Report of Independent Auditors
and Consolidated Financial Statements
with Supplementary Information

Craft3 and Subsidiaries

December 31, 2022 and 2021

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Report of Independent Auditors

The Board of Directors
Craft3 and Subsidiaries

Report on the Audit of the Financial Statements

Opinion

We have audited the consolidated financial statements of Craft3 and Subsidiaries, which comprise the consolidated statements of financial position as of December 31, 2022 and 2021, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Craft3 and Subsidiaries as of December 31, 2022 and 2021, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Craft3 and Subsidiaries and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter – Change in Accounting Principle

As discussed in Note 1 to the financial statements, in 2022, Craft3 and Subsidiaries adopted new accounting guidance, Accounting Standards Codification Topic 842 *Leases.* Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Craft3 and Subsidiaries' ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Craft3 and Subsidiaries' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Craft3 and Subsidiaries' ability to continue as a going concern for a reasonable period of time.

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

Other Matter

Other Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating statement of financial position as of December 31, 2022 and the consolidating statement of activities for the year then ended are presented for the purposes of additional analysis and are not a required part of the consolidated financial statements.

Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Moss Adams LLP

Portland, Oregon
April 28, 2023

Financial Statements

Craft3 and Subsidiaries
Consolidated Statements of Financial Position
December 31, 2022 and 2021

	2022	2021
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 10,894,137	$ 19,108,932
Restricted cash and cash equivalents	886,928	6,270,410
Investments, at fair value	21,324,228	26,740,801
Restricted investments, at fair value	7,769,918	-
Grants receivable	1,078,178	879,600
Accrued interest, other receivables, and prepaid expenses	1,559,427	1,449,911
Current portion of commercial loans receivable, net deferred loan fees	14,302,879	11,461,046
Current portion of consumer loans receivable, net deferred loan fees	2,294,794	4,099,299
Total current assets	60,110,489	70,009,999
LOANS RECEIVABLE		
Commercial loans, net deferred loan fees	106,843,480	101,101,640
Consumer loans, net deferred loan fees	35,287,038	28,238,818
Total loans receivable, net	142,130,518	129,340,458
Less: current portion, net deferred loan fees	(16,597,673)	(15,560,345)
Less: reserve for loan losses	(7,887,460)	(7,765,218)
Total loan receivable, net of current portion	117,645,385	106,014,895
OTHER ASSETS		
Cash and cash equivalents, restricted for loan loss reserves	1,039,486	631,394
Furniture and equipment, net	1,096,508	434,256
Foreclosed and other repossessed assets	963,483	1,172,191
Other assets	957,397	5,000
Total other assets	4,056,874	2,242,841
Total assets	$ 181,812,748	$ 178,267,735

See accompanying notes.

Craft3 and Subsidiaries
Consolidated Statements of Financial Position
December 31, 2022 and 2021

	2022	2021
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$ 3,330,061	$ 2,707,802
Current portion of long-term debt	26,029,533	21,084,132
Total current liabilities	29,359,594	23,791,934
LONG-TERM LIABILITIES		
Long-term debt		
Notes payable	96,394,250	95,030,918
Equity equivalent investments and subordinated notes payable	10,697,568	12,197,568
Total long-term debt	107,091,818	107,228,486
Less: current portion	(26,029,533)	(21,084,132)
Total long-term debt, net of current portion	81,062,285	86,144,354
Long-term lease liabilities		
Operating lease liabilities	634,561	-
Finance lease liabilities	679,292	-
Total long-term lease liabilities	1,313,853	-
Total liabilities	111,735,732	109,936,288
NET ASSETS		
Without donor restrictions	66,787,323	63,696,149
With donor restrictions	3,289,693	4,635,298
Total net assets	70,077,016	68,331,447
Total liabilities and net assets	$ 181,812,748	$ 178,267,735

See accompanying notes.

Craft3 and Subsidiaries
Consolidated Statements of Activities
Years Ended December 31, 2022 and December 31, 2021

	2022			2021		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND OTHER SUPPORT						
Interest income on outstanding loans	$ 10,135,513	$ -	$ 10,135,513	$ 8,692,699	$ -	$ 8,692,699
Grants and contributions	3,050,031	3,219,367	6,269,398	3,252,033	10,740,539	13,992,572
Loan origination and servicing fees	1,498,898	-	1,498,898	1,410,999	-	1,410,999
Investment income, net	569,214	-	569,214	290,252	-	290,252
NMTC management and servicing fees	507,536	-	507,536	522,536	-	522,536
Miscellaneous income	186,616	-	186,616	1,526,387	-	1,526,387
Net assets released from restrictions	4,564,972	(4,564,972)	-	7,045,524	(7,045,524)	-
Total revenue and other support	20,512,780	(1,345,605)	19,167,175	22,740,430	3,695,015	26,435,445
EXPENSES						
Program services						
Commercial lending activities	8,340,905	-	8,340,905	7,715,028	-	7,715,028
Consumer lending activities	3,087,080	-	3,087,080	3,124,713	-	3,124,713
Consulting and management services	1,055,541	-	1,055,541	786,526	-	786,526
Total program services	12,483,526	-	12,483,526	11,626,267	-	11,626,267
Supporting services						
Management and administration	2,946,408	-	2,946,408	2,388,351	-	2,388,351
Development	510,339	-	510,339	367,305	-	367,305
Total supporting services	3,456,747	-	3,456,747	2,755,656	-	2,755,656
Total expenses	15,940,273	-	15,940,273	14,381,923	-	14,381,923
Change in net assets before unrealized losses	4,572,507	(1,345,605)	3,226,902	8,358,507	3,695,015	12,053,522
NET UNREALIZED LOSSES ON INVESTMENTS	(1,481,333)	-	(1,481,333)	(399,610)	-	(399,610)
Change in net assets	3,091,174	(1,345,605)	1,745,569	7,958,897	3,695,015	11,653,912
NET ASSETS, beginning of year	63,696,149	4,635,298	68,331,447	55,737,252	940,283	56,677,535
NET ASSETS, end of year	$ 66,787,323	$ 3,289,693	$ 70,077,016	$ 63,696,149	$ 4,635,298	$ 68,331,447

See accompanying notes.

Craft3 and Subsidiaries
Consolidated Statements of Functional Expenses
Year Ended December 31, 2022

	Program Services				Supporting Services			
	Commercial Lending Activities	Consumer Lending Activities	Consulting and Management Services	Total Program Services	Management and Administration	Development	Total Supporting Services	Total
Expenses								
Salaries and wages	$ 4,426,024	$ 1,588,494	$ 573,290	$ 6,587,808	$ 1,067,359	$ 276,492	$ 1,343,851	$ 7,931,659
Payroll taxes and fringe benefits	1,381,422	548,383	171,822	2,101,627	293,396	86,472	379,868	2,481,495
Interest and loan fee	1,944,616	(70,677)	-	1,873,939	608	-	608	1,874,547
Technology expense	294,761	142,626	38,034	475,421	209,185	28,525	237,710	713,131
Occupancy expense	253,086	126,353	32,741	412,180	191,803	25,710	217,513	629,693
Loan costs	319,421	325,401	-	644,822	-	205	205	645,027
Consultants	100,919	-	84,752	185,671	427,730	24,951	452,681	638,352
Grants Made	220,000	97,868	-	317,868	-	-	-	317,868
Taxes and licenses	105,343	50,972	13,593	169,908	74,760	10,194	84,954	254,862
Professional fees	28,243	-	113,275	141,518	78,705	34,067	112,772	254,290
Travel	69,119	22,189	3,487	94,795	58,854	8,653	67,507	162,302
Insurance	51,902	25,114	6,697	83,713	36,834	5,023	41,857	125,570
Office supplies	44,453	21,510	5,736	71,699	31,548	4,302	35,850	107,549
Depreciation and amortization	67,412	28,727	8,614	104,753	35,647	5,306	40,953	145,706
(Recapture of) provision for loan losses	(1,000,000)	152,600	-	(847,400)	-	-	-	(847,400)
Other operating costs	34,184	27,520	3,500	65,204	439,979	439	440,418	505,622
Total expenses	$ 8,340,905	$ 3,087,080	$ 1,055,541	$ 12,483,526	$ 2,946,408	$ 510,339	$ 3,456,747	$ 15,940,273
Percent of total expenses	52%	19%	7%	78%	19%	3%	22%	100%

See accompanying notes.

Craft3 and Subsidiaries
Consolidated Statements of Functional Expenses
Year Ended December 31, 2021

	Program Services				Supporting Services			
	Commercial Lending Activities	Consumer Lending Activities	Consulting and Management Services	Total Program Services	Management and Administration	Development	Total Supporting Services	Total
Expenses								
Salaries and wages	$ 3,332,010	$ 1,698,673	$ 470,345	$ 5,501,028	$ 800,713	$ 213,784	$ 1,014,497	$ 6,515,525
Interest expense	2,033,124	167,544	-	2,200,668	-	-	-	2,200,668
Grants made	1,866,666	-	-	1,866,666	-	-	-	1,866,666
Payroll taxes and fringe benefits	1,010,136	383,574	102,130	1,495,840	204,999	50,821	255,820	1,751,660
Occupancy expenses	228,691	110,657	29,509	368,857	162,297	22,131	184,428	553,285
Consultants	38,101	4,249	106,590	148,940	367,462	27,000	394,462	543,402
Technology expense	219,443	106,182	28,315	353,940	155,734	21,236	176,970	530,910
Loan servicing expenses	186,795	308,427	-	495,222	-	-	-	495,222
Taxes and licenses	77,493	37,497	9,999	124,989	54,995	7,499	62,494	187,483
Insurance	49,816	24,104	6,428	80,348	35,353	4,821	40,174	120,522
Professional fees	240	-	24,842	25,082	68,301	13,952	82,253	107,335
Depreciation and amortization	34,326	16,609	4,429	55,364	24,360	3,322	27,682	83,046
Travel	25,677	2,926	1,413	30,016	15,441	445	15,886	45,902
Office supplies	15,438	7,470	1,992	24,900	10,956	1,494	12,450	37,350
(Recapture of) provision for loan losses	(1,424,028)	215,000	-	(1,209,028)	-	-	-	(1,209,028)
Other operating costs	21,100	41,801	534	63,435	487,740	800	488,540	551,975
Total expenses	$ 7,715,028	$ 3,124,713	$ 786,526	$ 11,626,267	$ 2,388,351	$ 367,305	$ 2,755,656	$ 14,381,923
Percent of total expenses	54%	22%	5%	81%	17%	2%	19%	100%

See accompanying notes.

Craft3 and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended December 31, 2022 and 2021

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 1,745,569	$ 11,653,912
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation and amortization	145,706	83,046
Recapture of loan losses	(847,400)	(1,209,028)
Net unrealized losses on investments	1,481,333	399,610
Net realized (gains) losses on investments	(8,078)	7,547
Net amortization and accretion of premiums and discounts on investments	(68,592)	266,735
Gain on sale of foreclosed and repossessed assets	-	(321,346)
Non cash operating lease expense	314,010	-
Repayment of operating lease liabilities	(296,673)	-
Changes in operating assets and liabilities:		
Grants receivable	(198,578)	(115,000)
Accrued interest, other receivables, and prepaid expenses	(109,516)	887,248
Other assets	-	444
Accounts payable and accrued expenses	287,086	(1,274,730)
Net cash flows from operating activities	2,444,867	10,378,438
CASH FLOWS FROM INVESTING ACTIVITIES		
Net change in loans receivable	(11,820,418)	(9,434,278)
Purchases of investments	(26,876,929)	(22,021,634)
Proceeds from sales and maturities of investments	23,118,921	18,784,144
Purchases of furniture and equipment	(37,425)	(8,711)
Proceeds from sales of foreclosed and repossessed assets	208,708	3,096,797
Net cash flows used in investing activities	(15,407,143)	(9,583,682)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of long-term debt	36,793,541	21,796,140
Principal payments on long-term debt	(36,930,209)	(30,767,517)
Repayment of finance lease liabilities	(91,241)	-
Net cash flows used in financing activities	(227,909)	(8,971,377)
CHANGE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	(13,190,185)	(8,176,621)
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, beginning of year	26,010,736	34,187,357
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, end of year	$ 12,820,551	$ 26,010,736
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for interest on long-term debt	$ 2,575,805	$ 2,663,376
SUPPLEMENTAL NONCASH DISCLOSURES		
Right of use asset acquired in exchange for operating lease liabilities	$ 2,036,940	$ -

See accompanying notes.

Note 1 – Organization and Summary of Significant Accounting Policies

Craft3 is a Washington nonprofit corporation with a mission to strengthen economic, ecological, and family resilience in Pacific Northwest communities. Craft3 provides loans and assistance to entrepreneurs, nonprofits, individuals, and others who may not have access to traditional financing.

Funding for Craft3's lending and other activities comes from grants and loans made to Craft3 by financial institutions, governmental entities, nonprofit organizations, and individuals.

Craft3 is certified as a Community Development Financial Institution by the Community Development Financial Institutions Fund, a division within the U.S. Department of the Treasury.

Craft3 Future Fund (“CFF”) is a wholly-owned, not-for-profit subsidiary of Craft3. CFF is utilized to originate Sharia-compliant investments in Washington and Oregon.

Craft3 Other Owned WA Properties LLC (“WA OREO”) is a wholly-owned subsidiary of Craft3. WA OREO was established to hold real assets acquired through deeds-in-lieu of foreclosure.

Windfarm Investments, Inc. ("Windfarm") is a wholly-owned, for-profit subsidiary of Craft3. Windfarm was created to facilitate the funding of a New Markets Tax Credit ("NMTC") investment.

Craft3 Investment II, LLC ("Investment II") is 99.99% owned by Craft3 and 0.01% owned by Windfarm. Investment II is utilized to manage a leverage loan in a NMTC transaction utilizing allocation from an unrelated community development entity.

Principles of consolidation – These consolidated financial statements include the accounts of Craft3 and its wholly-owned subsidiaries, CFF, WA OREO, Windfarm, and Investment II (collectively, "Craft3"). All material intercompany balances and transactions have been eliminated in consolidation.

Related entities – Craft3 is related to a series of limited liability companies ("LLCs") that were established to take advantage of the NMTC program, which is described in Note 14 to these consolidated financial statements. Craft3 manages the LLCs, but does not have a controlling interest. Accordingly, Craft3's investment in the LLCs is accounted for at cost, subject to possible impairment. Craft3 earns management and other fees for activities related to the LLCs. As of December 31, 2022 and 2021, management concluded the investments in these LLCs was not impaired.

Basis of accounting – The accompanying consolidated financial statements of Craft3 have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States (U.S. GAAP). Under the accrual basis of accounting, contributions are recognized when promised, revenues are recognized when earned and expenses are recognized when incurred.

Craft3 is required to report information regarding its financial position and activities according to the following classes of net assets:

Net assets without donor restrictions – Net assets available for use in general operations and not subject to donor restrictions. A portion of these net assets may be designated by the Board of Directors for specific purposes.

Net assets with donor restrictions – Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Use of estimates – The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses and fair value measurements.

Cash and cash equivalents – All short-term deposits and investments with an original maturity of three months or less are considered to be unrestricted cash and cash equivalents unless the amounts are restricted. Craft3 has cash balances in excess of federally insured limits. Craft3 places its cash and restricted cash with high quality financial institutions. If any of the financial institutions with whom we do business were to be placed into receivership, we may be unable to access to the cash we have on deposit with such institutions. If we are unable to access our cash and cash equivalents as needed, our financial position and ability to operate our business could be adversely affected.

Restricted cash – Restricted cash consists of cash with limitations on Craft3's ability to use it for general operating expenses due to restrictions imposed by donors, grantors and financial institutions.

Below is a reconciliation of cash, cash equivalents and restricted cash reported within the statement of financial position that sum to the amounts shown in the statement of cash flows as of December 31:

	2022	2021
Cash and cash equivalents	$ 10,894,137	$ 19,108,932
Restricted cash		
Self-Help Credit Union Reserve Accounts	1,039,486	631,394
U.S. Department of Agriculture Intermediary Relending Program ("IRP")	430,897	5,640,965
U.S. Small Business Administration Intermediary Lending Program ("ILP")	456,031	629,445
Total restricted cash	1,926,414	6,901,804
Total cash, cash equivalents, and restricted cash	$ 12,820,551	$ 26,010,736

The Self-Help Credit Union Reserve accounts represent loan loss reserves set up as a result of the Self-Help Energy Loan Sale discussed in Note 7.

The U.S. Department of Agriculture Intermediary Relending Program requires cash used in this program to be segregated and deposited in a dedicated bank account.

The U.S. Small Business Administration Intermediary Lending Program requires cash used in this program to be segregated and deposited in a dedicated bank account.

Investments – Investments are carried at fair value. Net investment income (loss) is reported in the consolidated statements of activities and consists of interest and dividend income, realized capital gains and losses, less external and direct internal investment expenses. Unrealized capital gains and losses are presented separately. Amortization of premiums and accretions of discounts are recognized in interest income over the period to estimated maturity.

Grants receivable, accrued interest, and other receivables – Receivables consist of amounts owed to Craft3 from customers, related party LLCs, grantor agencies, and accrued interest on loans receivable.

Accounts and grants receivable are stated at their principal balances and are generally uncollateralized. As of December 31, 2022 and 2021, Craft3 determined that no allowance for doubtful accounts was required.

Loans receivable and reserves for loan losses – Loans receivable are stated at the amount of unpaid principal, reduced by net deferred unamortized origination fees, and by general and specific reserves for loan losses. Interest income on loans is recognized when earned. Loans are made to individuals, businesses, and nonprofit agencies located in the Pacific Northwest. Loans to businesses and nonprofits generally require collateral and personal guarantees from the principal owners or members of management.

A loan is placed on non-accrual status when it is specifically determined to be impaired and when, in the opinion of management, there is an indication that the borrower may be unable to make payments as they become due. Craft3's policy requires that a loan be placed on non-accrual status when payments are 90 days or more past due and the value of the related collateral does not exceed the outstanding balance due. Interest income generally is not recognized on impaired loans. Payments received on such loans are applied as a reduction of the loan principal balance until it is reduced to zero, and then applied to interest income thereafter. If the loan was past due when placed in nonaccrual status, the borrower must remain current on contractual payments for a period of six months before it may be reinstated.

The reserves (general and specific) for loan losses are maintained at a level that, in management's judgment, is adequate to absorb credit losses inherent in the loan portfolio as of the date of the statement of financial condition in consideration of the nature of the portfolio, credit concentrations, trends in historical loss experience, specific impaired loans, and economic conditions. Reserves for impaired loans are generally determined after considering collateral values. An increase to reserves increases the provision for loan losses, which is charged to expense. The reserve is reduced by loan charge-offs, net of recoveries.

Impairment is considered to exist when it is probable that not all amounts due will be collected under the terms of the loan receivable. Factors considered by Management in determining whether a loan is impaired include payment status and ability of collecting scheduled principal and interest payments when due. If Management determines that the value of the impaired loan is less than the recorded investment in the loan, Craft3 considers the impairment in the calculation of the overall allowance for loan losses.

Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

In situations where, for economic or legal reasons related to a borrower's financial difficulties, Craft3 grants a concession for other than an insignificant period of time to the borrower that Craft3 would not otherwise consider, the related loan is classified as a troubled debt restructuring (TDR). Management strives to identify borrowers in financial difficulty early and work with them to modify their loan to more affordable terms before it is charged off. Concessions could include a reduction in the interest rate to a rate that is below market on the loan, payment extensions, forgiveness of principal, forbearance, and other actions designed to maximize collections. In cases where Craft3 grants the borrower new terms that provide for a reduction of either interest or principal, Craft3 measures any impairment as noted above for impaired loans. TDR loans are classified as impaired until they are fully repaid or charged off. TDR loans are subject to the same nonaccrual and charge off policies as noted above with respect to their restructured principal balance.

Credit quality indicators – Craft3's credit risk management is monitored with a loan risk rating system. The originating loan officer assigns borrowers an initial risk rating, which is based primarily on a thorough analysis of each borrower's financial capacity to repay in conjunction with economic trends. Approvals are made based upon the amount of inherent credit risk specific to the transaction and are reviewed for appropriateness by loan officer and credit management personnel. Loans are monitored by loan officers and credit management personnel for deterioration in a borrower's financial condition, which would impact the ability of the borrower to perform under the contract. Risk ratings are adjusted periodically during term loan reviews or upon identification of specific events affecting borrower ability to repay.

Loans are risk rated into the following categories (Credit Quality Indicators):

Pass (risk rating of 4–5) – These loans range from minimal credit risk to lower than average, but still acceptable, credit risk.

Pass Watch List (risk rating of 6) – Pass Watch List loans usually require more than normal management attention. Loans that qualify for the Pass Watch List may involve borrowers with adverse financial trends, higher debt/equity ratios, or weaker liquidity positions, but not to the degree of being considered a problem loan where risk of loss may be apparent. Additionally, loans are placed on the watch list if they are regularly on the 30+ day past due list or become more than 60 days past due (unless there is a realistic plan for the loan to become current before it becomes 120 days past due).

Problem (risk rating of 7–8) – Loans are classified as Problem loans when the borrower's primary source of repayment capacity is impaired to the point that the borrower's payments do not cover principal payments on a reasonable amortization rate, a voluntary liquidation plan has been negotiated, or the loan is more than 120 days past due (unless there is a realistic plan for the loan to become current before it becomes 180 days past due).

Loss – Whenever any portion of a loan is deemed uncollectible, in part or in whole, a partial or full charge-off will be made against the reserve for loan losses based on a conservative estimate of the realizable liquidation value. A loan that becomes 180 days past due must be charged off unless there are realistic expectations that the borrower can bring the account current or a realistic restructure can be negotiated.

Furniture and equipment – Furniture and equipment are recorded at cost. Depreciation is recorded using the straight-line method over the estimated useful lives of the assets ranging from 3 to 30 years, or in the case of leasehold improvements, the lesser of the useful life of the asset or the lease term. Purchases of assets with a cost in excess of $2,500 are capitalized. Maintenance and repairs are charged to expense as incurred and major replacements and improvements are capitalized. Furniture and equipment balances are shown net of accumulated depreciation of $1,536,380 and $1,058,297 at December 31, 2022 and 2021, respectively. Depreciation expense for the years ended December 31, 2022 and 2021 was $145,706 and $83,046, respectively.

Leases – On January 1, 2022, Craft3 adopted Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 842, *Leases* (“Topic 842”), to those leases that were not completed as of January 1, 2022. Results for reporting periods beginning after January 1, 2022, will be presented under Topic 842, while prior period amounts will not be adjusted and will continue to be reported under the accounting standards in effect for the prior period. On January 1, 2022, Craft3 recorded the initial right-of-use (ROU) asset and lease liability for approximately $2,000,000 and there was no adjustment recorded to beginning net assets. Refer to Note 10 – Leasing Arrangements for further discussion.

Under Topic 842, Craft3 determines whether the arrangement is or contains a lease at inception. Operating and finance leases will be recognized on the consolidated statement of financial position as ROU assets and lease liabilities. ROU assets represent Craft3’s right to use an underlying asset for the lease term and lease liabilities represent Craft3’s obligation to make lease payments arising from the lease. Lease liabilities and their corresponding ROU assets are recorded based on the present value of lease payments over the expected remaining lease term. For this purpose, Craft3 considers only payments that are fixed and determinable at the time of commencement. The lease ROU assets also include any lease payments made and adjustments for prepayments and lease incentives. The interest rate implicit in lease contracts is typically not readily determinable. As a result, Craft3 uses its incremental borrowing rate determined by equivalent term debt. Lease terms may include options to extend or terminate the lease when it is reasonably certain that Craft3 will exercise that option.

Craft3 leases office space under agreements classified as operating leases, with the exception of one lease classified as a finance lease, that expire on various dates through 2031. Such leases do not require any contingent rental payments, impose any financial restrictions, or contain any residual value guarantees. Certain of Craft3’s leases include renewal options and escalation clauses; renewal options have not been included in the calculation of the lease liabilities and right of use assets unless Craft3 is reasonably certain to be exercising the options. Variable expenses generally represent Craft3s share of the landlord’s operating expenses. Craft3 has elected the short-term lease recognition exemption for certain leases which are less than 12 months in duration or month-to month. This means, for those leases that qualify, ROU assets or lease liabilities will not be recognized.

Foreclosed and repossessed assets – Foreclosed and repossessed assets are recorded in other assets in the consolidated statements of financial position and are property acquired through foreclosure or other proceedings. When these assets are acquired, any excess of the loan balance over the estimated fair value is charged to the allowance for loan losses. Holding costs, subsequent write-downs to fair value, if any, or any disposition gains or losses are included in commercial and consumer lending activities in the consolidated statements of functional expenses.

Revenue and revenue recognition – Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met and barriers to entitlement have been satisfied.

Craft3 accounts for revenue arising from contracts with customers under the guidance of Accounting Standards Codification (ASC) Topic 606, *Revenue from Contracts with Customers* ("Topic 606"). The revenue that falls within the scope of Topic 606 includes NMTC management and servicing fees. Program service fees and payments under cost-reimbursable contracts received in advance are deferred to the applicable period in which the performance obligation is completed which occurs when related services are performed or expenditures are incurred, respectively. A significant portion of Craft3's revenues come from interest income on loans, grants and contributions, loan origination and servicing fees, and investment income (loss) which are outside the scope of ASC Topic 606.

NMTC management and servicing fees – Revenues typically consist of administrative activities related to reporting, invoicing, consultation, and monitoring compliance requirements. Fees are billed during the quarter the services are provided and due by the end of the quarter in which the fees are earned. The performance obligation is completed as the transaction occurs and the fees are recognized at the time each specific service is provided to the customer.

Interest income – Interest income consists of interest earned on loans and interest earned on certificates of deposits and money market accounts. Interest income is recognized in the period earned.

Deferred fee income – Craft3 charges fees based on loan types and related funding requirements. Loan fees (less direct expenses) are deferred and recognized ratably over the term of the loan, for loans exceeding $20,000.

Functional allocation of expenses – The costs of providing the various programs and other activities have been summarized on a functional basis in the consolidated statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Expenses are allocated on the basis of time and effort.

Income taxes – Craft3 is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. See Note 13 for further discussion. Craft3 is subject to certain business and occupation taxes, which apply equally to for-profit and nonprofit businesses, imposed by state and local taxing authorities. The taxes are assessed on a percentage of a portion of Craft3's revenues. Unrelated business income tax, if any, is insignificant and no tax provision has been made in the accompanying consolidated financial statements.

Craft3 had no uncertain tax positions as of December 31, 2022 and 2021. Interest and penalties related to unrecognized tax benefits are recognized by Craft3 as an administrative expense. During the years ended December 31, 2022 and 2021, Craft3 recognized no interest and penalties.

Fair value of assets and liabilities – Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Generally accepted accounting principles establish a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

Accounting principles describe three levels of inputs that may be used to measure fair value:

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Observable inputs other than Level 1 prices, such as quoted prices for similar assets and liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The degree of judgment utilized in measuring fair value generally correlates to the level of pricing observability. Assets and liabilities with readily available active quoted prices, or for which fair value can be measured from actively quoted prices, generally will have a higher degree of pricing observability and a lesser degree of judgment utilized in measuring fair value. Conversely, assets and liabilities rarely traded or not quoted will generally have little or no pricing observability and a higher degree of judgment utilized in measuring fair value. Pricing observability is impacted by a number of factors, including the type of asset or liability, whether it is new to the market and not yet established, and the characteristics specific to the transaction.

Craft3 used the following methods and significant assumptions to estimate fair value for its assets and liabilities measured and carried at fair value in the consolidated financial statements on a recurring or nonrecurring basis:

Investments – Fair values of investments are obtained from an independent pricing service. The fair value measurements consider both observable and unobservable data that may include active quotes, dealer quotes, market spreads, cash flows, and the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information, and bond terms and conditions, among other inputs. When market quotes are not readily accessible or available, alternative approaches are utilized, such as matrix or model pricing.

Foreclosed and repossessed assets – Fair values of foreclosed and repossessed assets are measured based on the underlying assets' observable market price or discounted cash flow models. For real estate, prices are derived from independent appraisals, recent sales and offers, less disposition costs. For non-real estate assets, fair values are estimated based on observable sales and discounted future cash flows.

Subsequent events – Subsequent events are events or transactions that occur after the date of the consolidated statement of financial position but before the consolidated financial statements are issued. Craft3 recognizes in the consolidated financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the consolidated statements of financial position, including the estimates inherent in the process of preparing the consolidated financial statements. See notes 9 and 17.

Craft3 has evaluated subsequent events through April 28, 2023, which is the date the consolidated financial statements became available for issuance.

Note 2 – Investments

Investments consist of the following as of December 31:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
December 31, 2022				
Municipal bonds	$ 12,561,464	$ -	$ (908,973)	$ 11,652,491
U.S. government obligations	7,769,022	896	-	7,769,918
Corporate bonds	5,305,908	-	(267,726)	5,038,182
Federal agency securities	4,524,142	4,739	(338,132)	4,190,749
Foreign bonds	500,000	-	(57,194)	442,806
	$ 30,660,536	$ 5,635	$ (1,572,025)	$ 29,094,146
December 31, 2021				
Municipal bonds	$ 15,264,895	$ 27,930	$ (120,072)	$ 15,172,753
Corporate bonds	6,570,373	76,793	(20,914)	6,626,252
Federal agency securities	3,990,590	11,383	(35,120)	3,966,853
Foreign bonds	1,000,000	-	(25,057)	974,943
	$ 26,825,858	$ 116,106	$ (201,163)	$ 26,740,801

U.S. government obligations with a fair value of $7,769,918 were restricted for the U.S. Departmetn of Agriculture Intermediary Relending Program as of December 31, 2022. There were no restricted investments as of December 31, 2021.

Debt instruments issued by agencies of the U.S. Government (Federal agency securities) include mortgage-backed debt securities issued by Fannie Mae and the Federal Home Loan Bank.

The net unrealized loss on investments as of December 31, 2022 was $1,566,390 and the net unrealized loss on investments as of December 31, 2021 was $85,057.

Investments by contractual maturity as of December 31, 2022, are summarized as follows:

	Amortized Cost	Fair Value
Less than 1 year maturity	$ 12,101,997	$ 12,046,564
1 to less than 2 years maturity	3,887,124	3,745,344
2 to less than 5 years maturity	8,654,445	7,774,550
5 to less than 10 years maturity	783,587	678,055
Thereafter	709,241	658,884
Federal agency securities	4,524,142	4,190,749
	$ 30,660,536	$ 29,094,146

Expected maturities of Federal agency securities may differ from contractual maturities because underlying borrowers may have the right to prepay the obligations and are, therefore, classified separately with no specific maturity date.

Note 3 – Fair Value Measurements

The following table presents information about assets measured at fair value on a recurring and nonrecurring basis as of December 31, 2022 and 2021, and indicates the fair value hierarchy of the valuation technique utilized by Craft3 to determine such fair value:

	Fair Value Measurements at Report Date Using:			
	Fair Value	Level 1	Level 2	Level 3
December 31, 2022				
Recurring items:				
Investments:				
Municipal bonds	$ 11,652,491	$ -	$ 11,652,491	$ -
U.S. Government obligations	7,769,918	7,769,918	-	-
Corporate bonds	5,038,182	5,038,182	-	-
Federal agency securities	4,190,749	-	4,190,749	-
Foreign bonds	442,806	442,806	-	-
Total recurring items	$ 29,094,146	$ 13,250,906	$ 15,843,240	$ -
Nonrecurring items:				
Foreclosed and repossessed assets	$ 963,483	$ -	$ -	$ 963,483
December 31, 2021				
Recurring items:				
Investments:				
Municipal bonds	$ 15,172,753	$ -	$ 15,172,753	$ -
Corporate bonds	6,626,252	6,626,252	-	-
Federal agency securities	3,966,853	-	3,966,853	-
Foreign bonds	974,943	974,943	-	-
Total recurring items	$ 26,740,801	$ 7,601,195	$ 19,139,606	$ -
Nonrecurring items:				
Foreclosed and repossessed assets	$ 1,172,191	$ -	$ -	$ 1,172,191

Recurring assets are initially measured at fair value and are required to be re-measured at fair value in the consolidated financial statements at each reporting date. Assets measured on a nonrecurring basis are assets that due to an event or circumstance, were required to be re-measured at fair value after initial recognition in the financial statements at some time during the reporting period.

Craft3 utilizes the following valuation technique, significant unobservable inputs, and qualitative information about the unobservable inputs for its assets classified as Level 3 and measured at fair value on a nonrecurring basis at December 31, 2022 and 2021. Foreclosed or repossessed assets are comprised of real estate valued using market values assessed by a professional appraiser with additional discounts for selling costs and a private company investment valued using a discounted cash flow model based on sales of units of the investment and income generating activities.

Note 4 – Grants Receivable

Grants receivable consist of the following at December 31:

	2022	2021
JPMC Advancing Cities	$ 500,000	$ -
Department of Environmental Quality	482,578	-
BRL Loans	51,000	-
City of Spokane	44,600	44,600
U.S. Department of Treasury	-	590,000
Oregon Metro	-	245,000
Total grants receivable	$ 1,078,178	$ 879,600

Note 5 – Related Parties

The equity associated with CFF, WA OREO, Investment II, and Windfarm are included within net assets without donor restrictions in these consolidated financial statements. The equity and net assets included in the consolidated financial statements at December 31, 2022 and 2021, for these subsidiaries was:

	2022	2021
Windfarm	$ 632	$ 632
WA OREO	299,519	299,952
Investment II	-	8,283
CFF	4,295,544	3,965,068
Total	$ 4,595,695	$ 4,273,935

Note 6 – Loans Receivable

Customers may access one or more types of loan products available from Craft3. No single customer (individual, business, or principal) shall access from Craft3 more than $3,500,000 in loans without government enhancement and the maximum loan size, in aggregate, to any customer may not exceed $10,000,000 of total principal outstanding to a borrower, coborrower, guarantor, or in situations where common collateral is used, regardless of a government enhancement. The Board of Directors, as an exception to the policy, must specifically approve any loan or investment that will cause a violation of this policy. The borrower exposure limit excludes amounts loaned to borrowers from other entities that may be managed by Craft3, namely the related party LLCs discussed in Note 14.

Commercial loans are generally made to small and mid-size businesses and nonprofit organizations in a variety of industries located in the Pacific Northwest for business acquisition, start-up costs, working capital, business expansion and construction. Consumer loans generally consist of clean water (that is, septic system repair and replacement) and energy retrofit loans.

The following table represents the approximate number of loans outstanding by loan type at December 31:

	2022			2021		
	Number of Loans	Balance	Percentage of Total	Number of Loans	Balance	Percentage of Total
Commercial	445	$ 107,064,400	75%	372	$ 101,319,279	78%
Consumer						
Clean water	1,109	21,371,623	15%	999	17,487,185	13%
Energy retrofit	1,255	10,956,443	8%	1,204	9,868,054	8%
Accessory dwelling	23	2,638,231	2%	9	686,616	1%
ADA	30	268,436	0%	36	196,963	0%
Manufactured housing	1	52,305	0%	-	-	0%
Totals	2,863	142,351,438	100%	2,620	129,558,097	100%
Net deferred loan origination fees		(220,920)			(217,639)	
Reserve for loan losses		(7,887,460)			(7,765,218)	
		$ 134,243,058			$ 121,575,240	

Loans receivable consist of the following at December 31:

	2022	2021
Commercial loans receivable	$ 107,064,400	$ 101,319,279
Consumer loans receivable	35,287,038	28,238,818
Total loans receivable	$ 142,351,438	$ 129,558,097

The current portion of loans receivable at December 31, is summarized as follows:

	2022	2021
Current portion of commercial loans receivable	$ 14,354,164	$ 11,493,117
Current portion of consumer loans receivable	2,294,794	4,099,299
Less: net deferred loan fees	(51,285)	(32,071)
Total current portion loans receivable, net	$ 16,597,673	$ 15,560,345

The long-term portion of loans receivable at December 31, is summarized as follows:

	2022	2021
Total loans receivable	$ 142,351,438	$ 129,558,097
Less: current portion, net	(16,597,673)	(15,560,345)
Less: loan loss reserve	(7,887,460)	(7,765,218)
Less: net deferred loan fees	(220,920)	(217,639)
Total long-term portion loans receivable, net	$ 117,645,385	$ 106,014,895

Activity in the loan loss reserve for the years ended December 31, is as follows:

	Commercial	Consumer
December 31, 2022		
Loan loss reserve, beginning of year	$ 5,864,178	$ 1,901,040
Charge-offs	(2,052,371)	(233,819)
Recoveries	3,063,707	192,125
(Recapture of) provision for loan losses	(1,000,000)	152,600
Loan loss reserve, end of year	$ 5,875,514	$ 2,011,946

	Commercial	Consumer
December 31, 2021		
Loan loss reserve, beginning of year	$ 6,395,823	$ 1,744,325
Charge-offs	(1,672,357)	(181,356)
Recoveries	2,564,740	123,071
(Recapture of) provision for loan losses	(1,424,028)	215,000
Loan loss reserve, end of year	$ 5,864,178	$ 1,901,040

The loan loss reserve is composed of a general reserve and a specific reserve as follows at December 31:

	Commercial	Consumer
December 31, 2022		
General reserve	$ 4,235,898	$ 1,996,106
Specific reserve	1,639,616	15,840
Total reserve	$ 5,875,514	$ 2,011,946

	Commercial	Consumer
December 31, 2021		
General reserve	$ 5,782,852	$ 1,893,590
Specific reserve	81,326	7,450
Total reserve	$ 5,864,178	$ 1,901,040

The general loan loss reserve is measured on loans collectively evaluated for impairment. The specific loan loss reserve is measured on loans individually evaluated for impairment.

Management believes the reserve for loan losses is adequate to offset future loan losses in Craft3's current loan portfolio. When determining the reserve for loan losses, management considers factors that mitigate losses, including collateral associated with loans receivable. When a loan is determined to be uncollectible, it is charged against the loan loss reserve. Most loans offered by Craft3 are collateralized. Because of inherent uncertainties in estimating the reserve for loan losses, it is at least reasonably possible that the estimates used will change in the near term.

As a participant in the Small Business Administration's Community Advantage Program (CA Program), Craft3 is required to maintain a minimum 5% allowance for loan losses reserve for the unguaranteed portion of loans funded under the CA Program. As of December 31, 2022 and 2021, Craft3's reserves met the requirements of the CA Program.

Future principal payments scheduled to be received on loans receivable are as follows for the year ending December 31:

2023	$ 16,648,958
2024	16,027,508
2025	15,365,812
2026	20,495,368
2027	14,880,834
Thereafter	58,932,958
	$ 142,351,438

Note 7 – Energy Loan Sale

On December 1, 2013, and October 1, 2015, Craft3 sold 1,252 and 438 energy loans ("the Loans") respectively, to Self-Help Credit Union ("SHCU"). The Loans were sold at par and the total principal balance of the Loans was $15,700,426 for the sale that occurred on December 1, 2013, and $6,443,833 for the sale that occurred on October 1, 2015. At December 31, 2022 and 2021, the outstanding balance of the sold loans serviced by Craft3 was $1,498,714 and $1,898,302, respectively. As part of the sale agreement, Craft3 provided certain cash credit enhancements in support of the Loans (collectively known as "the Reserve Sources"). The Reserve Sources guarantee 30% of the Loans. Under the terms of the sale agreement, Craft3 funded and pledged two accounts ("the Reserve Accounts") to SHCU. At December 31, 2022, the Reserve Accounts are included in restricted cash on the consolidated statements of financial position, and balances were as follows:

- Craft3 SHCU Reserve Account balance of $146,802
- Craft3 Self-Help Federal Credit Union ("SHFCU") Reserve Account balance of $400,287

SHCU may withdraw the loss amount from the Reserve Sources in the event that payments on any of the Loans become 150 days or more delinquent. SHCU is responsible for the potential loss on the first 20% of losses and Craft3 is responsible for the remaining 50% of losses related to the Loans.

Note 8 – Credit Quality and Reserve for Loan Losses

The following tables show the loan portfolio allocation by Craft3's internal risk ratings:

	December 31, 2022			
	Pass	Pass – Watch List	Problem	Total Loans
Commercial	$ 98,927,743	$ 4,622,096	$ 3,514,561	$ 107,064,400
Consumer				
Clean water	20,825,360	179,020	367,243	21,371,623
Energy retrofit	10,485,627	324,753	146,063	10,956,443
Accessory dwelling	2,638,231	-	-	2,638,231
ADA	253,736	-	14,700	268,436
Manufactured housing	52,305	-	-	52,305
Totals	$ 133,183,002	$ 5,125,869	$ 4,042,567	$ 142,351,438

	December 31, 2021			
	Pass	Pass – Watch List	Problem	Total Loans
Commercial	$ 90,275,120	$ 9,624,530	$ 1,419,629	$ 101,319,279
Consumer				
Clean water	17,165,851	167,940	153,394	17,487,185
Energy retrofit	9,501,460	222,478	144,116	9,868,054
Accessory dwelling	686,616	-	-	686,616
ADA	196,963	-	-	196,963
Totals	$ 117,826,010	$ 10,014,948	$ 1,717,139	$ 129,558,097

The following table shows an aging analysis of the loan portfolio by the time past due:

	December 31, 2022						
	Current	1–30 Days Past Due	31–60 Days Past Due	61–90 Days Past Due	90+ Days Past Due	Loans on Non-Accrual	Total Loans
Commercial	$ 103,259,890	$ 362,018	$ 198,146	$ -	$ -	$ 3,244,346	$ 107,064,400
Consumer							
Clean water	20,652,262	462,974	36,866	-	156,521	63,000	21,371,623
Energy retrofit	10,898,571	-	-	25,740	30,043	2,089	10,956,443
Accessory dwelling	2,638,231	-	-	-	-	-	2,638,231
ADA	253,736	-	-	-	14,700	-	268,436
Manufactured housing	52,305	-	-	-	-	-	52,305
Totals	$ 137,754,995	$ 824,992	$ 235,012	$ 25,740	$ 201,264	$ 3,309,435	$ 142,351,438

	December 31, 2021						
	Current	1–30 Days Past Due	31–60 Days Past Due	61–90 Days Past Due	90+ Days Past Due	Loans on Non-Accrual	Total Loans
Commercial	$ 96,170,975	$ 3,700,784	$ -	$ -	$ -	$ 1,447,520	$ 101,319,279
Consumer							
Clean water	16,991,333	312,221	68,712	-	47,905	67,014	17,487,185
Energy retrofit	9,734,147	-	-	52,136	66,522	15,249	9,868,054
Accessory dwelling	686,616	-	-	-	-	-	686,616
ADA	193,743	-	3,220	-	-	-	196,963
Totals	$ 123,776,814	$ 4,013,005	$ 71,932	$ 52,136	$ 114,427	$ 1,529,783	$ 129,558,097

The following tables present the recorded investment in loans by portfolio segment and based on impairment method:

	December 31, 2022		
	Commercial	Consumer	Total Loans
Loans individually evaluated for impairment	$ 5,761,281	$ 528,006	$ 6,289,287
Loans collectively evaluated for impairment	101,303,119	34,759,032	136,062,151
Totals	$ 107,064,400	$ 35,287,038	$ 142,351,438

	December 31, 2021		
	Commercial	Consumer	Total Loans
Loans individually evaluated for impairment	$ 5,623,841	$ 297,510	$ 5,921,351
Loans collectively evaluated for impairment	95,695,438	27,941,308	123,636,746
Totals	$ 101,319,279	$ 28,238,818	$ 129,558,097

The following tables present loans individually evaluated for impairment by class of loans:

	December 31, 2022				
	Unpaid Contractual Principal Balance	Recorded Investment with No Allowance	Recorded Investment with an Allowance	Total Recorded Investment	Specific Allowance
Commercial	$ 5,761,281	$ 3,474,005	$ 2,287,276	$ 5,761,281	$ 1,639,616
Consumer	528,006	-	528,006	528,006	15,840
	$ 6,289,287	$ 3,474,005	$ 2,815,282	$ 6,289,287	$ 1,655,456

	December 31, 2021				
	Unpaid Contractual Principal Balance	Recorded Investment with No Allowance	Recorded Investment with an Allowance	Total Recorded Investment	Specific Allowance
Commercial	$ 5,623,841	$ 4,462,038	$ 1,161,803	$ 5,623,841	$ 81,326
Consumer	297,510	-	297,510	297,510	7,450
	$ 5,921,351	$ 4,462,038	$ 1,459,313	$ 5,921,351	$ 88,776

Interest recognized on impaired loans subsequent to the determination of impairment was immaterial to the consolidated financial statements for the years ended December 31, 2022 and 2021.

As of December 31, 2022 and 2021, loans on nonaccrual were as follows:

	2022	2021
Commercial	$ 3,244,346	$ 1,447,520
Consumer	65,089	82,263
	$ 3,309,435	$ 1,529,783

The following table presents troubled debt restructurings as of December 31:

	2022	2021
Commercial – principal balance	$ 1,863,722	$ 4,427,995
Commercial – loan count	11	14

During the years ended December 31, 2022 and 2021, Craft3 restructured commercial loans totaling $1,403,063 and $1,168,721, respectively. There were no TDRs that defaulted during the years ended December 31, 2022 and 2021 and for which the default occurred within 12 months of the modification date.

Note 9 – Long-Term Debt

Long-term debt consists of the following as of December 31:

Long-term notes payable

	2022	2021
Notes payable to financial institutions in varying amounts with interest rates ranging from 1% to 6.64%. Notes are unsecured and the final due date is November 9, 2032	$ 26,689,618	$ 31,878,884
Notes payable to individuals, businesses, nonprofit organizations, and trusts in varying amounts with interest rates ranging from 0% to 3.0%. Notes are unsecured and have a variety of due dates; the final due date is April 1, 2044	45,490,521	44,450,565
Notes payable to U.S. Department of Agriculture with 1% interest rates. Notes are secured by the program receivables and a portion of restricted cash, and the final due date is October 20, 2044.	4,706,827	5,162,010
Notes payable to federal, state and local government agencies in varying amounts with interest rates ranging from 0.70% to 2.38%. Notes are unsecured and the final due date is December 30, 2056.	19,507,284	13,539,459
Total long-term notes payable	96,394,250	95,030,918
Less: current portion	(23,551,614)	(17,356,213)
	$ 72,842,636	$ 77,674,705

Equity equivalent investments and subordinated notes payable

	2022	2021
Notes payable to financial institutions in varying amounts with interest rates ranging from 1% to 4%. Notes are unsecured with a variety of due dates; the final due date is July 31, 2029.	$ 8,697,568	$ 8,697,568
Note payable to the U.S. Department of Treasury CDFI Fund with an interest rate of 2.4%. The note was unsecured and was repaid in full during 2022.	-	1,500,000
Subordinated note payable to a CDFI investment fund with an interest rate of 3%. Note is unsecured and matures September 30, 2029.	1,000,000	1,000,000
Subordinated note payable to a private foundation with an interest rate of 1%. Note is unsecured and matures June 30, 2023.	1,000,000	1,000,000
Total equity equivalent investments and subordinated notes payable	10,697,568	12,197,568
Less: current portion	(2,477,919)	(3,727,919)
	$ 8,219,649	$ 8,469,649

Equity equivalent investments (or "EQ2") is debt that is subordinated to all other Craft3 debt and may only be repaid when, and if, its repayment does not materially impair Craft3's operating or loan capital liquidity.

The current portion of long-term debt is summarized at December 31:

	2022	2021
Long-term notes payable	$ 23,551,614	$ 17,356,213
Equity equivalent investments and subordinated notes payable	2,477,919	3,727,919
	$ 26,029,533	$ 21,084,132

The following is a summary of scheduled principal maturities of all long-term debt for the years ending December 31:

2023	$ 26,029,533
2024	16,731,653
2025	22,392,641
2026	14,801,759
2027	7,411,994
Thereafter	19,724,238
	$ 107,091,818

A number of Craft3's notes payable credit agreements contain restrictive covenants related to minimum capital requirements, the ratio of net assets to total assets, and liquidity, as defined. As of December 31, 2022, management believes Craft3 was in compliance with all covenants.

In April 2020, Craft3 received a loan through the Small Business Administration (SBA) in the amount of $1,246,159, under the criteria outlined in the Paycheck Protection Program (PPP) of the CARES Act of 2020. In April 2021, the loan was forgiven in full by the SBA and the forgiveness is included in grant income as Craft3 accounted for its PPP loan as a conditional contribution. Under the CARES Act, Section 1102, the SBA has five years from origination to audit an applicant. Craft3 believes it has met the requirements for full forgiveness in accordance with the Paycheck Protection Program.

Craft3 has a $10,000,000 revolving line of credit with Banner Bank. At the borrower's option, the line of credit shall bear interest at a rate of either prime or 30-day LIBOR plus 2.80%. The line is scheduled to mature in December 2024. As of December 31, 2022, there was $1,000,000 outstanding bearing interest at 5.67% included in long-term debt. As of December 31, 2021, there was no outstanding balance on the line of credit.

Craft3 has a $10,000,000 revolving line of credit with Wells Fargo. The line of credit bears interest at 30-day LIBOR plus 2.25%. The line matures in February 2024. As of December 31, 2022, there was no balance outstanding on this line of credit. As of December 31, 2021, the outstanding balance included in long-term debt was $10,000,000 and the interest rate was 2.39%.

Craft3 has a $5,000,000 revolving line of credit with HSBC. The line of credit shall bear interest at a rate of 1.89% with minimum draws in the amount of $250,000 to fund eligible loan programs. The line matures in November 2024. As of December 31, 2022 and 2021, there was no outstanding balance on the line of credit.

Craft3 has a $10,000,000 revolving line of credit with US Bank. The line of credit bears interest at a variable rate which was 4.37% at December 31, 2022. The line matures in September 2024. As of December 31, 2022 and 2021, the outstanding balance included in long-term debt was $3,500,000 and $10,000,000, respectively.

In the first quarter of 2023, Craft3 drew $21,500,000 from existing and new commercial bank facilities with fixed interest rates ranging from 1.89% to 3.5% with maturities from 5 to 10 years for the primary purposes of eliminating exposure to floating interest rate obligations by paying down $5,000,000 of variable rate debt, extending maturities and reducing the current portion of long-term debt.

Note 10 – Leasing Agreements

Craft3 leases office space and other properties under non-cancelable operating leases that expire at various dates through 2031. Craft3 also leases one administrative office space under a finance lease arrangement. Craft3 also leases property under month-to-month agreements. Expenditures under these leases are included on the consolidated statements of functional expenses as occupancy expenses.

Lease right-of-use assets and liabilities and the associated balance sheet classifications are as follows:

	December 31, 2022
Right-of-use assets:	
Operating leases: other assets	$ 952,397
Finance leases: furniture and equipment, net	583,022
Total right of use asset	$ 1,535,419
Lease liabilities:	
Operating leases: accounts payable and other liabilities	$ 317,836
Operating leases: ong-term operating lease liabilities	634,561
Finance leases: accounts payable and other liabilities	40,458
Finance leases: Long-term finance lease liabilities	679,292
Total lease liabilities	$ 1,672,147

The components of lease cost included in occupancy expense are as follows for the year ended December 31, 2022

Finance lease cost	
Right-of-use asset amortization	$ 65,386
Interest expense	51,216
Operating lease cost	337,350
Total lease cost, net	$ 453,952

Lease expense for the year ended December 31, 2021 was $429,561.

The following is a summary of future minimum lease payments for the years ending December 31:

2022	$ 416,212
2023	444,141
2024	356,558
2025	310,509
2026	292,367
Thereafter	576,553
Total minimum lease payments	$ 2,396,340

The future undiscounted lease payments for leases with initial terms of one year or more as of December 31, 2022 are as follows:

	Operating Leases	Finance Leases
2023	$ 444,141	$ 102,000
2024	356,558	102,000
2025	310,509	102,000
2026	292,367	103,000
2027	130,052	114,000
Thereafter	446,500	446,500
Total undiscounted lease payments	1,980,127	$ 969,500
Less: imputed interest	(1,027,730)	(249,750)
Net lease liabilities	$ 952,397	$ 719,750

The following table provides the supplemental information related to operating leases for the purpose of the measurement of lease liabilities at or for the year ended December 31:

	2022
Finance lease remaining lease term (years)	8.9
Finance lease discount rate	6.9%
Operating lease weighted average remaining lease term (years)	3.4
Operating lease weighted average discount rate	3.8%
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from finance leases	$ 102,000
Operating cash flows from operating leases	$ 337,350

Note 11 – Grants and Contributions

Grants and contributions were provided by the following organizations during the years ended December 31:

	2022	2021
Municipal and state grants	$ 3,153,285	$ 2,801,567
Other private foundation grants	2,808,113	4,528,581
Financial institution grants	106,000	3,000,000
Community Development Financial Institutions Fund	-	2,416,265
Others	202,000	1,246,159
Total grants and contributions	$ 6,269,398	$ 13,992,572

Note 12 – Contingent Liabilities and Funds Subject to Recapture

Federal grants and loans are subject to audit and adjustment by grantor agencies. Any disallowed claims or findings of noncompliance with grant terms as a result of such an audit may constitute a liability to Craft3.

Note 13 – Federal Income Taxes

All Craft3 subsidiaries are organized as limited liability corporations ("LLCs"). Net income from the LLCs is passed through to Craft3, which is a nonprofit corporation organized under Internal Revenue Code Section 501(c)(3). No liability has been recorded for uncertain tax positions as of December 31, 2022 or 2021, and management believes no material uncertain tax positions have been taken.

Note 14 – New Markets Tax Credits

Craft3 has applied for and received allocations of NMTCs within the meaning of the Internal Revenue Code. These credits can be offered to certain investors for the purpose of stimulating increased investment and economic growth in low-income communities.

Craft3 is related to a series of LLCs that are used to take advantage of the NMTCs. In some cases, NMTC program periods expire and Craft3 obtains 100% control of the LLCs (included in the consolidated financial results or the entities were dissolved at the end of the NMTC period). In other cases, Craft3 owns 0.01% of each of these entities, and they are accounted for at cost and totaled $5,000 as of December 31, 2022 and 2021. Craft3 earns management and loan servicing fees from the NMTCs which totaled $507,536 for the year ended December 31, 2022 and $522,536 for the year ended December 31, 2021.

Note 15 – Net Assets with Donor Restrictions

Net assets with donor restrictions by purpose and net assets released from restrictions (by grantor/donor) as of December 31, 2022 and 2021 and for the years ended December 31, 2022 and 2021 are as follows:

	2021	Grants and Contributions	Net Assets Released	2022
Subject to expenditure for specified purpose:				
Lending activities:				
JPMC Advancing Cities	$ 1,843,466	$ 566,090	$ (1,557,950)	$ 851,606
CDFI Rapid Response Program	1,548,796	36,510	(1,585,306)	-
CDFI 2021 FA Grant	590,000	14,337	(595,098)	9,239
CDFI 2019 Grant	-	29,848	(29,848)	-
Metro 2021	209,036	22,641	(135,000)	96,677
OFN Google Grant	125,000	-	(125,000)	-
City of Spokane COVID-19 Grant	-	51,000	(51,000)	-
Wells Fargo OFB	-	39,557	(21,504)	18,053
Department of Environmental Quality	-	591,861	-	591,861
PDX Food and Restaurant	-	200,000	(200,000)	-
State of Washington Clean Energy Fund	-	1,500,000	-	1,500,000
Other grants	319,000	167,523	(264,266)	222,257
Total net assets with donor restrictions	$ 4,635,298	$ 3,219,367	$ (4,564,972)	$ 3,289,693

	2020	Grants and Contributions	Net Assets Released	2021
Subject to expenditure for specified purpose:				
Lending activities:				
Meyer Memorial Trust Manufactured Homes Grant	$ 200,000	$ -	$ (200,000)	$ -
JPMC Advancing Cities	500,000	4,030,279	(2,686,813)	1,843,466
CDFI Rapid Response Program	-	1,826,265	(277,469)	1,548,796
CDFI 2021 FA Grant	-	590,000	-	590,000
Metro 2021	-	499,036	(290,000)	209,036
OFN Google Grant	125,000	-	-	125,000
Other grants	-	485,605	(166,605)	319,000
Wells Fargo OFB	-	3,011,712	(3,011,712)	-
King County NDC	-	290,000	(290,000)	-
Various COVID-19 related awards	115,283	7,642	(122,925)	-
Total net assets with donor restrictions	$ 940,283	$ 10,740,539	$ (7,045,524)	$ 4,635,298

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by the donors as follows for the years ended December 31:

	2022	2021
Satisfaction of purpose restrictions:		
Lending activities	$ 4,564,972	$ 7,045,524
General operations	-	-
Total net assets with donor restrictions released	$ 4,564,972	$ 7,045,524

There were no net assets restricted for Board designated purposes or required to be held in perpetuity as of December 31, 2022 or 2021.

Note 16 – Liquidity and Funds Available

The following table reflects Craft3's financial assets as of December 31, 2022 and 2021 available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date. Financial assets are considered unavailable when illiquid or not convertible to cash within one year. Other considerations of non-liquid assets are donor restricted assets for specific expenditures, contractual reserve requirements, or governing board designations.

	2022	2021
Cash and cash equivalents	$ 10,894,137	$ 19,108,932
Investments, at fair value	21,324,228	26,740,801
Accrued interest and other receivables	1,173,556	1,171,559
Current portion of loans receivable, net	16,597,673	15,560,345
	$ 49,989,594	$ 62,581,637

As part of Craft3's liquidity management plan, management invests cash in excess of daily requirements in short-term investments and money market funds. See Note 9 for available borrowings.

Note 17 – Cybersecurity Incidents

In the second quarter of 2021, an unknown party compromised and accessed a Craft3 email inbox. This cybersecurity incident culminated in Craft3 receiving and subsequently funding certain fraudulent disbursement requests of approximately $180,000. These amounts were unrecoverable and recorded as operational losses during the year ended December 31, 2021 within management and administration supporting services in the consolidated statement of activities.

In quarter three 2021, a Craft3 borrower suffered a cybersecurity incident resulting in the compromise of their email system. As a result, Craft3 received fraudulent disbursement instructions from the borrower's compromised email addresses. These fraudulent email requests instructed Craft3 to transfer funds from the borrower's line of credit to fraudulent bank accounts. A net amount of $590,000 advanced from borrower's line of credit was deemed not recoverable and the balance advanced on the line of credit was charged off against the allowance for loan losses during the year ended December 31, 2021.

During 2021 and 2022, Craft3, together with guidance from outside consultants and oversight from the Board, implemented improved disbursement controls, callback/verification policies, and additional procedures as recommended. Craft3 has adopted procedures to monitor, evaluate, and provide training on such measures to mitigate the risk of similar events in the future.

On January 20, 2023, a settlement agreement was reached with Craft3's insurer for the $590,000 loan losses incurred due to the fraudulent disbursement instructions. The funds were received on March 10, 2023 and recognized as a recovery of loan losses.

Supplementary Information

Craft3 and Subsidiaries
Consolidating Statement of Financial Position
December 31, 2022

	Craft3	WA OREO	Craft3 Future Fund	Craft3 Investment II, LLC	Windfarm Investments, Inc.	Eliminating Entries	Consolidated Total
ASSETS							
CURRENT ASSETS							
Cash and cash equivalents	$ 10,439,127	$ 299,519	$ 155,491	$ -	$ -	$ -	$ 10,894,137
Restricted cash and cash equivalents	886,928	-	-	-	-	-	886,928
Investments, at fair value	21,324,228	-	-	-	-	-	21,324,228
Restricted investments, at fair value	7,769,918	-	-	-	-	-	7,769,918
Grants receivable	1,078,178	-	-	-	-	-	1,078,178
Accrued interest, other receivables, and prepaid expenses	1,534,911	-	24,516	-	-	-	1,559,427
Current portion of commercial loans receivable, net	13,735,732	-	567,147	-	-	-	14,302,879
Current portion of consumer loans receivable, net	2,294,794	-	-	-	-	-	2,294,794
Total current assets	59,063,816	299,519	747,154	-	-	-	60,110,489
LOANS RECEIVABLE							
Commercial loans, net	102,575,443	-	4,268,037	-	-	-	106,843,480
Consumer loans, net	35,287,038	-	-	-	-	-	35,287,038
Total loans receivable	137,862,481	-	4,268,037	-	-	-	142,130,518
Less: current portion, net	(16,030,526)	-	(567,147)	-	-	-	(16,597,673)
Less: reserve for loan losses	(7,734,960)	-	(152,500)	-	-	-	(7,887,460)
Total loans receivable, net of current portion and reserve for loan losses	114,096,995	-	3,548,390	-	-	-	117,645,385
OTHER ASSETS							
Cash and cash equivalents restricted for loan loss reserves	1,039,486	-	-	-	-	-	1,039,486
Furniture and equipment, net	1,096,508	-	-	-	-	-	1,096,508
Foreclosed and repossessed assets	963,483	-	-	-	-	-	963,483
Investment in subsidiaries	4,593,709	-	-	-	-	(4,593,709)	-
Other	956,765	-	-	-	632	-	957,397
Total other assets	8,649,951	-	-	-	632	(4,593,709)	4,056,874
Total assets	$ 181,810,762	$ 299,519	$ 4,295,544	$ -	$ 632	$ (4,593,709)	$ 181,812,748

Craft3 and Subsidiaries
Consolidating Statement of Financial Position
December 31, 2022

	Craft3	WA OREO	Craft3 Future Fund	Craft3 Investment II, LLC	Windfarm Investments, Inc.	Eliminating Entries	Consolidated Total
LIABILITIES AND NET ASSETS							
CURRENT LIABILITIES							
Accounts payable and accrued expenses	$ 3,328,705	$ -	$ 1,356	$ -	$ -	$ -	$ 3,330,061
Current portion of long-term liabilities	26,029,533	-	-	-	-	-	26,029,533
Total current liabilities	29,358,238	-	1,356	-	-	-	29,359,594
LONG-TERM DEBT							
Notes payable	96,394,250	-	-	-	-	-	96,394,250
Equity equivalent investments	10,697,568	-	-	-	-	-	10,697,568
Total long-term debt	107,091,818	-	-	-	-	-	107,091,818
Less: current portion	(26,029,533)	-	-	-	-	-	(26,029,533)
Total long-term debt, net of current portion	81,062,285	-	-	-	-	-	81,062,285
Long-term operating lease liabilities	634,561	-	-	-	-	-	634,561
Long-term finance lease liabilities	679,292	-	-	-	-	-	679,292
Total liabilities	111,734,376	-	1,356	-	-	-	111,735,732
NET ASSETS							
Without donor restrictions	66,786,693	299,519	4,294,188	7,857	1,200	(4,602,134)	66,787,323
With donor restrictions	3,289,693	-	-	(7,857)	(568)	8,425	3,289,693
Total net assets	70,076,386	299,519	4,294,188	-	632	(4,593,709)	70,077,016
Total liabilities and net assets	$ 181,810,762	$ 299,519	$ 4,295,544	$ -	$ 632	$ (4,593,709)	$ 181,812,748

Craft3 and Subsidiaries
Consolidating Statement of Activities
December 31, 2022

	Craft3	WA OREO	Craft3 Future Fund	Craft3 Investment II, LLC	Windfarm Investments, Inc.	Eliminating Entries	Consolidated Total
REVENUE AND OTHER SUPPORT							
Interest income on outstanding loans	$ 9,888,765	$ -	$ 246,748	$ -	$ -	$ -	$ 10,135,513
Grants and contributions	6,269,398	-	-	-	-	-	6,269,398
Loan origination and servicing fees	1,477,323	-	21,575	-	-	-	1,498,898
Investment income, net	569,214	-	-	-	-	-	569,214
NMTC management and service fees	507,536	-	-	-	-	-	507,536
Miscellaneous income	507,023	-	-	-	-	(320,407)	186,616
Total revenue and other support	19,219,259	-	268,323	-	-	(320,407)	19,167,175
EXPENSES							
Program services							
Commercial lending activities	8,401,705	-	(60,800)	-	-	-	8,340,905
Consumer lending activities	3,087,080	-	-	-	-	-	3,087,080
Consulting and management services	1,055,541	-	-	-	-	-	1,055,541
Total program services	12,544,326	-	(60,800)	-	-	-	12,483,526
Supporting services							
Management and administration	2,937,692	433	-	8,283	-	-	2,946,408
Development	510,339	-	-	-	-	-	510,339
Total supporting services	3,448,031	433	-	8,283	-	-	3,456,747
Total expenses	15,992,357	433	(60,800)	8,283	-	-	15,940,273
Change in net assets before unrealized losses	3,226,902	(433)	329,123	(8,283)	-	(320,407)	3,226,902
NET UNREALIZED LOSS ON INVESTMENTS	(1,481,333)	-	-	-	-	-	(1,481,333)
Change in net assets	$ 1,745,569	$ (433)	$ 329,123	$ (8,283)	$ -	$ (320,407)	$ 1,745,569