>96,280,286</td>
<td>85,457,127</td>
</tr>
<tr>
<td>Net Assets:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unrestricted:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>General</td>
<td>27,360,376</td>
<td>21,795,918</td>
</tr>
<tr>
<td>Board designated for permanent loan capital and special programs</td>
<td>1,132,500</td>
<td>1,132,500</td>
</tr>
<tr>
<td>Board designated for loan loss reserves</td>
<td>7,136,043</td>
<td>9,023,870</td>
</tr>
<tr>
<td>Total unrestricted</td>
<td>35,628,919</td>
<td>31,952,288</td>
</tr>
<tr>
<td>Temporarily restricted:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Permanent loan capital</td>
<td>883,321</td>
<td>882,446</td>
</tr>
<tr>
<td>Financial assistance</td>
<td>2,000,000</td>
<td>-</td>
</tr>
<tr>
<td>Total temporarily restricted</td>
<td>2,883,321</td>
<td>882,446</td>
</tr>
<tr>
<td>Total net assets</td>
<td>38,512,240</td>
<td>32,834,734</td>
</tr>
<tr>
<td>Total liabilities and net assets</td>
<td>$ 134,792,526</td>
<td>$ 118,291,861</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these consolidated statements.
BOSTON COMMUNITY LOAN FUND, INC. AND AFFILIATE

Consolidated Statements of Activities
For the Years Ended December 31, 2016 and 2015

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Unrestricted Net Assets:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating revenues:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial and earned revenues:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest on loans, net</td>
<td>$6,065,020</td>
<td>$6,574,207</td>
</tr>
<tr>
<td>Loan fees and other</td>
<td>654,496</td>
<td>724,358</td>
</tr>
<tr>
<td>Net loan loss recovery</td>
<td>140,280</td>
<td>750,000</td>
</tr>
<tr>
<td>Net realized loss on sale of real estate owned</td>
<td>-</td>
<td>(209,392)</td>
</tr>
<tr>
<td>Less - interest expense</td>
<td>(2,485,247)</td>
<td>(2,569,536)</td>
</tr>
<tr>
<td>Net financial and earned revenues</td>
<td>4,374,549</td>
<td>5,269,637</td>
</tr>
<tr>
<td>Operating expenses:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Personnel</td>
<td>1,612,361</td>
<td>1,556,465</td>
</tr>
<tr>
<td>Office operations</td>
<td>576,257</td>
<td>573,606</td>
</tr>
<tr>
<td>Marketing</td>
<td>127,801</td>
<td>205,781</td>
</tr>
<tr>
<td>Professional fees</td>
<td>99,872</td>
<td>43,919</td>
</tr>
<tr>
<td>Other</td>
<td>31,627</td>
<td>33,675</td>
</tr>
<tr>
<td>Total operating expenses</td>
<td>2,447,918</td>
<td>2,413,446</td>
</tr>
<tr>
<td>Changes in unrestricted net assets from operations</td>
<td>1,926,631</td>
<td>2,856,191</td>
</tr>
<tr>
<td>Other changes in unrestricted net assets:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Grants for loan capital</td>
<td>1,750,000</td>
<td>-</td>
</tr>
<tr>
<td>Grants from affiliate for support of new initiatives</td>
<td>-</td>
<td>850,000</td>
</tr>
<tr>
<td>Net assets released from restrictions for loan capital</td>
<td>-</td>
<td>3,090,231</td>
</tr>
<tr>
<td>Changes in unrestricted net assets</td>
<td>3,676,631</td>
<td>6,796,422</td>
</tr>
</tbody>
</table>

| **Temporarily Restricted Net Assets:** |          |          |
| Grants and contributions | 2,000,875 | 1,050   |
| Net assets released from restrictions | - | (3,090,231) |
| Changes in temporarily restricted net assets | 2,000,875 | (3,089,181) |
| Changes in net assets | $5,677,506 | $3,707,241 |

The accompanying notes are an integral part of these consolidated statements.
BOSTON COMMUNITY LOAN FUND, INC. AND AFFILIATE

Consolidated Statements of Changes in Net Assets
For the Years Ended December 31, 2016 and 2015

<table>
<thead>
<tr>
<th></th>
<th>Unrestricted</th>
<th>Unrestricted - Board Designated</th>
<th>Temporarily Restricted</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>General</td>
<td>Permanent Loan Capital and Special Programs</td>
<td>Loan Loss Reserves</td>
</tr>
<tr>
<td><strong>Net Assets, December 31, 2014</strong></td>
<td>$ 15,490,189</td>
<td>$ 1,132,500</td>
<td>$ 8,533,177</td>
</tr>
<tr>
<td>Changes in net assets</td>
<td>6,796,422</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Transfers of unrestricted net assets</td>
<td>(490,693)</td>
<td>-</td>
<td>490,693</td>
</tr>
<tr>
<td><strong>Net Assets, December 31, 2015</strong></td>
<td>21,795,918</td>
<td>1,132,500</td>
<td>9,023,870</td>
</tr>
<tr>
<td>Changes in net assets</td>
<td>3,676,631</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Transfers of unrestricted net assets</td>
<td>1,887,827</td>
<td>-</td>
<td>(1,887,827)</td>
</tr>
<tr>
<td><strong>Net Assets, December 31, 2016</strong></td>
<td>$ 27,360,376</td>
<td>$ 1,132,500</td>
<td>$ 7,136,043</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these consolidated statements.
Consolidated Statements of Cash Flows
For the Years Ended December 31, 2016 and 2015

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash Flows from Operating Activities:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Changes in net assets</td>
<td>$5,677,506</td>
<td>$3,707,241</td>
</tr>
<tr>
<td>Adjustments to reconcile changes in net assets to net cash provided by operating activities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net loan loss recovery</td>
<td>(140,280)</td>
<td>(750,000)</td>
</tr>
<tr>
<td>Grants for capital and investment uses</td>
<td>(3,750,875)</td>
<td>(851,050)</td>
</tr>
<tr>
<td>Interest - amortization</td>
<td>17,066</td>
<td>18,577</td>
</tr>
<tr>
<td>Net realized loss on sale of real estate owned</td>
<td>-</td>
<td>209,392</td>
</tr>
<tr>
<td>Changes in operating assets and liabilities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest receivable</td>
<td>(117,277)</td>
<td>(107,577)</td>
</tr>
<tr>
<td>Other accounts receivable</td>
<td>26,074</td>
<td>(74,816)</td>
</tr>
<tr>
<td>Accounts payable</td>
<td>445,109</td>
<td>13,883</td>
</tr>
<tr>
<td>Accrued interest</td>
<td>532</td>
<td>(12,356)</td>
</tr>
<tr>
<td>Due to affiliate</td>
<td>(3,401)</td>
<td>156,317</td>
</tr>
<tr>
<td>Deferred loan fees</td>
<td>22,274</td>
<td>49,853</td>
</tr>
<tr>
<td><strong>Net cash provided by operating activities</strong></td>
<td>2,176,728</td>
<td>2,359,464</td>
</tr>
</tbody>
</table>

| **Cash Flows from Investing Activities:** |            |            |
| Principal payments of affiliate loans receivable and other advances | 1,555,663 | 1,849,155  |
| Issuance of loans receivable          | (29,144,933)| (26,204,063)|
| Principal payments of loans receivable | 30,085,821| 31,765,692  |
| Purchase of marketable securities     | (11,500,738)| -        |
| Net proceeds from sale of real estate owned | -         | 1,190,608  |
| **Net cash provided by (used in) investing activities** | (9,004,187)| 8,601,392  |

| **Cash Flows from Financing Activities:** |            |            |
| Grants for capital and investment uses | 875        | 1,698,050  |
| Proceeds from loans payable           | 17,403,712 | 2,584,477  |
| Principal payments on loans payable   | (6,866,865)| (9,754,809)|
| Proceeds from subordinated loans payable | 2,000,000| 900,000     |
| Principal payments of subordinated loans payable | (100,927)| (98,929)   |
| Cash paid for debt issuance costs     | (36,480)   | -          |
| **Net cash provided by (used in) financing activities** | 12,400,315| (4,671,211) |

| **Net Change in Cash and Cash Equivalents** | 5,572,856 | 6,289,645 |

| **Cash and Cash Equivalents:** |            |            |
| Beginning of year               | 11,877,488 | 5,587,843  |
| **End of year**                 | 17,450,344 | 11,877,488 |

**Supplemental Disclosure of Cash Flow Information:**

| Cash paid for interest | $2,484,715 | $2,563,315 |

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

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

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

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

- **BCLF Managed Assets Corporation d/b/a Boston Community Managed Assets** (Managed Assets) manages, designs, implements, and evaluates programs on behalf of third parties that provide loan underwriting, management, servicing, and financial and managerial technical assistance services.

- **BCLF Ventures, Inc. d/b/a Boston Community Venture Fund** (the Venture Fund) assists small community-based businesses and entrepreneurs in starting, growing, and expanding businesses which strengthen the low-income business community.

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

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

- **SUN Initiative Financing, LLC** (SUN Financing), a Massachusetts limited liability company, established to finance the operations of the Stabilizing Urban Neighborhoods Initiative (SUN Initiative). SUN Financing is controlled by the Holding Company by virtue of common management. The goal of SUN Initiative is to stop the displacement of families and the neighborhood destabilizing effects of home vacancies and abandonment by enabling homeowners with overleveraged properties to stay in their homes.

- **BCC Solar Energy Advantage, Inc.** (SEA), a Massachusetts for-profit corporation, owned and controlled by the Holding Company, facilitates the delivery of solar energy to affordable housing projects and others.
1. OPERATIONS (Continued)

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

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

**Nonprofit Status**

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

**Community Development Financial Institution**

The Loan Fund has been granted status as a Community Development Financial Institution (CDFI) by the U.S. Department of the Treasury (the Treasury), qualifying it for certain awards and support from the Treasury. The Loan Fund has received permanent loan capital - subordinated loans payable from the Treasury (see Note 6). The Loan Fund received grants from the Treasury totaling $3,750,000 for financial assistance in 2016. The Loan Fund did not receive any grants during 2015.

2. SIGNIFICANT ACCOUNTING POLICIES

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

**Principles of Consolidation**

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

**Estimates**

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

Fair Value Measurements

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

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

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

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

**Marketable Securities**

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

**Cash and Cash Equivalents and Concentration of Risk**

For the purpose of the consolidated statements of cash flows, cash and cash equivalents consist of all highly liquid investments purchased with an initial maturity of three months or less.

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.

**Escrow Funds**

The Loan Fund holds cash balances of $1,232,693 and $3,268,280 in escrow for outside parties as of December 31, 2016 and 2015, respectively. These amounts are escrowed for the Loan Fund’s borrowers for various purposes, including working capital reserves, replacement reserves, and construction fund escrows.
2. **SIGNIFICANT ACCOUNTING POLICIES** (Continued)

**Loans Receivable and Allowance for Loan Losses**

Loans receivable are stated net of unamortized deferred loan origination fees and an allowance for loan losses (see Notes 3 and 4). Interest on loans is calculated by using the simple interest method on monthly balances of the principal amount outstanding.

Provisions are made for estimated loan losses based on management’s evaluation of each loan. Loss recoveries are recorded in the year the recovery is known. The allowance for loan losses (see Note 4) is established through the provision for loan losses and is charged to operations. The allowance is an amount that management believes will be adequate to absorb expected losses on existing loans that may become uncollectible. Management evaluates loan collectability through consideration of factors such as previous loss experience, performance of individual loans in accordance with contract terms, financial strength and cash flows of the borrower, realizable values of collateral, and current economic conditions that may affect the borrower’s ability to repay.

U.S. GAAP requires nonprofit organizations to record interest expense and contribution revenue in connection with loans payable that are interest free or that have below-market interest rates. Likewise, funds loaned to borrowers at below-market interest rates should also result in imputed revenue and contribution expense. Interest rates on loans payable are disclosed in Note 5. Interest rates on loans receivable are disclosed in Note 3. The Loan Fund believes that the benefits derived from below-market rate loans received are passed through to the borrowers via below-market rate loans made, and that there is no material difference between community development finance market rates and the stated rates of loans in their portfolios. Consequently, no adjustments have been made to the accompanying consolidated financial statements to reflect rate differentials.

**Net Assets**

*Unrestricted net assets* include those net resources of the Loan Fund that bear no external restrictions. These include the Loan Fund’s general net assets and net assets designated by the Board of Directors for permanent loan capital, special programs and loan loss reserves.

The Board of Directors of the Corporation periodically authorizes transfers of the unrestricted general net assets among the related affiliates (see Note 1). Transfers from Managed Assets to the Loan Fund to support lending activities was $850,000 for 2015 and is shown as grants from affiliate for support of new initiatives in the accompanying 2015 consolidated statement of activities. There were no such transfers during 2016.

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

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial assistance</td>
<td>$ 2,000,000</td>
<td>$ -</td>
</tr>
<tr>
<td>Permanent loan capital</td>
<td>883,321</td>
<td>882,446</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$ 2,883,321</strong></td>
<td><strong>$ 882,446</strong></td>
</tr>
</tbody>
</table>
2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets (Continued)

Temporarily restricted net assets (Continued)

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

Financial assistance as of December 31, 2016, represented unexpended awards from the Treasury (see Note 1) for the Healthy Foods Financing Initiative, which are to provide low-income neighborhoods with access to affordable and healthy foods.

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, 2016 and 2015. The Loan Fund’s information returns are subject to examination by the Federal and state jurisdictions.

Adoption of Accounting Principles

During 2016, the Loan Fund adopted the FASB’s Accounting Standards Update (ASU) No. 2016-01, Financial Instruments - Overall. ASU 2016-01 provides guidance on organizations that are required to evaluate the need to disclose information about fair value of financial instruments. Under ASU 2016-01, the Loan Fund is no longer required to disclose such information in the notes to the consolidated financial statements. As a result of this accounting change, the 2016 and 2015 consolidated financial statements do not include these disclosures.

During 2016, the Loan Fund adopted the FASB’s ASU 2015-03, Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs, which requires that debt issuance costs related to loans payable be presented in the consolidated statements of financial position as a direct reduction from the carrying balance of loans payable. Previously, the Loan Fund reflected unamortized debt issuance costs as financing fees, an asset, in the accompanying 2015 consolidated statement of financial position, and has retroactively reclassified 2015 amounts in accordance with this ASU. The reclassification reduced total assets and loans payable at December 31, 2015, by $38,718.

In addition, amortization of debt issuance costs is required to be included with interest expense in the accompanying consolidated statements of activities.

The adoption of these ASU’s did not impact the Loan Fund’s net assets, changes in net assets, or cash flows for the years ended December 31, 2016 and 2015.
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 on the accompanying consolidated statements of activities. Non-operating revenues include grants for loan capital and grants from affiliates for support of new initiatives.

Revenue Recognition

Financial and earned revenues are recognized as unrestricted revenue as earned on an accrual basis. Interest on loans is presented net of interest of $1,221,159 and $1,735,057 collected on behalf of and paid to loan participants (see Note 3) in 2016 and 2015, respectively.

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

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

Expense Allocation

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

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

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Program</td>
<td>$4,299,421</td>
<td>$4,371,299</td>
</tr>
<tr>
<td>General and Administrative</td>
<td>633,744</td>
<td>611,683</td>
</tr>
<tr>
<td>Total</td>
<td>$4,933,165</td>
<td>$4,982,982</td>
</tr>
</tbody>
</table>

Subsequent Events

Subsequent events have been evaluated through April 12, 2017, which is the date the consolidated financial statements were available to be issued.
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 multifamily) and commercial properties.
- **Permanent**: for long-term financing for newly constructed or rehabilitated or existing multifamily housing, community facilities or commercial real estate.
- **Organizational**: for organizational capacity building, recapitalization and/or providing operating capital.
- **Site acquisition**: for acquisition of property for development, whether for commercial or housing developments.
- **Predevelopment**: for financing the upfront cost of real estate development projects prior to construction, such as for permitting, design and due diligence.

Loans receivable bear interest at rates ranging from zero to ten percent (0% - 10%) 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 $9,638,268 and $24,006,772 as of December 31, 2016 and 2015, respectively. All loan participations qualify as loan sales in accordance with the ASC Topic, *Accounting for Transfers and Servicing of Assets and Liabilities*.

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

<table>
<thead>
<tr>
<th>Type</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number of Loans</td>
<td>Net Loan Amount</td>
</tr>
<tr>
<td>Construction</td>
<td>30</td>
<td>$40,424,090</td>
</tr>
<tr>
<td>Permanent</td>
<td>46</td>
<td>$29,791,209</td>
</tr>
<tr>
<td>Organizational</td>
<td>8</td>
<td>$3,048,700</td>
</tr>
<tr>
<td>Site acquisition</td>
<td>20</td>
<td>$11,865,623</td>
</tr>
<tr>
<td>Predevelopment</td>
<td>6</td>
<td>$1,147,473</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>110</strong></td>
<td><strong>86,277,095</strong></td>
</tr>
<tr>
<td>Interest receivable on above loans</td>
<td>$759,889</td>
<td>$642,612</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$87,036,984</strong></td>
<td><strong>$88,534,656</strong></td>
</tr>
</tbody>
</table>
3. LOANS AND INTEREST RECEIVABLE (Continued)

Portfolio Lending (Continued)

Future minimum payments of principal (and accrued interest at December 31, 2016) for years ending after December 31, 2016, are as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017 (including $759,889 of accrued interest)</td>
<td>$24,383,633</td>
</tr>
<tr>
<td>2018</td>
<td>7,381,974</td>
</tr>
<tr>
<td>2019</td>
<td>7,655,012</td>
</tr>
<tr>
<td>2020</td>
<td>7,242,180</td>
</tr>
<tr>
<td>2021</td>
<td>11,873,532</td>
</tr>
<tr>
<td>Thereafter</td>
<td>28,500,653</td>
</tr>
<tr>
<td>Adjustment for deferred loan fees (see Note 2)</td>
<td>(365,259)</td>
</tr>
<tr>
<td>Less - allowance for loan losses (see Note 4)</td>
<td>(3,220,340)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>83,451,385</strong></td>
</tr>
</tbody>
</table>

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

All borrowers with loans that are currently amortizing are current with their payments as of December 31, 2016 and 2015.

Commitments to Lend

The Loan Fund had committed approximately $37,259,000 and $5,555,000 for future disbursements on existing loan commitments and lines of credit to unrelated borrowers as of December 31, 2016 and 2015, 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, 2016 and 2015, there was a guarantee of $4,600,000 for one loan receivable under this agreement. This loan is set to mature on September 1, 2042. During 2016 and 2015, the Loan Fund did not receive any cash payments under this agreement.

Special Tax-Credit Lending

As of December 31, 2016 and 2015, the Loan Fund has entered into sixty-five and fifty-four arrangements, respectively, to act as the nonprofit intermediary to improve the economic value of Massachusetts historic and state low-income tax credits of several projects in Massachusetts. The Loan Fund received a donation of tax credits from each project’s sponsor and made a loan to the respective project entity from the proceeds of the Loan Fund’s resale of the credits to an outside investor. Each loan has an interest rate ranging from 0% to 1%, which the Loan Fund will receive on the maturity date. These loans have various maturity dates through December 2063. As part of the arrangement, the Loan Fund received fees up to .05% of the total loan. However, the Loan Fund has a minimum fee of $15,000 if the .05% of loan balance is below the minimum.
3. **LOANS AND INTEREST RECEIVABLE** (Continued)

**Special Tax-Credit Lending** (Continued)

These fees are included in loan fees and other in the accompanying consolidated statements of activities and totaled $185,146 and $262,121 for 2016 and 2015, respectively. Total outstanding principal balances are $372,038,725 and $340,430,921 as of December 31, 2016 and 2015, respectively. These loans have specific restrictions surrounding their use, and due to their long-term deferred nature and likelihood of collectability, the notes are fully reserved at December 31, 2016 and 2015. The provision associated with these allowances is netted with the value of the tax credit donation.

**Affiliate Loans**

**SUN Financing**

The Loan Fund entered into a Note Purchase Agreement and an initial unsecured note under this agreement with SUN Financing (see Note 1). Under this note, the Loan Fund made a commitment to make advances to SUN Financing from time-to-time in the aggregate principal amount of $10,000,000. Funds advanced are used to acquire and refinance homes at risk of foreclosure. This intercompany loan bears interest at 4.25% per annum and interest is due quarterly. Interest paid to the Loan Fund was $432,083 and $430,903 for 2016 and 2015, respectively. As of December 31, 2016 and 2015, principal outstanding under this agreement totaled $10,000,000. During 2015, this loan was extended until December 31, 2020, under the same terms. All remaining unpaid principal and interest are due on the maturity date.

**Venture Fund**

The Loan Fund had loaned $2,300,000 of the proceeds of the permanent loan capital-subordinated loans payable to the Venture Fund (see Notes 1 and 6) to finance a portion of certain investments of the Venture Fund. This intercompany loan bears interest at 3%, payable quarterly, is unsecured, and matures in 2018. Interest on this borrowing totaled $49,500 in 2016 and 2015. As of December 31, 2016 and 2015, the principal outstanding under this agreement totaled $1,650,000.

**SEA**

The Loan Fund loaned $3,000,000 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, 2016 and 2015. This intercompany loan bears interest at 3%, payable quarterly, is unsecured, and matures in 2020. Interest on these borrowings totaled $90,000 in 2016 and 2015.

The Loan Fund and SEA entered into a $1,000,000 term loan to finance a portion of certain assets of SEA. This intercompany loan bore interest at 6% annually, with principal and interest payments due monthly. During 2016 and 2015, SEA made interest payments of $12,231 and $26,017, respectively. During 2015, principal payments of $149,286 were made. As of December 31, 2015, principal outstanding under this agreement was $346,438. During 2016, SEA paid off the remaining balance of the loan.
3. **LOANS AND INTEREST RECEIVABLE** (Continued)

**Affiliate Loans** (Continued)

*Investment Fund*

The Loan Fund entered into a leverage loan agreement with the Investment Fund (see Note 1) in the amount of $1,472,876, which was used in the finance of solar panel installments 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 2016 and 2015, the Investment Fund made payments of principal of $308,090 and $182,782 and accrued interest of $52,910 and $81,348, respectively. As of December 31, 2016 and 2015, the outstanding balance of the loan was $695,533 and $1,003,623, respectively. Total interest was $52,910 and $69,286 for 2016 and 2015, respectively. There was no unpaid interest as of December 31, 2016 and 2015.

*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 installments 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, shall be 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 2016 and 2015, USB Investment Fund made payments of principal of $901,135 and $147,000, respectively. Total interest incurred was $151,316 and $176,320 for 2016 and 2015, respectively. As of December 31, 2015, remaining unpaid interest of $86,649 was capitalized to the balance of the loan. There was no unpaid interest as of December 31, 2016. As of December 31, 2016 and 2015, the principal outstanding under this agreement was $2,011,022 and $2,912,157, respectively.

Stated maturities of all affiliate loans receivable, not including net cash flow payments payable from the Investment Fund or USB Investment Fund (see above), as of December 31, 2016, are as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>SEA</th>
<th>USB Investment Fund</th>
<th>Venture Fund</th>
<th>Investment Fund</th>
<th>SUN Financing</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>$</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>$</td>
</tr>
<tr>
<td>2018</td>
<td>-</td>
<td>-</td>
<td>1,650,000</td>
<td>-</td>
<td>-</td>
<td>1,650,000</td>
</tr>
<tr>
<td>2019</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>2020</td>
<td>3,000,000</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>10,000,000</td>
<td>13,000,000</td>
</tr>
<tr>
<td>2021</td>
<td>-</td>
<td>-</td>
<td>695,533</td>
<td>-</td>
<td>-</td>
<td>695,533</td>
</tr>
<tr>
<td>Thereafter</td>
<td>-</td>
<td>2,011,022</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>2,011,022</td>
</tr>
<tr>
<td>Total</td>
<td>$3,000,000</td>
<td>$2,011,022</td>
<td>$1,650,000</td>
<td>$695,533</td>
<td>$10,000,000</td>
<td>$17,356,555</td>
</tr>
</tbody>
</table>

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

The Loan Fund owed the Holding Company $152,916 and $156,317 as of December 31, 2016 and 2015, respectively, which is reflected as due to affiliate in the accompanying consolidated statements of financial position.
4. ALLOWANCE FOR LOAN LOSSES AND LOAN LOSS RESERVES

Loan loss reserves is the term used by the Loan Fund and certain significant investors to refer to the balance of loan loss allowances plus otherwise unrestricted net assets which have been designated by the Board of Directors as a hedge against potential loan losses. Covenants with certain significant investors require the Loan Fund to maintain loan loss reserves equal to at least 5% of loans receivable of the Loan Fund.

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

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Allowance for loan losses</td>
<td>$3,220,340</td>
<td>$4,034,681</td>
</tr>
<tr>
<td>Board designated net assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>for loan loss reserves (see</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Note 2)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>General loan loss reserves</td>
<td>3,654,550</td>
<td>3,422,258</td>
</tr>
<tr>
<td>CDFI funds released from</td>
<td>3,481,493</td>
<td>5,601,612</td>
</tr>
<tr>
<td>restrictions for specified</td>
<td></td>
<td></td>
</tr>
<tr>
<td>loans</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Subtotal - Board designated</td>
<td>7,136,043</td>
<td>9,023,870</td>
</tr>
<tr>
<td>net assets for loan loss</td>
<td></td>
<td></td>
</tr>
<tr>
<td>reserves</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>$10,356,383</td>
<td>$13,058,551</td>
</tr>
</tbody>
</table>

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

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

<p>| | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>CDFI Board Designated balance</td>
<td>$4,921,150</td>
<td></td>
</tr>
<tr>
<td>as of December 31, 2014</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Additions</td>
<td>680,462</td>
<td></td>
</tr>
<tr>
<td>CDFI Board Designated balance</td>
<td>5,601,612</td>
<td></td>
</tr>
<tr>
<td>as of December 31, 2015</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Additions</td>
<td>37,108</td>
<td></td>
</tr>
<tr>
<td>Releases</td>
<td>(2,157,227)</td>
<td></td>
</tr>
<tr>
<td>CDFI Board Designated balance</td>
<td>$3,481,493</td>
<td></td>
</tr>
<tr>
<td>as of December 31, 2016</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
4. **ALLOWANCE FOR LOAN LOSSES AND LOAN LOSS RESERVES** (Continued)

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

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Construction</td>
<td>Organizational</td>
</tr>
<tr>
<td>Allowance for</td>
<td>$ 1,022,988</td>
<td>$ 2,755</td>
</tr>
<tr>
<td>loan losses,</td>
<td>December 31, 2015</td>
<td></td>
</tr>
<tr>
<td>Charge-offs</td>
<td>(674,061)</td>
<td>-</td>
</tr>
<tr>
<td>Recoveries</td>
<td>(325,939)</td>
<td>-</td>
</tr>
<tr>
<td>Provision</td>
<td></td>
<td>-</td>
</tr>
<tr>
<td>Allowance for</td>
<td>$ 22,988</td>
<td>$ 2,755</td>
</tr>
<tr>
<td>loan losses,</td>
<td>December 31, 2016</td>
<td></td>
</tr>
<tr>
<td>Ending balance:</td>
<td></td>
<td>Individually evaluated for impairment</td>
</tr>
<tr>
<td>Troubled Debt Restructuring</td>
<td>$ -</td>
<td>$ -</td>
</tr>
</tbody>
</table>

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

For the years ended December 31, 2016 and 2015, there was one loan included in site acquisition that is disclosed as a troubled debt restructuring that is included in the general reserve of Board designated net assets and not included in the above table of the allowance for loan losses.
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:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Pass</td>
<td>1 - 4</td>
<td>$ 76,679,831</td>
<td>$ 75,462,174</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Special Mention</td>
<td>5 - 6</td>
<td>8,246,368</td>
<td>9,611,558</td>
<td>1,780,336</td>
<td>2,062,589</td>
</tr>
<tr>
<td>Substandard</td>
<td>7 - 8</td>
<td>1,350,896</td>
<td>2,818,312</td>
<td>1,350,896</td>
<td>1,858,968</td>
</tr>
<tr>
<td>General reserve</td>
<td></td>
<td>-</td>
<td>-</td>
<td>89,108</td>
<td>113,124</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td>$ 86,277,095</td>
<td>$ 87,892,044</td>
<td>$ 3,220,340</td>
<td>$ 4,034,681</td>
</tr>
</tbody>
</table>

Impaired Loans

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

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

<table>
<thead>
<tr>
<th>Loan Category</th>
<th>Number of Impaired Loans</th>
<th>Amount of Impaired Loans</th>
<th>Related Allowance for Loan Loss</th>
</tr>
</thead>
<tbody>
<tr>
<td>Site acquisition</td>
<td>2</td>
<td>$ 3,749,151</td>
<td>$ 337,750</td>
</tr>
<tr>
<td>Permanent</td>
<td>5</td>
<td>$ 3,224,370</td>
<td>1,839,561</td>
</tr>
<tr>
<td>Predevelopment</td>
<td>2</td>
<td>514,129</td>
<td>514,129</td>
</tr>
<tr>
<td><strong>Total impaired loans</strong></td>
<td><strong>9</strong></td>
<td><strong>$ 7,487,650</strong></td>
<td><strong>$ 2,691,440</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Loan Category</th>
<th>Number of Impaired Loans</th>
<th>Amount of Impaired Loans</th>
<th>Related Allowance for Loan Loss</th>
</tr>
</thead>
<tbody>
<tr>
<td>Site acquisition</td>
<td>2</td>
<td>$ 3,760,535</td>
<td>$ 1,013,285</td>
</tr>
<tr>
<td>Permanent</td>
<td>4</td>
<td>$ 3,449,311</td>
<td>1,247,519</td>
</tr>
<tr>
<td>Construction</td>
<td>1</td>
<td>1,959,344</td>
<td>1,000,000</td>
</tr>
<tr>
<td><strong>Total impaired loans</strong></td>
<td><strong>7</strong></td>
<td><strong>$ 9,169,190</strong></td>
<td><strong>$ 3,260,804</strong></td>
</tr>
</tbody>
</table>
4. **ALLOWANCE FOR LOAN LOSSES AND LOAN LOSS RESERVES** (Continued)

**Troubled Debt Restructuring**

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

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

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

As of December 31, 2016 and 2015, loans that were impaired and classified as TDRs were as follows:

<table>
<thead>
<tr>
<th>Troubled Debt Restructuring</th>
<th>Number of Loans Restructured</th>
<th>Amount of Restructured Loans</th>
<th>Related Allowance for Loan Loss</th>
</tr>
</thead>
<tbody>
<tr>
<td>Multiple extensions resulting from financial difficulty</td>
<td>6</td>
<td>$6,973,521</td>
<td>$2,177,311</td>
</tr>
<tr>
<td>Extended under forbearance</td>
<td>2</td>
<td>514,129</td>
<td>514,129</td>
</tr>
<tr>
<td><strong>Total TDRs</strong></td>
<td><strong>8</strong></td>
<td><strong>$7,487,650</strong></td>
<td><strong>$2,691,440</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Troubled Debt Restructuring</th>
<th>Number of Loans Restructured</th>
<th>Amount of Restructured Loans</th>
<th>Related Allowance for Loan Loss</th>
</tr>
</thead>
<tbody>
<tr>
<td>Multiple extensions resulting from financial difficulty</td>
<td>6</td>
<td>$7,209,846</td>
<td>$2,260,804</td>
</tr>
<tr>
<td>Extended under forbearance</td>
<td>1</td>
<td>1,959,344</td>
<td>1,000,000</td>
</tr>
<tr>
<td><strong>Total TDRs</strong></td>
<td><strong>7</strong></td>
<td><strong>$9,169,190</strong></td>
<td><strong>$3,260,804</strong></td>
</tr>
</tbody>
</table>

The above loans are all on “non-accrual” basis. During 2016, the one loan that was extended under forbearance as of 2015 was paid off.

**Real Estate Owned**

During December 2011, the Loan Fund received a parcel of land as a result of a borrower defaulting on a loan receivable. The Loan Fund transferred the property to BCC REO (see Note 1). The fair value of the property at the time of the acquisition, as determined by appraisal using significant Level 3 inputs (see Note 2), was $1,400,000. During 2015, the property was sold for $1,200,000 and BCC REO recognized a loss of $209,392, inclusive of closing costs.

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5. LOANS PAYABLE

Loans payable of the Loan Fund represent loans by approximately 350 lenders (“investors”) in principal amounts ranging from $500 to $10,000,000. Loans payable bear interest at rates ranging from 0% to 4.3%, payable at various dates through 2028.

Lines of Credit

The Loan Fund has a $15,000,000 unsecured revolving line of credit with a financial institution, which expires in September 2017. The interest rate on this line of credit is a thirty-day London Interbank Offered Rate (LIBOR) (0.7164% and 0.3584% as of December 31, 2016 and 2015, respectively), plus 1.5%, with a minimum rate of 1.65%. There was no balance on this line of credit as of December 31, 2016 and 2015.

The Loan Fund has a $15,000,000 unsecured non-revolving line of credit agreement with a financial institution, which expires on June 30, 2018. Outstanding advances under this line of credit bear interest at the financial institution’s seven-year cost of funds, plus 125 basis points on the date of the draw. Proceeds from this line of credit are to be used only to finance qualifying New Markets Tax Credit loans in certain states. During 2016 and 2015, the Loan Fund made a $5,000,000 payment on the outstanding balance. As of December 31, 2016 and 2015, $5,000,000 and $10,000,000, respectively, was outstanding on this line of credit. Funds advanced under these draws bear interest at rates ranging from 3.24% to 3.73%. The interest rates are locked-in on the specific date of each draw. There was no available credit as of December 31, 2016 and 2015.

The Loan Fund has a $2,500,000 unsecured revolving line of credit with a financial institution, which expires on August 31, 2017. The interest rate on this line of credit is a thirty-day LIBOR (0.7164% and 0.3584% as of December 31, 2016 and 2015, respectively), plus 1.5%. There was no balance on this line of credit as of December 31, 2016 and 2015. The Loan Fund also has an additional $10,000,000 unsecured non-revolving line of credit with this financial institution, which expires on December 21, 2021. The interest rate on this line of credit is based on the applicable Federal Home Loan Bank of Boston (FHLBB) Rate at the time of the borrowings. The interest rates are locked-in on the specific date of each draw. During 2016 and 2015, the line of credit was drawn in full at an interest rate of 4%. As of December 31, 2016 and 2015, $10,000,000 was outstanding on this line of credit.

The Loan Fund has a $10,000,000 unsecured revolving line of credit with a financial institution, which originally expired on November 30, 2021. During 2015, this line of credit was extended until December 31, 2022, under the same terms. The interest rate on this line of credit is 1.34% and interest is due in quarterly payments. As of December 31, 2016 and 2015, $10,000,000 and $6,300,000, respectively, was outstanding on this line of credit.

The Loan Fund has a $15,000,000 unsecured revolving line of credit with a financial institution, which expires on December 31, 2022. The interest rate on this line of credit is 2.5% and interest is due in quarterly payments. There was no outstanding balance on this line of credit as of December 31, 2016.

The Loan Fund had a $10,000,000 unsecured non-revolving line of credit with a financial institution, which expires on November 30, 2026. The interest rate on this line of credit is 3.25% and interest is due at the end of each calendar quarter. As of December 31, 2016, $10,000,000 was outstanding on this line of credit. There was no outstanding balance on this line of credit as of December 31, 2015.

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

   **Lines of Credit** (Continued)

   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, 2016 and 2015, the Loan Fund was in compliance with these covenants. As of December 31, 2016 and 2015, the Loan Fund had $37,500,000 and $31,200,000, respectively, available on lines of credit.

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

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lines of credit</td>
<td>$35,000,000</td>
<td>$26,300,000</td>
</tr>
<tr>
<td>Other loans payable</td>
<td>33,473,637</td>
<td>31,636,790</td>
</tr>
<tr>
<td>Less - unamortized debt issuance costs</td>
<td>(58,132)</td>
<td>(38,718)</td>
</tr>
<tr>
<td></td>
<td>$68,415,505</td>
<td>$57,898,072</td>
</tr>
</tbody>
</table>

   Debt issuance costs totaling $134,239 and $97,759 as of December 31, 2016 and 2015, respectively, are recorded at cost and are amortized over the lives of their respected loan payables. The Loan Fund uses the straight-line method of imputed interest associated with these costs, as the effective interest method does not materially impact the consolidated financial statements. Imputed interest totaled $17,066 and $18,577 for the years ended December 31, 2016 and 2015, respectively, and is included in interest expense in the accompanying consolidated statements of activities. Total accumulated amortization for the years ended December 31, 2016 and 2015, was $76,107 and $59,041, respectively.

   Maturities on loans payable over the next five years as of December 31, 2016, are as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>$7,267,784</td>
</tr>
<tr>
<td>2018</td>
<td>$11,052,276</td>
</tr>
<tr>
<td>2019</td>
<td>$8,119,631</td>
</tr>
<tr>
<td>2020</td>
<td>$5,019,253</td>
</tr>
<tr>
<td>2021</td>
<td>$26,825,838</td>
</tr>
</tbody>
</table>

   In the ordinary course of operations, the Loan Fund may negotiate extensions of maturity with many investors. The current maturities as of December 31, 2016, include approximately $1,200,000 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, 2016, also include approximately $1,400,000 considered due on demand.

6. **PERMANENT LOAN CAPITAL - SUBORDINATED LOANS PAYABLE**

   Permanent loan capital - subordinated loans payable consist of long-term subordinated loans payable of the Loan Fund (46 and 44 individual loans as of December 31, 2016 and 2015, 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 2028. These loans are subordinate and junior to all other obligations of the Loan Fund. Only two notes with original principal of $500,000 each are currently amortizing.
6. **PERMANENT LOAN CAPITAL - SUBORDINATED LOANS PAYABLE**  (Continued)

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

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

Principal maturities are as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>$102,963</td>
</tr>
<tr>
<td>2018</td>
<td>105,042</td>
</tr>
<tr>
<td>2019</td>
<td>4,517,162</td>
</tr>
<tr>
<td>2020</td>
<td>81,606</td>
</tr>
<tr>
<td>2021</td>
<td>22,889</td>
</tr>
<tr>
<td>Thereafter</td>
<td>20,749,999</td>
</tr>
<tr>
<td>Total loans</td>
<td>$25,579,661</td>
</tr>
</tbody>
</table>

7. **CONDITIONAL GRANT**

During 2016, the Loan Fund received a commitment for an $8,000,000 conditional grant from the U.S. Department of Education (ED). The Loan Fund will work with Nonprofit Finance Fund (NFF) to provide credit enhancement for 25 charter schools or 7,150 student slots. The Loan Fund and NFF together expect to deploy $20,000,000 in loan capital, not including the ED funds, as part of this agreement. These funds are conditional based on meeting certain benchmarks associated with deployment of the funds as defined within the agreement. Undeployed funds are refundable to ED in the case of default. Because of the nature of the grant’s conditions, this commitment is not recorded as a pledge receivable as of December 31, 2016. The $8,000,000 was received subsequent to December 31, 2016.

8. **RECLASSIFICATION**

Certain amounts in the 2015 consolidated financial statements have been reclassified to conform with the 2016 presentation.