# Craft3 and Subsidiaries

Consolidated Financial Report
December 31, 2024

## Contents

**Independent Auditor's Report**

Board of Directors
Craft3

## Report on the Audit of the Financial Statements

***Opinion***
We have audited the consolidated financial statements of Craft3 and Subsidiaries (Craft3), which comprise the consolidated statements of financial position as of December 31, 2024 and 2023, 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 (collectively, the financial statements).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Craft3 as of December 31, 2024 and 2023, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Basis for Opinion***
We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*). 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 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.

***Responsibilities of Management for the Financial Statements***
Management is responsible for the preparation and fair presentation of the 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 financial statements that are free from material misstatement, whether due to fraud or error.

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

***Auditor's Responsibilities for the Audit of the Financial Statements***
Our objectives are to obtain reasonable assurance about whether the 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 and *Government Auditing Standards* 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 financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

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

- Identify and assess the risks of material misstatement of the 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 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's internal control. Accordingly, no such opinion is expressed.

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

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Craft3's ability to continue as a going concern for a reasonable period of time.

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

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report, dated April 24, 2025, on our consideration of Craft3's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Craft3's internal control over financial reporting and compliance.

**Supplementary Information**

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The consolidating information is presented for purposes of additional analysis rather than to present the financial position, changes in net assets and cash flows of the individual companies and is not a required part of the 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 financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

RSM US LLP

Gaithersburg, Maryland
April 24, 2025

**Craft3 and Subsidiaries**

**Consolidated Statements of Financial Position**
**December 31, 2024 and 2023**

| | **2024** | 2023 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | **$ 33,180,390** | $ 34,525,870 |
| Restricted cash and cash equivalents | **10,816,742** | 9,814,524 |
| Investments, at fair value (Note 4) | **21,581,991** | 16,805,669 |
| Grants receivable (Note 5) | **1,803,253** | 976,919 |
| Accrued interest, other receivables, and prepaid expenses | **2,117,168** | 1,670,348 |
| Commercial loans receivable, net deferred loan fees (Note 7) | **16,948,808** | 16,617,790 |
| Consumer loans receivable, net deferred loan fees (Note 7) | **3,655,247** | 3,193,791 |
| **Total current assets** | **90,103,599** | 83,604,911 |
| Loans receivable: | | |
| Commercial loans, net deferred loan fees (Note 7) | **111,706,567** | 111,670,926 |
| Consumer loans, net deferred loan fees (Note 7) | **59,726,443** | 50,896,450 |
| **Total loans receivable, net** | **171,433,010** | 162,567,376 |
| Less current portion, net deferred loan fees (Note 7) | **(20,604,055)** | (19,811,581) |
| Less reserve for credit losses (Note 7) | **(8,783,309)** | (8,252,739) |
| **Total loans receivable, net of current portion** | **142,045,646** | 134,503,056 |
| Other assets: | | |
| Cash and cash equivalents, restricted for credit loss reserves | **2,288,612** | 1,204,901 |
| Furniture and equipment, net | **458,460** | 532,431 |
| Foreclosed and other repossessed assets | **903,130** | 963,483 |
| Operating lease right-of-use assets (Note 11) | **332,422** | 17,419 |
| Finance lease right-of-use assets (Note 11) | **806,525** | 1,017,362 |
| Other assets | **224,792** | 179,041 |
| **Total other assets** | **5,013,941** | 3,914,637 |
| **Total assets** | **$ 237,163,186** | $ 222,022,604 |

(Continued)

**Craft3 and Subsidiaries**

**Consolidated Statements of Financial Position (Continued)**
**December 31, 2024 and 2023**

| | 2024 | 2023 |
|---|---|---|
| **Liabilities and Net Assets** | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | **$ 4,830,729** | $ 4,680,864 |
| Current portion of long-term debt (Note 10) | **35,398,002** | 21,052,443 |
| Operating lease liabilities (Note 11) | **63,998** | 17,513 |
| Finance lease liabilities (Note 11) | **250,244** | 234,914 |
| **Total current liabilities** | **40,542,973** | 25,985,734 |
| Long-term liabilities: | | |
| Long-term debt: | | |
| Notes payable (Note 10) | **119,194,497** | 120,020,222 |
| Equity equivalent investments and subordinated notes payable (Note 10) | **13,519,649** | 14,044,649 |
| **Total long-term debt** | **132,714,146** | 134,064,871 |
| Less current portion (Note 10) | **(35,398,002)** | (21,052,443) |
| **Total long-term debt, net of current portion** | **97,316,144** | 113,012,428 |
| Long-term lease liabilities: | | |
| Deferred compensation obligation (Note 18) | **219,793** | 174,041 |
| Operating lease liabilities (Note 11) | **311,541** | - |
| Finance lease liabilities (Note 11) | **795,250** | 1,045,494 |
| **Total long-term lease liabilities** | **1,326,584** | 1,219,535 |
| **Total liabilities** | **139,185,701** | 140,217,697 |
| Commitments and Contingencies (Notes 13, 15 and 19) | | |
| Net assets: | | |
| Without donor restrictions | **83,772,151** | 67,130,756 |
| With donor restrictions (Note 15) | **14,205,334** | 14,674,151 |
| **Total net assets** | **97,977,485** | 81,804,907 |
| **Total liabilities and net assets** | **$ 237,163,186** | $ 222,022,604 |

See notes to consolidated financial statements.

**Craft3 and Subsidiaries**

**Consolidated Statement of Activities**
**Year Ended December 31, 2024**

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|---|---|---|
| Revenue and other support: | | | |
| Interest income on outstanding loans | $ 11,002,384 | $ - | $ 11,002,384 |
| Grants and contributions (Note 12) | 14,524,015 | 25,008,928 | 39,532,943 |
| Loan origination and servicing fees | 1,284,638 | - | 1,284,638 |
| Investment income, net (Note 4) | 1,804,612 | - | 1,804,612 |
| NMTC management and servicing fees (Note 14) | 507,536 | - | 507,536 |
| Miscellaneous income | 5,013 | - | 5,013 |
| Net assets released from restrictions (Note 15) | 25,477,745 | (25,477,745) | - |
| **Total revenue and other support** | 54,605,943 | (468,817) | 54,137,126 |
| Expenses: | | | |
| Program services: | | | |
| Commercial lending activities | 23,793,657 | - | 23,793,657 |
| Consumer lending activities | 7,361,136 | - | 7,361,136 |
| Consulting and management services | 954,378 | - | 954,378 |
| **Total program services** | 32,109,171 | - | 32,109,171 |
| Supporting services: | | | |
| Management and administration | 5,701,662 | - | 5,701,662 |
| Development | 576,091 | - | 576,091 |
| **Total supporting services** | 6,277,753 | - | 6,277,753 |
| **Total expenses** | 38,386,924 | - | 38,386,924 |
| **Change in net assets before net unrealized gains on investments** | 16,219,019 | (468,817) | 15,750,202 |
| Net unrealized gains on investments (Note 4) | 422,376 | - | 422,376 |
| **Change in net assets** | 16,641,395 | (468,817) | 16,172,578 |
| Net assets, beginning of year | 67,130,756 | 14,674,151 | 81,804,907 |
| Net assets, end of year | $ 83,772,151 | $ 14,205,334 | $ 97,977,485 |

See notes to consolidated financial statements.

**Craft3 and Subsidiaries**

**Consolidated Statement of Activities**
**Year Ended December 31, 2023**

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|---|---|---|
| Revenue and other support: | | | |
| Interest income on outstanding loans | $ 9,055,388 | $ 340,964 | $ 9,396,352 |
| Grants and contributions (Note 12) | 4,842,831 | 14,511,194 | 19,354,025 |
| Loan origination and servicing fees | 1,436,645 | - | 1,436,645 |
| Investment income, net (Note 4) | 1,766,050 | - | 1,766,050 |
| NMTC management and servicing fees (Note 14) | 507,536 | - | 507,536 |
| Miscellaneous income | 2,376 | - | 2,376 |
| Net assets released from restrictions (Note 15) | 3,467,700 | (3,467,700) | - |
| **Total revenue and other support** | 21,078,526 | 11,384,458 | 32,462,984 |
| Expenses: | | | |
| Program services: | | | |
| Commercial lending activities | 11,532,605 | - | 11,532,605 |
| Consumer lending activities | 4,058,097 | - | 4,058,097 |
| Consulting and management services | 828,367 | - | 828,367 |
| **Total program services** | 16,419,069 | - | 16,419,069 |
| Supporting services: | | | |
| Management and administration | 3,758,116 | - | 3,758,116 |
| Development | 453,319 | - | 453,319 |
| **Total supporting services** | 4,211,435 | - | 4,211,435 |
| **Total expenses** | 20,630,504 | - | 20,630,504 |
| **Change in net assets before net unrealized gains on investments** | 448,022 | 11,384,458 | 11,832,480 |
| Net unrealized gains on investments (Note 4) | 834,460 | - | 834,460 |
| **Change in net assets** | 1,282,482 | 11,384,458 | 12,666,940 |
| Net assets, beginning of year | 66,787,323 | 3,289,693 | 70,077,016 |
| Impact on net assets due to adoption of ASC 326 | (939,049) | - | (939,049) |
| Net assets, end of year | $ 67,130,756 | $ 14,674,151 | $ 81,804,907 |

See notes to consolidated financial statements.

**Craft3 and Subsidiaries**

**Consolidated Statement of Functional Expenses**
**Year Ended December 31, 2024**

| | 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 | $ 5,518,636 | $ 2,551,907 | $ 579,317 | $ 8,649,860 | $ 1,645,632 | $ 399,829 | $ 2,045,461 | $ 10,695,321 |
| Payroll taxes and fringe benefits | 1,374,727 | 606,990 | 107,863 | 2,089,580 | 574,947 | 68,874 | 643,821 | 2,733,401 |
| Interest and loan fee | 2,584,468 | 491,636 | - | 3,076,104 | 488 | - | 488 | 3,076,592 |
| Grants made | 11,207,828 | 1,845,956 | - | 13,053,784 | - | - | - | 13,053,784 |
| Loan costs | 420,476 | 208,017 | - | 628,493 | - | - | - | 628,493 |
| Occupancy expense | 17,663 | 135,414 | 35,325 | 188,402 | 264,940 | 17,663 | 282,603 | 471,005 |
| Consultants | 397,720 | 3,756 | 34,660 | 436,136 | 621,679 | 16,000 | 637,679 | 1,073,815 |
| Technology expense | 37,836 | 290,072 | 75,671 | 403,579 | 567,532 | 37,835 | 605,367 | 1,008,946 |
| Travel | 113,450 | 17,891 | 22,618 | 153,959 | 138,513 | 3,681 | 142,194 | 296,153 |
| Credit loss expense | 2,010,140 | 938,901 | - | 2,949,041 | - | - | - | 2,949,041 |
| Taxes and licenses | 15,794 | 121,085 | 31,587 | 168,466 | 236,905 | 15,794 | 252,699 | 421,165 |
| Professional fees | 9,787 | - | 29,570 | 39,357 | 342,078 | 185 | 342,263 | 381,620 |
| Depreciation and amortization | 4,195 | 32,163 | 8,390 | 44,748 | 62,928 | 4,195 | 67,123 | 111,871 |
| Insurance | 5,467 | 41,913 | 10,934 | 58,314 | 82,004 | 5,467 | 87,471 | 145,785 |
| Office supplies | 5,634 | 43,192 | 11,268 | 60,094 | 84,506 | 5,634 | 90,140 | 150,234 |
| Other operating costs | 69,836 | 32,243 | 7,175 | 109,254 | 1,079,510 | 934 | 1,080,444 | 1,189,698 |
| **Total expenses** | $ 23,793,657 | $ 7,361,136 | $ 954,378 | $ 32,109,171 | $ 5,701,662 | $ 576,091 | $ 6,277,753 | $ 38,386,924 |
| Percent of total expenses | 62% | 19% | 2% | 83% | 15% | 2% | 17% | 100% |

See notes to consolidated financial statements.

**Craft3 and Subsidiaries**

**Consolidated Statement of Functional Expenses**
**Year Ended December 31, 2023**

| | 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 | $ 5,171,504 | $ 2,003,058 | $ 486,924 | $ 7,661,486 | $ 1,375,357 | $ 275,653 | $ 1,651,010 | $ 9,312,496 |
| Payroll taxes and fringe benefits | 1,430,195 | 649,509 | 105,791 | 2,185,495 | 484,783 | 69,227 | 554,010 | 2,739,505 |
| Interest and loan fee | 2,241,065 | 233,526 | - | 2,474,591 | - | - | - | 2,474,591 |
| Technology expense | 329,395 | 159,384 | 42,503 | 531,282 | 233,764 | 31,877 | 265,641 | 796,923 |
| Occupancy expense | 273,151 | 132,170 | 35,245 | 440,566 | 193,849 | 26,434 | 220,283 | 660,849 |
| Loan costs | 265,593 | 346,769 | - | 612,362 | - | - | - | 612,362 |
| Consultants | 113,229 | 350 | 70,593 | 184,172 | 383,713 | 5,000 | 388,713 | 572,885 |
| Grants made | 33,334 | 236,919 | - | 270,253 | - | - | - | 270,253 |
| Taxes and licenses | 117,833 | 57,016 | 15,204 | 190,053 | 83,623 | 11,403 | 95,026 | 285,079 |
| Professional fees | 10,555 | - | 47,930 | 58,485 | 82,450 | 9,573 | 92,023 | 150,508 |
| Travel | 95,395 | 29,402 | 7,934 | 132,731 | 105,049 | 11,788 | 116,837 | 249,568 |
| Insurance | 52,230 | 25,273 | 6,739 | 84,242 | 37,066 | 5,055 | 42,121 | 126,363 |
| Office supplies | 15,816 | 7,653 | 2,041 | 25,510 | 11,224 | 1,531 | 12,755 | 38,265 |
| Depreciation and amortization | 42,643 | 20,634 | 5,502 | 68,779 | 30,263 | 4,127 | 34,390 | 103,169 |
| Credit loss expense | 1,182,054 | 129,677 | - | 1,311,731 | - | - | - | 1,311,731 |
| Other operating costs | 158,613 | 26,757 | 1,961 | 187,331 | 736,975 | 1,651 | 738,626 | 925,957 |
| **Total expenses** | $ 11,532,605 | $ 4,058,097 | $ 828,367 | $ 16,419,069 | $ 3,758,116 | $ 453,319 | $ 4,211,435 | $ 20,630,504 |
| Percent of total expenses | 56% | 20% | 4% | 80% | 18% | 2% | 20% | 100% |

See notes to consolidated financial statements.

**Craft3 and Subsidiaries**

## Consolidated Statements of Cash Flows
## Years Ended December 31, 2024 and 2023

| | 2024 | 2023 |
|---|---|---|
| Cash flows from operating activities: | | |
| Change in net assets | **$ 16,172,578** | $ 12,666,940 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation and amortization | **111,871** | 103,169 |
| Credit loss expense | **2,949,041** | 1,311,731 |
| Net unrealized gains on investments | **(422,376)** | (834,460) |
| Change in deferred fees | **(39,751)** | 115,624 |
| Amortization of right-of-use assets | **268,082** | 503,866 |
| Changes in operating assets and liabilities: | | |
| Grants receivable | **(826,334)** | 101,259 |
| Accrued interest, other receivables, and prepaid expenses | **(446,820)** | (284,962) |
| Accounts payable and accrued expenses | **74,180** | 1,883,138 |
| Operating lease liabilities | **(14,222)** | (102,158) |
| **Net cash provided by operating activities** | **17,826,249** | 15,464,147 |
| Cash flows from investing activities: | | |
| Net change in loans receivable | **(11,168,669)** | (22,437,983) |
| Purchases of investments | **(50,826,969)** | (92,841,760) |
| Proceeds from sales and maturities of investments | **46,473,023** | 105,964,697 |
| Purchases of furniture and equipment | **(37,900)** | (122,114) |
| Proceeds from sales foreclosed and other repossessed assets | **60,353** | - |
| **Net cash used in investing activities** | **(15,500,162)** | (9,437,160) |
| Cash flows from financing activities: | | |
| Proceeds from issuance of long-term debt | **14,048,469** | 43,645,323 |
| Principal payments on long-term debt | **(15,399,193)** | (16,672,270) |
| Repayment of lease liabilities | **(234,914)** | (275,296) |
| **Net cash (used in) provided by financing activities** | **(1,585,638)** | 26,697,757 |
| **Change in cash, cash equivalents and restricted cash** | **740,449** | 32,724,744 |
| Cash, cash equivalents and restricted cash, beginning of year | **45,545,295** | 12,820,551 |
| Cash, cash equivalents and restricted cash, end of year | **$ 46,285,744** | $ 45,545,295 |
| Cash and cash equivalents | **$ 33,180,390** | $ 34,525,870 |
| Restricted cash and cash equivalents | **13,105,354** | 11,019,425 |
| | **$ 46,285,744** | $ 45,545,295 |
| Supplemental disclosure of cash flow information: | | |
| Cash paid during the year for interest on long-term debt | **$ 3,092,276** | $ 2,621,018 |
| Supplemental noncash disclosures: | | |
| Right-of-use asset acquired in exchange for operating lease liabilities | **$ 379,685** | $ - |
| Addition to operating lease liability | **$ 372,248** | $ - |
| Reclassification of right-of-use assets from operating to financing | **$ -** | $ 1,413,939 |
| Reclassification of lease liabilities from operating to financing | **$ -** | $ 1,681,220 |
| Transfer due to adoption of ASC 326, reclassified from reserve for loan losses to net assets | **$ -** | $ 939,049 |

See notes to consolidated financial statements

## Note 1. Organization and Nature of Activities

Craft3 is a nonprofit community development organization that uses capital, relationships and voice to build a thriving, just and empowered Pacific Northwest. Craft3 invests in people, businesses, and communities and works towards a future of shared prosperity across the region.

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 (CDFI) 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 Shari'a-compliant investments in Washington and Oregon.

Craft3 Other Owned WA Properties, LLC (WA OREO) and Craft3 Other Owned OR Properties, LLC (OR OREO) are wholly owned, for-profit subsidiaries of Craft3. WA OREO and OR OREO were established to hold real property.

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.

## Note 2. Summary of Significant Accounting Policies

**Principles of consolidation:** These consolidated financial statements include the accounts of Craft3 and its wholly owned subsidiaries, CFF, WA OREO, OR OREO, Windfarm, and Investment II (collectively, Craft3 or the Company). 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 in any of them. 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, 2024 and 2023, management concluded that the investments in these LLCs were not impaired.

**Basis of presentation:** 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), which requires that resources be classified for reporting purposes based upon the existence or absence of donor-imposed restrictions. This is accomplished by classification of net assets into two classes: without donor restrictions and with donor restrictions.

***Net assets without donor restrictions:*** Net assets without donor restrictions are available for use in general operations and not subject to donor imposed restrictions. A portion of these net assets may be designated by the Board of Directors for specific purposes. Items that affect (i.e., increase or decrease) this net asset category include revenue (principally interest and loan fees) and related expenses associated with the core activities of Craft3. No Board designations existed on December 31, 2024 or 2023.

## Note 2. Summary of Significant Accounting Policies (Continued)

***Net assets with donor restrictions:*** Net assets with donor restrictions represent contributions and other inflows of assets received from donors that are limited in use by Craft3 in accordance with temporary donor imposed stipulations or limited as to time. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Items that affect this net asset category are restricted contributions, including unconditional pledges and earnings on notes receivable that were funded by contributions with restricted purposes. These stipulations may expire with time or may be satisfied and removed by the actions of Craft3 according to the terms of the contribution. Upon satisfaction of such stipulations, net assets are released from net assets with donor restrictions and recognized as net assets without donor restrictions.

**Use of estimates:** The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that may affect the reported amounts of assets, liabilities, income, and expenses. While actual results may vary, estimates especially susceptible to significant changes in the near term relate to the determination of the allowance for credit 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 cash and cash equivalents unless specifically restricted. Craft3 has cash balances in excess of federally insured limits of $250,000. Craft3 places its cash and restricted cash with high quality financial institutions. If any of the financial institutions with whom Craft3 does business were to be placed into receivership, Craft3 may be unable to access the cash on deposit with such institutions. If Craft3 were unable to access cash and cash equivalents as needed, the financial position and ability to operate may be adversely affected. Craft3 has not experienced any losses in such accounts.

**Restricted cash and cash equivalents:** Restricted cash and cash equivalents 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 consolidated statements of financial position that sums to the amounts shown in the consolidated statements of cash flows as of December 31:

| | 2024 | 2023 |
|---|---|---|
| Cash and cash equivalents | $ 33,180,390 | $ 34,525,870 |
| Restricted cash: | | |
| Self-Help Credit Union Reserve Accounts | 2,288,612 | 1,204,901 |
| U.S. Department of Agriculture Intermediary Relending Program (IRP) | 10,313,786 | 9,334,014 |
| U.S. Small Business Administration Intermediary Lending Program (ILP) | 502,956 | 480,510 |
| Total restricted cash | 13,105,354 | 11,019,425 |
| Total cash, cash equivalents and restricted cash | $ 46,285,744 | $ 45,545,295 |

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 8.

### Note 2. Summary of Significant Accounting Policies (Continued)

The IRP requires cash used in this program to be segregated and deposited in a dedicated bank account. Included in the above is a U.S. Treasury bill with a maturity less than three months and fair value of $7,736,491 and $7,959,088 as of December 31, 2024 and 2023, respectively.

The U.S. Small Business Administration ILP 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 and unrealized gains and losses, less external and direct internal investment expenses.

**Grants receivables:** Grants are recognized as support in the year that they are unconditionally received from the donor. They are reported as increases in the appropriate category of net assets. Grants that will not be collected within one year are discounted at a rate commensurate with the risks involved at the time the grant was received, based upon anticipated payment dates. The discount is insignificant to Craft3's consolidated financial statements. Craft3 has determined there is no allowance for outstanding grant receivables as of December 31, 2024 and 2023.

**Accrued interest and other receivables:** Receivables consist of amounts owed to Craft3 from customers, related-party LLCs and accrued interest on loans receivable. Accrued interest and other receivables are stated at their principal balances and are generally uncollateralized. Craft3 determined that the allowance for credit losses related to these receivables was $28,980 as of December 31, 2024 and 2023.

**Loans receivable and reserves for credit losses:** Loans receivable are stated at the amount of unpaid principal, reduced by net deferred unamortized origination fees. Interest income on loans is recognized when earned. Loans to businesses and nonprofits generally require collateral and personal guarantees from the principal owners or members of borrower's management.

A loan is placed on nonaccrual status when it is specifically determined to be individually evaluated and when, in the opinion of Craft3 management, there is an indication that the borrower may be unable to make payments as they become due. Craft3's policy requires that a commercial loan be placed on nonaccrual status when payments are 90 days or more past due and the value of the related collateral does not exceed the outstanding balance. Craft3's policy requires that a consumer loan be placed on nonaccrual status when payments are 120 days or more past due (clean water and ADA Developers Academy loans) or 150 days or more past due (energy loans) and the value of the related collateral does not exceed the outstanding balance. Interest income generally is not recognized on individually evaluated 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 a loan is past due when placed in nonaccrual status, the borrower must remain current on contractual payments for six months before it may be reinstated. Unless considered collectible, all interest accrued but not collected for loans that are placed on nonaccrual or charged off is reversed against interest income. Accrued interest on loans of $1,508,813 and $1,230,621 at December 31, 2024 and 2023, respectively, was included in accrued interest, other receivables, and prepaid expenses on the consolidated statements of financial position and was excluded from the estimate of credit losses.

## Note 2. Summary of Significant Accounting Policies (Continued)

**Credit loss reserves:** On January 1, 2023, Craft3 adopted Accounting Standards Update (ASU) 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, as amended, replacing the incurred loss methodology with an expected loss methodology, referred to as the current expected credit losses (CECL) methodology.

The allowance for credit losses is measured on a collective (pooled) basis when similar risk characteristics exist. Craft3 has identified the following portfolio segments:

***Commercial:*** Commercial loans are generally made to small and medium-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. Changes in the financial stability status of borrowers is a key risk factor that may impact the collectability of these loans, along with the condition of any underlying collateral if foreclosed. The commercial loan segment is further disaggregated into the following classes for the purpose of monitoring the loans and analyzing credit losses:

*Large balance:* Consists of commercial loans with an original balance greater than $250,000. These loans include real estate loans for both commercial and multi-family housing developments, conservation loans, and loans to non-profit entities.

*Small balance:* Consists of commercial loans with an original balance of $250,000 or less. These loans are primarily startup capital, working capital, tenant improvements, equipment purchases and inventory financing, etc. Loans are primarily secured by Uniform Commercial Code (UCC) filings.

*Future Fund:* Consists of commercial loans made under Shari'a compliant financing guidelines. These financings are made primarily for real estate (referred to as Musharakah financing) and more recently working capital (Wakalah financing).

***Consumer:*** Consumer loans are generally made to homeowners located in the Pacific Northwest. The loans are generally secured by underlying collateral. For each class described below, the employment status of borrowers is a key risk factor that may impact the collectability of these loans, along with the nature, value and condition of any collateral if repossessed. The consumer segment is further disaggregated into the following classes for the purpose of monitoring the loans and analyzing credit losses:

*Clean water:* Consists of loans for septic system repair and replacement.

*Energy retrofit:* Consists of loans for making energy efficiency improvements to homes.

*Accessory dwelling:* Consists of loans for accessory dwelling units (ADU), helping to create needed housing as well as to help homeowners generate future income.

*ADA:* Consists of unsecured loans to assist students of ADA cover the cost of living expenses while attending the Academy.

*Manufactured housing replacement:* Consists of loans for the replacement of outdated, energy-inefficient manufactured homes with updated energy-efficient homes.

**Note 2. Summary of Significant Accounting Policies (Continued)**

Craft3 uses the vintage method to estimate expected credit losses for all loan segments. Under this method, loans are aggregated based on loan type (segment). The vintage (origination) date, original loan balance, and the net charge-off amount are used to calculate loss rates. The loss rates are used to estimate future losses for ages in the future.

Management estimates the allowance for credit losses on loans using relevant available information from internal and external sources, current conditions, and reasonable and supportable forecasts. As historical credit loss experience provides the basis for the estimation of expected credit losses for pooled loans, adjustments may be necessary to capture differences in current loan-specific risk characteristics such as differences in underwriting standards, portfolio mix, delinquency level, or term as well as for changes in environmental conditions.

Loans that do not share risk characteristics are evaluated on an individual basis. Loans evaluated individually are also not included in the pooled evaluation. When management determines that a foreclosure is probable, or when the borrower is experiencing financial difficulty at the reporting date and repayment is expected to be provided substantially through the operation or sale of the collateral, expected credit losses are based on the fair value of the collateral at the reporting date, adjusted for anticipated selling costs as appropriate.

Individually evaluated loans are considered to exist when it is probable that not all amounts due will be collected under the terms of the loan receivable. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as individually evaluated. Management determines the significance of payment delays and payment shortfalls on a case by-case basis, taking into consideration all 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.

At least quarterly, management reviews the adequacy of the allowance, including consideration of the relevant risks in the portfolio, current economic conditions and other factors.

In a situation where a borrower is experiencing financial difficulties resulting in significant concessions that Craft3 would otherwise not consider, the related loan is classified as a financial distress modification (FDM). FDM’s are loans where a material concession to a borrower has been granted due to a borrower’s financial inability to meet the original required terms of the loan. Management strives to identify borrowers in financial difficulty early and work with them to modify their loan to more viable terms before it is charged off. Concessions could include a reduction in the interest rate, 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 individually evaluated loans. FDM loans are classified as individually evaluated until they are fully repaid or charged off. FDM 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 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 officers 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 (at least annually) or upon identification of specific events affecting borrower ability to repay.

## Note 2. Summary of Significant Accounting Policies (Continued)

Loans are risk rated into the following categories of credit quality indicators:

***Pass:*** These loans range from minimal to average, but still acceptable, credit risk.

***Watch List:*** Watch List (also referred to as Pass—Watch List) loans usually require more than normal management attention. Loans that qualify for the 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 imminent.

***Problem:*** Loans are classified as Problem loans when the borrower's repayment capacity is impacted, such as the borrower's payments do not cover principal payments on a reasonable amortization schedule, a voluntary liquidation plan has been negotiated, or the loan is more than 120 days past due. A Problem loan is generally written down to the expected net value of collateral in the event of liquidation.

***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 based on a conservative estimate of the realizable liquidation value.

**Allowance for credit losses for unfunded commitments:** Craft3 estimates expected credit losses on unfunded commitments. The estimate includes consideration of the likelihood that funding will occur and an estimate of expected credit losses on commitments expected to be funded over its estimated life using the same model as the other loan portfolio segments described above. Craft3's allowance for credit losses for unfunded commitments was $785,488 and $709,803 as of December 31, 2024 and 2023, respectively. The allowance for credit losses for unfunded commitments is presented in the accounts payable and accrued expenses line of the consolidated statements of financial position. Changes in the allowance for credit losses for unfunded commitments is reflected in the credit loss expense line of the consolidated statements of activities. During the years ended December 31, 2024 and 2023, Craft3 recorded a credit loss expense of $75,685 and $(37,416), respectively, associated with unfunded commitments.

**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 three to 30 years, or in the case of leasehold improvements, the lesser of the useful life of the asset or the lease term. Asset purchases in excess of $2,500 are capitalized. Furniture and equipment balances are shown net of accumulated depreciation of $458,460 and $532,431 at December 31, 2024 and 2023, respectively. Depreciation expense for the years ended December 31, 2024 and 2023, was $111,871 and $103,169, respectively.

**Leases:** Under Accounting Standards Codification (ASC) 842, Leases, 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 right-of-use (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.

**Note 2. Summary of Significant Accounting Policies (Continued)**

Craft3 leases office space under agreements classified as finance leases, with the exception of one lease classified as an operating 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 Craft3's 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. In these cases, ROU assets and lease liabilities ROU assets and lease liabilities are not recognized.

**Transfers of financial assets:** Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from Craft3, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets and (3) Craft3 does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity or the ability to unilaterally cause the holder to return specific assets.

**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, less costs to sell, is charged to the allowance for credit 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, unconditional promises to give, or notifications of beneficial interests are received. Contributions received are reported as support with or without donor restrictions. 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 ASC 606, Revenue from Contracts with Customers. The revenue that falls within the scope of ASC 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, short-term treasury instruments and money market accounts. Interest income is recognized in the period earned.

## Note 2. Summary of Significant Accounting Policies (Continued)

**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.

**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 consolidated 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 (IRC). 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. Craft3 had no uncertain tax positions as of December 31, 2024 and 2023. Unrelated business income tax, if any, is insignificant and no tax provision has been made in the accompanying consolidated financial statements.

All Craft3 subsidiaries are organized as LLCs. Net income from the LLCs is passed through to Craft3, which is a nonprofit corporation organized under IRC Section 501(c)(3). No liability has been recorded for uncertain tax positions as of December 31, 2024 or 2023, and management believes no material uncertain tax positions have been taken.

**Reclassifications:** Certain reclassifications have been made to the 2023 consolidated financial statements in order to conform to the 2024 presentation. These reclassifications did not result in a change in previously reported change in net assets.

**Subsequent events:** Subsequent events are events or transactions that occur after the date of the consolidated statements 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 Note 19. Craft3 has evaluated subsequent events through April 24, 2025, the date on which the consolidated financial statements became available for issuance.

## Note 3. Liquidity and Funds Available

The following table reflects Craft3's financial assets as of December 31, 2024 and 2023, available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the consolidated statements of financial position date. Financial assets are considered unavailable when illiquid or not convertible to cash within one year. Other considerations of nonliquid assets are donor restricted assets for specific expenditures, contractual reserve requirements, or governing board designations.

| | 2024 | 2023 |
|---|---|---|
| Cash and cash equivalents | $ 33,180,390 | $ 34,525,870 |
| Grant receivables, net | 1,236,526 | - |
| Investments, at fair value | 21,581,991 | 16,805,669 |
| Accrued interest and other receivables | 1,662,770 | 1,368,178 |
| Current portion of loans receivable, net | 20,604,055 | 19,811,581 |
| | $ 78,265,732 | $ 72,511,298 |

## Note 3. Liquidity and Funds Available (Continued)

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 10 for available borrowings.

## Note 4. Investments and Fair Value Measurements

Investments consist of the following as of December 31:

| | 2024 Fair Value | 2023 Fair Value |
|---|---|---|
| Municipal bonds | $ 11,997,099 | $ 8,447,568 |
| Federal agency securities | 3,552,064 | 2,275,331 |
| Corporate bonds | 5,170,827 | 4,241,364 |
| Foreign bonds | 862,001 | 953,788 |
| Mutual funds | - | 887,618 |
| | $ 21,581,991 | 16,805,669 |

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.

Investments by contractual maturity as of December 31, 2024, are summarized as follows:

| | Fair Value |
|---|---|
| Less than 1 year maturity | $ 6,203,884 |
| 1 to less than 2 years maturity | 10,405,439 |
| 2 to less than 5 years maturity | 3,489,001 |
| 5 to less than 10 years maturity | - |
| Thereafter | 1,483,667 |
| | $ 21,581,991 |

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.

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. U.S. GAAP establishes 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.

### Note 4. Investments and Fair Value Measurements (Continued)

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

**Level 1:** Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that Craft3 has the ability to access at measurement date. Valuation adjustments and block discounts are not applied to Level 1 securities. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these securities does not entail a significant degree of judgment.

**Level 2:** Valuations based on significant inputs that are observable, either directly or indirectly or quoted prices in markets that are not active, that is, markets in which there are few transactions, the prices are not current or price quotations vary substantially either over time or among market makers.

**Level 3:** Valuations are derived from other valuation methodologies and incorporate certain assumptions and projections that are not observable in the market and significant professional judgment in determining the fair value assigned to such 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 nonreal estate assets, fair values are estimated based on observable sales and discounted future cash flows.

## Note 4. Investments and Fair Value Measurements (Continued)

**Collateral dependent individually evaluated loans:** Craft3 does not record loans at fair value on a recurring basis. However, from time to time, a loan is considered individually evaluated under ASC 326 and an allowance for credit losses is established. Once a loan is identified as individually evaluated, management measures allowance for credit loss based upon the present value of expected future cash flows discounted at the loan's effective interest rate, except where more practical, at the observable market prices of the loan or the fair value of the collateral, if the loan is collateral dependent. Fair value is determined based upon appraisals by qualified licensed appraisers hired by the Craft3, and are, generally, considered Level 3 measurements. In some cases, adjustments are made to the appraised values due to various factors including age of the appraisal, age of comparables included in the appraisal, and known changes in the market and in the collateral.

The following table presents information about assets measured at fair value on a recurring and nonrecurring basis as of December 31, 2024 and 2023, and indicates the fair value hierarchy of the valuation technique utilized by Craft3 to determine such fair value:

| | 2024 | | | |
|---|---|---|---|---|
| | Total | Level 1 | Level 2 | Level 3 |
| Recurring items: | | | | |
| Investments: | | | | |
| Municipal bonds | $ 11,997,099 | $ - | $ 11,997,099 | $ - |
| Corporate bonds | 5,170,827 | 5,170,827 | - | - |
| Federal agency securities | 3,552,064 | - | 3,552,064 | - |
| Foreign bonds | 862,001 | 862,001 | - | - |
| Total recurring items | $ 21,581,991 | $ 6,032,828 | $ 15,549,163 | $ - |
| Nonrecurring items: | | | | |
| Foreclosed and repossessed assets | $ 903,130 | $ - | $ - | $ 903,130 |
| Individually evaluated loans | 36,000 | - | - | 36,000 |
| | $ 939,130 | $ - | $ - | $ 939,130 |

| | 2023 | | | |
|---|---|---|---|---|
| | Total | Level 1 | Level 2 | Level 3 |
| Recurring items: | | | | |
| Investments: | | | | |
| Municipal bonds | $ 8,447,568 | $ - | $ 8,447,568 | $ - |
| Corporate bonds | 4,241,364 | 4,241,364 | - | - |
| Federal agency securities | 2,275,331 | - | 2,275,331 | - |
| Foreign bonds | 953,788 | 953,788 | - | - |
| Mutual fund | 887,618 | 887,618 | - | - |
| Total recurring items | $ 16,805,669 | $ 6,082,770 | $ 10,722,899 | $ - |
| Nonrecurring items: | | | | |
| Foreclosed and repossessed assets | $ 963,483 | $ - | $ - | $ 963,483 |

## Note 4. Investments and Fair Value Measurements (Continued)

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 consolidated financial statements at some time during the reporting period.

Level 1 securities are classified as U.S. government obligations, debt securities of foreign governmental agencies and corporate bonds. Fair value of Level 1 securities is based on quoted market prices. Investments in equity instruments traded on national securities exchanges are stated at the last reported sales price on the day of valuation.

Investments in fixed income and equity instruments for which quotations are not readily available are valued using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows. To the extent the inputs used in the pricing models are observable and timely, these financial instruments are classified as Level 2 in the fair value hierarchy.

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, 2024 and 2023. 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 5. Grants Receivable

Grants receivable consist of the following at December 31:

| | 2024 | 2023 |
|---|---|---|
| Department of Environmental Quality | $ 566,727 | $ 976,919 |
| Multnomah County | 555,579 | - |
| Washington Department of Ecology | 380,947 | - |
| US Bank | 100,000 | - |
| JP Morgan Chase | 200,000 | - |
| Total grants receivable | $ 1,803,253 | $ 976,919 |

## Note 6. 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, 2024 and 2023, for these subsidiaries was as follows:

| | 2024 | 2023 |
|---|---|---|
| Windfarm | $ 632 | $ 632 |
| WA OREO | 166 | 905 |
| OR OREO | - | - |
| Investment II | - | - |
| CFF | 7,302,456 | 6,137,267 |
| Total | $ 7,303,254 | $ 6,138,804 |

## Note 7. 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 $5,000,000 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, co-borrower, guarantor, or in situations where common collateral is used, regardless of a government enhancement. The Board of Directors 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 6.

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 (septic system repair and replacement) and residential energy retrofit loans.

## Note 7. Loans Receivable (Continued)

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

| | 2024 | | | 2023 | | |
|---|---|---|---|---|---|---|
| | Number of Loans | Balance | Percentage of Total | Number of Loans | Balance | Percentage of Total |
| Commercial: | | | | | | |
| Large balance | 71 | $ 84,332,301 | 49% | 79 | $ 84,764,516 | 52% |
| Small balance | 361 | 20,679,720 | 12% | 416 | 22,555,538 | 14% |
| Future Fund | 10 | 6,954,471 | 4% | 5 | 4,657,484 | 3% |
| | 442 | 111,966,492 | 65% | 500 | 111,977,538 | 69% |
| Consumer: | | | | | | |
| Clean water | 1,521 | 32,706,004 | 19% | 1,315 | 27,518,405 | 17% |
| Energy retrofit | 1,748 | 18,244,937 | 11% | 1,692 | 17,200,978 | 11% |
| Accessory dwelling | 57 | 8,507,107 | 5% | 44 | 5,867,828 | 3% |
| ADA | 23 | 129,460 | 0% | 26 | 230,578 | 0% |
| Manufactured housing | 6 | 138,935 | 0% | 4 | 78,661 | 0% |
| | 3,355 | 59,726,443 | 35% | 3,081 | 50,896,450 | 31% |
| Totals | 3,797 | 171,692,935 | 100% | 3,581 | 162,873,988 | 100% |
| Net deferred loan origination fees | | (259,925) | | | (306,612) | |
| Reserve for credit losses | | (8,783,309) | | | (8,252,739) | |
| | | $ 162,649,701 | | | $ 154,314,637 | |

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

| | 2024 | 2023 |
|---|---|---|
| Current portion of commercial loans receivable | $ 17,036,962 | $ 16,699,007 |
| Current portion of consumer loans receivable | 3,655,247 | 3,193,791 |
| Less net deferred loan fees | (88,154) | (81,217) |
| Total current portion loans receivable, net | $ 20,604,055 | $ 19,811,581 |

## Note 7. Loans Receivable (Continued)

The long-term portion of loans receivable on December 31, 2024 and 2023, is summarized as follows:

| | 2024 | 2023 |
|---|---|---|
| Total loans receivable | $171,692,935 | $162,873,988 |
| Less current portion, net | (20,604,055) | (19,811,581) |
| Less credit loss reserve | (8,783,309) | (8,252,739) |
| Less net deferred loan fees | (259,925) | (306,612) |
| Total long-term portion loans receivable, net | $142,045,646 | $134,503,056 |

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

| | |
|---|---|
| Years ending December 31: | |
| 2025 | $ 20,692,209 |
| 2026 | 28,778,686 |
| 2027 | 20,054,640 |
| 2028 | 16,984,926 |
| 2029 | 15,395,370 |
| Thereafter | 69,787,104 |
| | $171,692,935 |

## Note 8. 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, 2024 and 2023, the outstanding balance of the sold loans serviced by Craft3 was $948,199 and $1,241,494, 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, 2024 and 2023, 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 $140,899 and $151,902, respectively
- Craft3 Self-Help Federal Credit Union (SHFCU) Reserve Account balance of $389,884 and $394,866, respectively

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 9. Credit Quality and Reserve for Credit Losses

Activity in the credit loss reserve for the years ending December 31 is as follows:

| | 2024 | | |
|---|---|---|---|
| | Commercial | Consumer | Total |
| Credit loss reserve, beginning of year | $ 6,162,752 | $ 2,089,987 | $ 8,252,739 |
| Charge-offs | (2,511,086) | (617,040) | (3,128,126) |
| Recoveries | 626,371 | 158,969 | 785,340 |
| Credit loss expense | 1,902,186 | 971,170 | 2,873,356 |
| Credit loss reserve, end of year | $ 6,180,223 | $ 2,603,086 | $ 8,783,309 |

| | 2023 | | |
|---|---|---|---|
| | Commercial | Consumer | Total |
| Credit loss reserve, beginning of year | $ 5,875,514 | $ 2,011,946 | $ 7,887,460 |
| Adoption of CECL | 398,245 | (206,360) | 191,885 |
| Charge-offs | (1,822,188) | (430,270) | (2,252,458) |
| Recoveries | 939,388 | 137,317 | 1,076,705 |
| Credit loss expense | 771,793 | 577,354 | 1,349,147 |
| Credit loss reserve, end of year | $ 6,162,752 | $ 2,089,987 | $ 8,252,739 |

The following tables present loans and the related allowance for credit losses by category:

| | 2024 | | |
|---|---|---|---|
| | Commercial | Consumer | Total Loans |
| Loans receivable, ending balance: | | | |
| Individually evaluated for credit losses | $ 348,827 | $ - | $ 348,827 |
| Collectively evaluated for credit losses | 111,617,665 | 59,726,443 | 171,344,108 |
| Totals | $111,966,492 | $ 59,726,443 | $ 171,692,935 |

| | 2023 | | |
|---|---|---|---|
| | Commercial | Consumer | Total Loans |
| Loans receivable, ending balance: | | | |
| Individually evaluated for credit losses | $ 180,622 | $ - | $ 180,622 |
| Collectively evaluated for credit losses | 111,796,916 | 50,896,450 | 162,693,366 |
| Totals | $111,977,538 | $ 50,896,450 | $ 162,873,988 |

| | 2024 | | |
|---|---|---|---|
| | Commercial | Consumer | Total Loans |
| Credit loss reserve, ending balance: | | | |
| Individually evaluated for credit losses | $ 312,829 | $ - | $ 312,829 |
| Collectively evaluated for credit losses | 5,867,394 | 2,603,086 | 8,470,480 |
| Totals | $ 6,180,223 | $ 2,603,086 | $ 8,783,309 |

### Note 9. Credit Quality and Reserve for Credit Losses (Continued)

| | 2023 | | |
|---|---|---|---|
| | Commercial | Consumer | Total Loans |
| Credit loss reserve, ending balance: | | | |
| Individually evaluated for credit losses | $ 180,622 | $ - | $ 180,622 |
| Collectively evaluated for credit losses | 5,982,130 | 2,089,987 | 8,072,117 |
| Totals | $ 6,162,752 | $ 2,089,987 | $ 8,252,739 |

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

| | 2024 | | | |
|---|---|---|---|---|
| | Pass | Pass—Watch List | Problem | Total Loans |
| Commercial: | | | | |
| Large balance | $ 66,596,545 | $ 11,079,951 | $ 6,655,805 | $ 84,332,301 |
| Small balance | 18,435,727 | 1,257,430 | 986,563 | 20,679,720 |
| Future Fund | 6,954,471 | - | - | 6,954,471 |
| | 91,986,743 | 12,337,381 | 7,642,368 | 111,966,492 |
| Consumer: | | | | |
| Clean water | 31,987,494 | 477,491 | 241,019 | 32,706,004 |
| Energy retrofit | 17,131,249 | 696,860 | 416,828 | 18,244,937 |
| Accessory dwelling | 8,507,107 | - | - | 8,507,107 |
| ADA | 124,103 | 3,607 | 1,750 | 129,460 |
| Manufactured housing | 138,935 | - | - | 138,935 |
| | 57,888,888 | 1,177,958 | 659,597 | 59,726,443 |
| Totals | $ 149,875,631 | $ 13,515,339 | $ 8,301,965 | $ 171,692,935 |

| | 2023 | | | |
|---|---|---|---|---|
| | Pass | Pass—Watch List | Problem | Total Loans |
| Commercial: | | | | |
| Large balance | $ 66,608,465 | $ 13,561,739 | $ 4,594,312 | $ 84,764,516 |
| Small balance | 20,624,286 | 1,213,006 | 718,246 | 22,555,538 |
| Future Fund | 4,657,484 | - | - | 4,657,484 |
| | 91,890,235 | 14,774,745 | 5,312,558 | 111,977,538 |
| Consumer: | | | | |
| Clean water | 26,883,017 | 337,001 | 298,387 | 27,518,405 |
| Energy retrofit | 16,478,840 | 469,025 | 253,113 | 17,200,978 |
| Accessory dwelling | 5,867,828 | - | - | 5,867,828 |
| ADA | 210,378 | 16,200 | 4,000 | 230,578 |
| Manufactured housing | 78,661 | - | - | 78,661 |
| | 49,518,724 | 822,226 | 555,500 | 50,896,450 |
| Totals | $ 141,408,959 | $ 15,596,971 | $ 5,868,058 | $ 162,873,988 |

### Note 9. Credit Quality and Reserve for Credit Losses (Continued)

The following table shows an aging analysis of the loan portfolio by the time past due on December 31:

| 2024 | Current | 1-30 Days Past Due | 31-60 Days Past Due | 61-90 Days Past Due | 90+ Days Past Due | Loans on Nonaccrual | Total Loans |
|---|---|---|---|---|---|---|---|
| Commercial: | | | | | | | |
| Large balance | $ 82,741,054 | $ - | $ - | $ - | $ - | $ 1,591,247 | $ 84,332,301 |
| Small balance | 18,828,576 | 906,904 | 57,197 | - | - | 887,043 | 20,679,720 |
| Future Fund | 6,954,471 | - | - | - | - | - | 6,954,471 |
| | 108,524,101 | 906,904 | 57,197 | - | - | 2,478,290 | 111,966,492 |
| Consumer: | | | | | | | |
| Clean water | 31,732,316 | 698,344 | 156,036 | 46,649 | 21,323 | 51,336 | 32,706,004 |
| Energy retrofit | 18,077,891 | - | - | 78,836 | 88,210 | - | 18,244,937 |
| Accessory dwelling | 8,372,389 | 134,718 | - | - | - | - | 8,507,107 |
| ADA | 129,460 | - | - | - | - | - | 129,460 |
| Manufactured housing | 138,935 | - | - | - | - | - | 138,935 |
| | 58,450,991 | 833,062 | 156,036 | 125,485 | 109,533 | 51,336 | 59,726,443 |
| Totals | $ 166,975,092 | $ 1,739,966 | $ 213,233 | $ 125,485 | $ 109,533 | $ 2,529,626 | $ 171,692,935 |

| 2023 | Current | 1-30 Days Past Due | 31-60 Days Past Due | 61-90 Days Past Due | 90+ Days Past Due | Loans on Nonaccrual | Total Loans |
|---|---|---|---|---|---|---|---|
| Commercial: | | | | | | | |
| Large balance | $ 80,960,474 | $ - | $ - | $ - | $ 683,458 | $ 3,120,584 | $ 84,764,516 |
| Small balance | 21,303,176 | 388,252 | 296,115 | 16,826 | - | 551,169 | 22,555,538 |
| Future Fund | 4,657,484 | - | - | - | - | - | 4,657,484 |
| | 106,921,134 | 388,252 | 296,115 | 16,826 | 683,458 | 3,671,753 | 111,977,538 |
| Consumer: | | | | | | | |
| Clean water | 26,574,759 | 635,210 | 214,225 | 34,835 | - | 59,376 | 27,518,405 |
| Energy retrofit | 17,053,445 | - | - | 69,186 | 77,865 | 482 | 17,200,978 |
| Accessory dwelling | 5,867,828 | - | - | - | - | - | 5,867,828 |
| ADA | 205,237 | - | 21,341 | - | 4,000 | - | 230,578 |
| Manufactured housing | 78,661 | - | - | - | - | - | 78,661 |
| | 49,779,930 | 635,210 | 235,566 | 104,021 | 81,865 | 59,858 | 50,896,450 |
| Totals | $ 156,701,064 | $ 1,023,462 | $ 531,681 | $ 120,847 | $ 765,323 | $ 3,731,611 | $ 162,873,988 |

## Note 9. Credit Quality and Reserve for Credit Losses (Continued)

Nonperforming loans as of December 31 is presented as follows:

| | December 31, 2024 | | | |
|---|---|---|---|---|
| | Accruing 90 Days or More Past Due | Nonaccrual With an Allowance for Credit Loss | Nonaccrual With No Allowance for Credit Loss | Total Nonperforming Loans |
| Commercial: | | | | |
| Large balance | $ - | $ 1,591,247 | $ - | $ 1,591,247 |
| Small balance | - | 887,043 | - | 887,043 |
| Future Fund | - | - | - | - |
| | - | 2,478,290 | - | 2,478,290 |
| Consumer: | | | | |
| Clean water | - | 51,336 | - | 51,336 |
| Energy retrofit | - | - | - | - |
| Accessory dwelling | - | - | - | - |
| ADA | - | - | - | - |
| Manufactured housing | - | - | - | - |
| | - | 51,336 | - | 51,336 |
| Totals | $ - | $ 2,529,626 | $ - | $ 2,529,626 |

| | December 31, 2023 | | | |
|---|---|---|---|---|
| | Accruing 90 Days or More Past Due | Nonaccrual With an Allowance for Credit Loss | Nonaccrual With No Allowance for Credit Loss | Total Nonperforming Loans |
| Commercial: | | | | |
| Large balance | $ - | $ 3,120,584 | $ - | $ 3,120,584 |
| Small balance | - | 551,169 | - | 551,169 |
| Future Fund | - | - | - | - |
| | - | 3,671,753 | - | 3,671,753 |
| Consumer: | | | | |
| Clean water | - | 59,376 | - | 59,376 |
| Energy retrofit | - | 482 | - | 482 |
| Accessory dwelling | - | - | - | - |
| ADA | - | - | - | - |
| Manufactured housing | - | - | - | - |
| | - | 59,858 | - | 59,858 |
| Totals | $ - | $ 3,731,611 | $ - | $ 3,731,611 |

## Note 9. Credit Quality and Reserve for Credit Losses (Continued)

As of December 31, 2024, the balance of commercial large balance and commercial small balance loans modified to borrowers experiencing financial difficulty in the prior 12 months was $791,566 and $531,199, respectively, representing 0.94% and 2.57% of the commercial large balance and commercial small balance classes, respectively. As of December 31, 2023, the balance of the commercial large balance and commercial small balance loans modified to borrowers experiencing financial difficulty in the prior 12 months was $1,954,164 and $248,804, respectively, representing 2.31% and 1.10% of the commercial large balance and commercial small balance classes, respectively. All loans were granted a combination of payment delays, term extensions or interest reductions. The financial effect of the modifications to the commercial large balances loans was adding a weighted average of maturity approximately one year to the loans with financial distress modifications.

Craft3 closely monitors the performance of the loans that are modified to borrowers experiencing financial difficulty to understand the effectiveness of its modification efforts. As of December 31, 2024, no commercial loans with financial distress modifications were greater than 90 days past due.

There were no additional funds advanced to borrowers with financial distress modifications in 2024 or 2023. There were two loans totaling $791,566 with interest rate reductions granted on financial difficulty in 2024 and none in 2023. There were no loans with principal forgiveness based on financial difficulty in 2024 or 2023. There were no financial distress modifications granted to consumer borrowers that were material in 2024 or 2024.

## Note 10. Long-Term Debt

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

**Long-term notes payable:**

| | 2024 | 2023 |
|---|---|---|
| Notes payable to financial institutions in varying amounts with interest rates ranging from 1.00% to 3.53%. Notes are unsecured and the final due date is July 26, 2033. | $ 40,499,585 | $ 42,285,457 |
| Notes payable to individuals, business, nonprofit organizations, and trusts in varying amounts with interest rates ranging from 0.0% to 4.5%. Notes are unsecured and have a variety of due dates; the final due date is April 1, 2044. | 50,331,003 | 51,533,717 |
| Notes payable to U.S. Department of Agriculture with 1% to 2.38% interest rates. Notes are unsecured by the program receivables and a portion of restricted cash, and the final due date is December 14, 2056. | 8,038,558 | 8,598,624 |
| Notes payable to federal, state and local government agencies in varying amounts with interest rates ranging from 0.00% to 1.60%. Notes are unsecured and the final due date is December 30, 2056. | 20,325,351 | 17,602,424 |
| Total long-term notes payable | 119,194,497 | 120,020,222 |
| Less current portion | (31,148,002) | (18,052,443) |
| | $ 88,046,495 | $101,967,779 |

## Note 10. Long-Term Debt (Continued)

**Equity equivalent investments and subordinated notes payable:**

| | 2024 | 2023 |
|---|---|---|
| Notes payable to financial institutions in varying amounts with interest rates ranging from 1% to 3%. Notes are unsecured with a variety of due dates; the final due date is May 16, 2035. | $ 11,519,649 | $ 11,519,649 |
| Subordinated note payable to Good to Grow CDFI Investment Fund, LLC with an interest rate of 3%. Note is unsecured and matures September 30, 2029. | 2,000,000 | 2,000,000 |
| Subordinated note payable to a private foundation with an interest rate of 1%. Note is unsecured and has a maturity date of December 31, 2023. On January 1, 2024, the note was converted to an unsubordinated note. | - | 525,000 |
| Total equity equivalent investments and subordinated notes payable | 13,519,649 | 14,044,649 |
| Less current portion | (4,250,000) | (3,000,000) |
| | $ 9,269,649 | $ 11,044,649 |

Equity equivalent investments (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:

| | 2024 | 2023 |
|---|---|---|
| Notes payable | $ 31,148,002 | $ 18,052,443 |
| Equity equivalents investments and subordinated notes payable | 4,250,000 | 3,000,000 |
| | $ 35,398,002 | $ 21,052,443 |

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

| | |
|---|---|
| Years ending December 31: | |
| 2025 | $ 35,398,002 |
| 2026 | 16,387,513 |
| 2027 | 14,123,378 |
| 2028 | 6,073,285 |
| 2029 | 6,772,388 |
| Thereafter | 53,959,580 |
| | $132,714,146 |

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, 2024, management believes Craft3 was in compliance with all covenants.

## Note 10. Long-Term Debt (Continued)

Craft3 has a syndicated $15,000,000 revolving line of credit with Banner Bank. At the borrower's option, the line of credit bears interest at a rate of SOFR plus 2.35%. The line matures December 2029. As of December 31, 2024, there was no outstanding balance on this line.

Craft3 has a $10,000,000 revolving line of credit with Wells Fargo. The line of credit bears interest at SOFR plus 2.25%. The line matures in March 2028. As of December 31, 2024, there was no balance outstanding on this line of credit.

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 2027. As of December 31, 2024, there was a balance of $5,000,000.

Craft3 has a $250,000 revolving line of credit with Sound Community Bank. The line of credit bears interest at 2.00%. The line matures in April 2026. As of December 31, 2023, there was no balance outstanding on this line of credit. The outstanding balance at December 31, 2024 is $250,000.

## Note 11. Leasing Arrangements

Craft3 leases office space under noncancelable leases that expire at various dates through 2031. Craft3 leases two administrative office spaces under finance lease arrangements and one administrative office space under an operating lease arrangement.

In January 2024, Craft3 entered into a new noncancellable long-term lease agreement for office space in Portland, Oregon, which commenced March 2024 and expires in August 2029. The annual base rent of $89,242 in year one is escalated by 3% per year for the remainder of the lease term. Per the terms of the lease, the landlord will fully abate rent payments due for the first six months of the lease totaling $44,621. The landlord will contribute up to $60,000 towards improvements to the leased space. Collectively, the rental abatements and tenant improvement allowance are treated as lease incentives, which upon lease commencement will be amortized on a straight-line basis over the term of the lease.

Lease ROU assets and liabilities and the associated consolidated statements of financial position classifications are as follows:

| | 2024 | 2023 |
|---|---|---|
| Right-of-use assets: | | |
| Operating leases—other assets | $ 332,422 | $ 17,419 |
| Finance leases—furniture and equipment, net | 806,526 | 1,017,362 |
| Total right-of-use assets | $ 1,138,948 | $ 1,034,781 |
| | | |
| Lease liabilities: | | |
| Operating leases | $ 63,998 | $ 17,513 |
| Operating leases—long-term lease liabilities | 311,541 | - |
| Finance leases | 250,244 | 234,914 |
| Finance leases—long-term lease liabilities | 795,250 | 1,045,494 |
| Total lease liabilities | $ 1,421,033 | $ 1,297,921 |

### Note 11. Leasing Arrangements (Continued)

The components of lease cost included in occupancy expense are as follows for the years ended December 31, 2024 and 2023:

| | 2024 | 2023 |
|---|---|---|
| Finance lease cost: | | |
| Right-of-use asset amortization | $ 268,082 | $ 503,866 |
| Interest expense | 45,583 | 54,929 |
| Operating lease cost | 55,990 | 104,723 |
| Total lease cost, net | $ 369,655 | $ 663,518 |

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

| | Operating Leases | Finance Leases | Total Leases |
|---|---|---|---|
| Years ending December 31: | | | |
| 2025 | $ 91,473 | $ 285,854 | $ 377,327 |
| 2026 | 94,218 | 292,367 | 386,585 |
| 2027 | 97,044 | 130,053 | 227,097 |
| 2028 | 99,955 | 114,000 | 213,955 |
| 2029 | 68,469 | 114,000 | 182,469 |
| Thereafter | - | 218,500 | 218,500 |
| Total undiscounted lease payments | 451,159 | 1,154,774 | 1,605,933 |
| Less imputed interest | (75,620) | (109,280) | (184,900) |
| Net lease liabilities | $ 375,539 | $ 1,045,494 | $ 1,421,033 |

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

| | 2024 | 2023 |
|---|---|---|
| Finance lease weighted-average remaining lease term (years) | 4.5 | 5.5 |
| Finance lease weighted-average discount rate | 4.0% | 4.0% |
| Operating lease weighted-average remaining lease term (years) | 4.7 | 5.7 |
| Operating lease weighted-average discount rate | 8.1% | 7.9% |
| Cash paid for amounts included in the measurement of lease liabilities: | | |
| Operating cash flows from finance leases | $ 280,497 | $ 275,296 |
| Operating cash flows from operating leases | 47,288 | 104,636 |

## Note 12. Grants and Contributions

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

| | 2024 | 2023 |
|---|---|---|
| MultCo Co-location ECE Grant | $ 15,413,402 | $ 255,734 |
| Chicago Community Foundation | 15,000,000 | - |
| Washington Department of Ecology (CW WA ECY) | 3,949,539 | 3,664,539 |
| Department of Environmental Quality (CW OR DEQ) | 2,182,767 | 1,300,992 |
| Community Development Financial Institutions Fund | 2,037,678 | 3,480,000 |
| US Bank | 300,000 | - |
| Northwest Area Foundation | 250,000 | - |
| JPMorgan Chase | 200,000 | - |
| Oregon Housing and Community Services | - | 10,000,000 |
| Opportunity Finance Network | - | 500,000 |
| Seattle Foundation | - | 60,000 |
| Others | 142,710 | 53,760 |
| MJ Murdock Charitable Trust | - | 39,000 |
| Washington Watershed Conservation Fund | 43,597 | - |
| Oregon Community Foundation EOBB | 13,250 | - |
| | $ 39,532,943 | $ 19,354,025 |

## Note 13. Contingencies

Craft3 participates in a number of federal grant and contract programs which are subject to financial and compliance audits. Accordingly, Craft3's compliance with applicable grant and contract requirements may be determined at some future date. The amount, if any, of expenditures which may be disallowed by the granting or contracting agencies cannot be determined at this time, although management expects such amounts, if any, to be immaterial.

## Note 14. New Markets Tax Credits

Craft3 has applied for and received allocations of NMTCs within the meaning of the IRC. 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, 2024 and 2023. Craft3 earns management and loan servicing fees from the NMTCs which totaled $507,536 for each of the years ended December 31, 2024 and 2023.

## 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 and for the years ended December 31, 2024 and 2023, are as follows:

| | 2023 | Grants and Contributions Additions | Net Assets Released | 2024 |
|---|---|---|---|---|
| Subject to expenditure for specified purpose: | | | | |
| Lending activities: | | | | |
| WA Dept of Ecology Grant 2016 | $ - | $ 3,949,540 | $ (3,949,540) | $ - |
| JPMC Advancing Cities | 855,192 | - | (855,192) | - |
| CDFI Rapid Response Program | 62,747 | - | (62,747) | - |
| CDFI 2021 FA Grant | 17,295 | - | (17,295) | - |
| Metro 2021 | 104,454 | - | (104,454) | - |
| Wells Fargo OFB | 46,878 | - | (46,878) | - |
| State of Washington Clean Energy Fund (CEF 4-5) | 1,500,000 | - | - | 1,500,000 |
| CW OR DEQ ARPA | 64,275 | 13,351 | (77,626) | - |
| OHCS Co-Location ECE Grant | 9,271,035 | 631,944 | (254,561) | 9,648,418 |
| MultCo Co-location ECE Grant | - | 15,413,402 | (15,413,402) | - |
| CDFI 2022 FA | 560,000 | - | (560,000) | - |
| CDFI Fund ERP | 1,559,643 | 2,037,678 | (1,686,643) | 1,910,678 |
| OFN Climate Justice Fund | 500,000 | - | (25,233) | 474,767 |
| Wildlife Recovery (CW OR DEQ ARPA) | 14,938 | 2,169,416 | (2,184,354) | - |
| 2024 US Bank Grant | - | 300,000 | (92,498) | 207,502 |
| 2024 NWAF Equitable Financing Grant | - | 250,000 | (39,768) | 210,232 |
| JPMC Business Services | - | 200,000 | - | 200,000 |
| WA Watershed Conservation | - | 43,597 | (43,597) | - |
| Other grants | 117,694 | - | (63,957) | 53,737 |
| Total net assets with donor restrictions | $ 14,674,151 | $ 25,008,928 | $ (25,477,745) | $ 14,205,334 |

## Note 15. Net Assets With Donor Restrictions (Continued)

| | | 2022 | | Grants and Contributions Additions | | Net Assets Released | | 2023 |
|---|---|---|---|---|---|---|---|---|
| Subject to expenditure for specified purpose: | | | | | | | | |
| Lending activities: | | | | | | | | |
| JPMC Advancing Cities | $ | 851,606 | $ | 78,751 | $ | (75,165) | $ | 855,192 |
| CDFI Rapid Response Program | | - | | 62,747 | | - | | 62,747 |
| CDFI 2021 FA Grant | | 9,239 | | 8,056 | | - | | 17,295 |
| Metro 2021 | | 96,677 | | 7,777 | | - | | 104,454 |
| Wells Fargo OFB | | 18,053 | | 28,825 | | - | | 46,878 |
| Department of Environmental Quality (CW OR DEQ) | | 591,861 | | 1,038,169 | | (1,630,030) | | - |
| State of Washington Clean Energy Fund (CEF 4-5) | | 1,500,000 | | - | | - | | 1,500,000 |
| CW OR DEQ ARPA | | | | 244,352 | | (180,077) | | 64,275 |
| OHCS Co-Location ECE Grant | | - | | 9,271,035 | | - | | 9,271,035 |
| CDFI 2022 FA | | - | | 560,000 | | - | | 560,000 |
| CDFI Fund ERP | | - | | 2,924,943 | | (1,365,300) | | 1,559,643 |
| OFN Climate Justice Fund | | - | | 500,000 | | - | | 500,000 |
| Wildlife Recovery (CW OR DEQ ARPA) | | - | | 34,818 | | (19,880) | | 14,938 |
| Other grants | | 222,257 | | 92,685 | | (197,248) | | 117,694 |
| Total net assets with donor restrictions | $ | 3,289,693 | $ | 14,852,158 | $ | (3,467,700) | $ | 14,674,151 |

## Note 16. Conditional Contributions

Craft3 received conditional grants that have not been recognized as revenue at the respective statement of position date, as remaining related expenditures have not yet occurred or barriers not yet met. As of December 31, 2024 and 2023, the amount of unrecognized conditional grants amounted to the following:

| | | 2024 | | 2023 |
|---|---|---|---|---|
| State of Washington Department of Commerce | $ | 500,000 | $ | 500,000 |
| Murdock Charitable Trust | | - | | 39,000 |
| Ecology Grant CW WA | | 6,678,488 | | 1,894,815 |
| CW OR DEQ Fire Recovery | | - | | 13,348 |
| CW OR DEQ AARPA | | 1,328,474 | | 2,931,282 |
| CDFI Fund ERP | | - | | 2,037,678 |
| Multnomah County | | 19,830,864 | | 17,700,000 |
| Washington Watershed Conservation | | 10,456,403 | | - |
| Northwest Area Foundation | | 250,000 | | - |
| | $ | 39,044,229 | $ | 25,116,123 |

## 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 the third quarter of 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 from borrower/perpetrators and the balance advanced on the line of credit was charged off against the allowance for credit 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, Craft3 entered into a settlement agreement with one of its insurers that included full recovery of the loan principal losses in addition to other costs incurred due to the fraudulent disbursement instructions detailed in paragraph 2 above. The funds were received on March 10, 2023, and recognized as a recovery of credit losses.

## Note 18. Retirement Plans

**403(b) plan:** Employees are eligible for the employer match after six months of employment. Contributions to employee accounts are immediately fully vested. Employer contribution expense was $363,430 and $448,713 for the years ended December 31, 2024 and 2023, respectively.

**457(b) deferred compensation plan:** On April 26, 2004, Craft3 established a voluntary salary deferral plan for employees of salary grades 22 and higher under Internal Revenue Service Section 457(b). Participant contributions are always immediately vested. Craft3 does not provide matching funds for the 457(b) plan. The deferred compensation plan assets as of December 31, 2024 and 2023 were $219,793 and $174,041, respectively, and are reported in other assets on the consolidated statements of financial position.

## Note 19. Subsequent Events

On February 13, 2025, Craft3 executed a $2,000,000 revolving line of credit agreement with a commercial bank which bears a variable interest rate based on the Federal Funds Rate. The line matures on March 1, 2028.

On March 24, 2025, Craft3 amended a revolving credit agreement with a commercial bank to increase the available borrowing from $5,000,000 to $6,500,000 at an interest rate of 1.89%. The agreement matures on January 31, 2029.

On April 15, 2025, Craft3 executed a $3,500,000 unsecured promissory note with a nonprofit organization which bears a fixed interest rate of 4.35%. The note matures on April 14, 2030.

**Supplementary Information**

**Craft3 and Subsidiaries**

**Consolidating Statement of Financial Position**
**December 31, 2024**

| | Craft3 | WA OREO | Craft3 Future Fund | Windfarm Investments, Inc. | Eliminating Entries | Consolidated Total |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Current assets: | | | | | | |
| Cash and cash equivalents | $ 32,774,249 | $ 166 | $ 405,975 | $ - | $ - | $ 33,180,390 |
| Restricted cash and cash equivalents | 10,816,742 | - | - | - | - | 10,816,742 |
| Investments, at fair value | 21,581,991 | - | - | - | - | 21,581,991 |
| Grants receivable | 1,803,253 | - | - | - | - | 1,803,253 |
| Accrued interest, other receivables, and prepaid expenses | 1,963,594 | - | 153,574 | - | - | 2,117,168 |
| Current portion of commercial loans receivable, net | 16,794,440 | - | 154,368 | - | - | 16,948,808 |
| Current portion of consumer loans receivable, net | 3,655,247 | - | - | - | - | 3,655,247 |
| **Total current assets** | 89,389,516 | 166 | 713,917 | - | - | 90,103,599 |
| Loans receivable: | | | | | | |
| Commercial loans, net | 104,752,096 | - | 6,954,471 | - | - | 111,706,567 |
| Consumer loans, net | 59,726,443 | - | - | - | - | 59,726,443 |
| **Total loans receivable** | 164,478,539 | - | 6,954,471 | - | - | 171,433,010 |
| Less current portion, net | (20,449,687) | - | (154,368) | - | - | (20,604,055) |
| Less reserve for credit losses | (8,576,761) | - | (206,548) | - | - | (8,783,309) |
| **Total loans receivable, net of current portion and reserve for credit losses** | 135,452,091 | - | 6,593,555 | - | - | 142,045,646 |
| Other assets: | | | | | | |
| Cash and cash equivalents, restricted for loan loss reserves | 2,288,612 | - | - | - | - | 2,288,612 |
| Furniture and equipment, net | 458,460 | - | - | - | - | 458,460 |
| Foreclosed and other repossessed assets | 903,130 | - | - | - | - | 903,130 |
| Investment in subsidiaries | 7,302,189 | - | - | - | (7,302,189) | - |
| Operating lease right-of-use assets | 332,422 | - | - | - | - | 332,422 |
| Finance lease right-of-use assets | 806,525 | - | - | - | - | 806,525 |
| Other assets | 224,792 | - | - | 632 | (632) | 224,792 |
| **Total other assets** | 12,316,130 | - | - | 632 | (7,302,821) | 5,013,941 |
| **Total assets** | $ 237,157,737 | $ 166 | $ 7,307,472 | $ 632 | $ (7,302,821) | $ 237,163,186 |

(Continued)

## Craft3 and Subsidiaries

## Consolidating Statement of Financial Position (Continued)
## December 31, 2024

| | Craft3 | WA OREO | Craft3 Future Fund | Windfarm Investments, Inc. | Eliminating Entries | Consolidated Total |
|---|---|---|---|---|---|---|
| **Liabilities and Net Assets** | | | | | | |
| Current liabilities: | | | | | | |
| Accounts payable and accrued expenses | $ 4,825,713 | $ - | $ 5,016 | $ - | $ - | $ 4,830,729 |
| Current portion of long-term debt | 35,398,002 | - | - | - | - | 35,398,002 |
| Operating lease liabilities | 63,998 | - | - | - | - | 63,998 |
| Finance lease liabilities | 250,244 | - | - | - | - | 250,244 |
| **Total current liabilities** | 40,537,957 | - | 5,016 | - | - | 40,542,973 |
| Long-term liabilities: | | | | | | |
| Long-term debt: | | | | | | |
| Notes payable | 119,194,497 | - | - | - | - | 119,194,497 |
| Equity equivalent investments | 13,519,649 | - | - | - | - | 13,519,649 |
| **Total long-term debt** | 132,714,146 | - | - | - | - | 132,714,146 |
| Less current portion | (35,398,002) | - | - | - | | (35,398,002) |
| **Total long-term debt, net of current portion** | 97,316,144 | - | - | - | - | 97,316,144 |
| Long-term lease liabilities: | | | | | | |
| Deferred compensation obligation | 219,793 | - | - | - | - | 219,793 |
| Operating lease liabilities | 311,541 | - | - | - | - | 311,541 |
| Finance lease liabilities | 795,250 | - | - | - | - | 795,250 |
| **Total long-term lease liabilities** | 1,326,584 | - | - | - | - | 1,326,584 |
| **Total liabilities** | 139,180,685 | - | 5,016 | - | - | 139,185,701 |
| Net assets: | | | | | | |
| Without donor restrictions | 83,771,718 | 166 | 7,302,456 | 632 | (7,302,821) | 83,772,151 |
| With donor restrictions | 14,205,334 | - | - | - | - | 14,205,334 |
| **Total net assets** | 97,977,052 | 166 | 7,302,456 | 632 | (7,302,821) | 97,977,485 |
| | | | - | | | |
| **Total liabilities and net assets** | $ 237,157,737 | $ 166 | $ 7,307,472 | $ 632 | $ (7,302,821) | $ 237,163,186 |

## Craft3 and Subsidiaries

## Consolidating Statement of Activities
## Year Ended December 31, 2024

| | Craft3 | WA OREO | Craft3 Future Fund | Windfarm Investments, Inc. | Eliminating Entries | Consolidated Total |
|---|---|---|---|---|---|---|
| Revenue and other support: | | | | | | |
| Interest income on outstanding loans | $ 10,517,308 | $ - | $ 485,076 | $ - | $ - | $ 11,002,384 |
| Grants and contributions | 39,532,943 | - | - | - | - | 39,532,943 |
| Loan origination and servicing fees | 1,239,975 | - | 44,663 | - | - | 1,284,638 |
| Investment income, net | 1,804,612 | - | - | - | - | 1,804,612 |
| Gain on equity investments | 457,716 | - | - | - | (457,716) | - |
| NMTC management and servicing fees | 507,536 | - | - | - | - | 507,536 |
| Miscellaneous income | 5,013 | - | - | - | - | 5,013 |
| **Total revenue and other support** | 54,065,103 | - | 529,739 | - | (457,716) | 54,137,126 |
| Expenses: | | | | | | |
| Program services: | | | | | | |
| Commercial lending activities | 23,737,080 | - | 56,577 | - | - | 23,793,657 |
| Consumer lending activities | 7,361,136 | - | - | - | - | 7,361,136 |
| Consulting and management services | 954,378 | - | - | - | - | 954,378 |
| **Total program services** | 32,052,594 | - | 56,577 | - | - | 32,109,171 |
| Supporting services: | | | | | | |
| Management and administration | 5,686,650 | 1,039 | 13,973 | - | - | 5,701,662 |
| Development | 576,091 | - | - | - | - | 576,091 |
| **Total supporting services** | 6,262,741 | 1,039 | 13,973 | - | - | 6,277,753 |
| **Total expenses** | 38,315,335 | 1,039 | 70,550 | - | - | 38,386,924 |
| **Change in net assets before net unrealized gains on investments** | 15,749,768 | (1,039) | 459,189 | - | (457,716) | 15,750,202 |
| Net unrealized gains on investments | 422,376 | - | - | - | - | 422,376 |
| **Change in net assets** | 16,172,144 | (1,039) | 459,189 | - | (457,716) | 16,172,578 |
| Net assets | | | | | | |
| Beginning | 81,804,908 | 905 | 6,137,267 | 632 | (6,138,805) | 81,804,907 |
| Capital contributions | - | 300 | 706,000 | - | (706,300) | - |
| Ending | $ 97,977,052 | $ 166 | $ 7,302,456 | $ 632 | $ (7,302,821) | $ 97,977,485 |