



REPORT OF INDEPENDENT AUDITORS
AND CONSOLIDATED FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION

CRAFT3 AND SUBSIDIARIES

December 31, 2019 and 2018



MOSSADAMS

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Report of Independent Auditors

The Board of Directors
Craft3 and Subsidiaries

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Craft3 and Subsidiaries (“Craft3”), which comprise the consolidated statements of financial position as of December 31, 2019 and 2018, and the consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management’s Responsibility for the Financial Statements

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

Auditor’s Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Craft3 as of December 31, 2019 and 2018, and the respective changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Other Information

Our audits were conducted for the purpose of forming opinions on the consolidated financial statements that collectively comprise Craft3's basic financial statements. The consolidating statements of financial position as of December 31, 2019 and 2018 and the consolidating statements of activities for the years then ended are presented for the purposes of additional analysis and are not a required part of the consolidated financial statements.

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

Moss Adams LLP

Portland, Oregon
April 29, 2020

Craft3 and Subsidiaries

Consolidated Statements of Financial Position

ASSETS	December 31,	
	2019	2018
CURRENT ASSETS		
Cash and cash equivalents	\$ 19,149,928	\$ 6,582,876
Restricted cash and cash equivalents	3,431,147	3,943,932
Investments, at fair value	5,295,929	5,339,830
Restricted investments, at fair value	2,247,634	2,241,644
Grants receivable	2,687,178	1,034,810
Accrued interest, other receivables, and prepaid expenses	2,736,603	1,488,548
Current portion of commercial loans receivable, net deferred loan fees	17,665,323	19,878,859
Current portion of consumer loans receivable, net deferred loan fees	1,744,056	1,738,884
Total current assets	54,957,798	42,249,383
LOANS RECEIVABLE		
Commercial loans, net deferred loan fees	101,510,529	107,157,745
Consumer loans, net deferred loan fees	26,532,119	23,459,481
Total loans receivable, net	128,042,648	130,617,226
Less: current portion, net	(19,409,379)	(21,617,743)
Less: reserve for loan losses	(7,344,675)	(7,400,338)
	101,288,594	101,599,145
OTHER ASSETS		
Cash and cash equivalents, restricted for loan loss reserves	1,403,094	1,441,079
Furniture and equipment, net	564,721	626,257
Other	2,116,603	2,207,451
Total other assets	4,084,418	4,274,787
Total assets	\$ 160,330,810	\$ 148,123,315
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 2,273,630	\$ 1,315,041
Current portion of long-term debt	22,979,392	24,038,727
Total current liabilities	25,253,022	25,353,768
LONG-TERM DEBT		
Notes payable	98,085,518	89,007,777
Equity equivalent investments	11,197,568	9,814,568
Total long-term debt	109,283,086	98,822,345
Less: current portion	(22,979,392)	(24,038,727)
Total long-term debt, net of current portion	86,303,694	74,783,618
Total liabilities	111,556,716	100,137,386
NET ASSETS		
Without donor restrictions	48,344,383	47,215,936
With donor restrictions	429,711	769,993
Total net assets	48,774,094	47,985,929
Total liabilities and net assets	\$ 160,330,810	\$ 148,123,315

Craft3 and Subsidiaries

Consolidated Statements of Activities

	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND OTHER SUPPORT						
Interest income on outstanding loans	\$ 10,255,091	\$ -	\$ 10,255,091	\$ 10,304,959	\$ -	\$ 10,304,959
Grants and contributions	4,716,130	202,586	4,918,716	4,733,242	690,000	5,423,242
Loan origination and servicing fees	1,193,890	-	1,193,890	1,477,597	-	1,477,597
Investment return, net	454,393	-	454,393	213,282	-	213,282
NMTC management and servicing fees	58,301	-	58,301	441,449	-	441,449
Miscellaneous income	637	-	637	28,317	-	28,317
Net assets released from restrictions	542,868	(542,868)	-	1,329,182	(1,329,182)	-
Total revenue and other support	17,221,310	(340,282)	16,881,028	18,528,028	(639,182)	17,888,846
EXPENSES						
Program services						
Commercial lending activities	10,817,976	-	10,817,976	12,253,075	-	12,253,075
Consumer lending activities	2,474,854	-	2,474,854	2,518,859	-	2,518,859
Consulting and management services	688,669	-	688,669	506,234	-	506,234
Total program services	13,981,499	-	13,981,499	15,278,168	-	15,278,168
Supporting services						
Management and administration	1,931,266	-	1,931,266	1,933,516	-	1,933,516
Development	254,637	-	254,637	284,212	-	284,212
Total supporting services	2,185,903	-	2,185,903	2,217,728	-	2,217,728
Total expenses	16,167,402	-	16,167,402	17,495,896	-	17,495,896
Change in net assets before unrealized gains, and federal income tax	1,053,908	(340,282)	713,626	1,032,132	(639,182)	392,950
NET UNREALIZED GAINS ON INVESTMENTS	74,539	-	74,539	12,657	-	12,657
INCOME TAX EXPENSE	-	-	-	(351,383)	-	(351,383)
Change in net assets	1,128,447	(340,282)	788,165	693,406	(639,182)	54,224
NET ASSETS, beginning of year	47,215,936	769,993	47,985,929	46,522,530	1,409,175	47,931,705
NET ASSETS, end of year	\$ 48,344,383	\$ 429,711	\$ 48,774,094	\$ 47,215,936	\$ 769,993	\$ 47,985,929

Craft3 and Subsidiaries Consolidated Statements of Functional Expenses

For the Year Ended December 31, 2019

	Program Services				Supporting Services			Total
	Commercial Lending Activities	Consumer Lending Activities	Consulting and Management Services	Total Program Services	Management and Administration	Development	Total Supporting Services	
Expenses								
Salaries and wages	\$ 3,383,271	\$ 1,174,480	\$ 454,853	\$ 5,012,604	\$ 735,810	\$ 146,943	\$ 882,753	\$ 5,895,357
Payroll taxes and fringe benefits	917,526	356,999	123,649	1,398,174	191,265	37,380	228,645	1,626,819
Interest expense	2,847,656	207,711	-	3,055,367	-	-	-	3,055,367
Provision for loan losses	2,405,339	169,420	-	2,574,759	-	-	-	2,574,759
Loan costs	442,228	223,006	-	665,234	-	-	-	665,234
Occupancy expenses	248,969	106,701	10,670	366,340	151,160	16,005	167,165	533,505
Technology expense	205,704	88,159	8,816	302,679	124,892	13,224	138,116	440,795
Travel	110,860	24,365	7,064	142,289	125,459	14,583	140,042	282,331
Consultants	19,500	26,824	57,000	103,324	137,573	-	137,573	240,897
Taxes and licenses	92,943	38,054	3,805	134,802	53,909	5,708	59,617	194,419
Professional fees	1,045	1,500	17,368	19,913	85,610	11,724	97,334	117,247
Insurance	51,473	22,060	2,206	75,739	31,251	3,309	34,560	110,299
Depreciation	48,542	20,804	2,080	71,426	29,472	3,121	32,593	104,019
Office supplies	19,955	8,552	855	29,362	12,116	1,283	13,399	42,761
Other operating costs	22,965	6,219	303	29,487	252,749	1,357	254,106	283,593
Total expenses	<u>\$ 10,817,976</u>	<u>\$ 2,474,854</u>	<u>\$ 688,669</u>	<u>\$ 13,981,499</u>	<u>\$ 1,931,266</u>	<u>\$ 254,637</u>	<u>\$ 2,185,903</u>	<u>\$ 16,167,402</u>
Percent of total expenses	<u>67%</u>	<u>15%</u>	<u>4%</u>	<u>86%</u>	<u>12%</u>	<u>2%</u>	<u>14%</u>	<u>100%</u>

Craft3 and Subsidiaries

Consolidated Statements of Functional Expenses

For the Year Ended December 31, 2018

	Program Services			Supporting Services				
	Commercial Lending Activities	Consumer Lending Activities	Consulting and Management Services	Total Program Services	Management and Administration	Development	Total Supporting Services	Total
Expenses								
Salaries and wages	\$ 3,650,946	\$ 928,244	\$ 284,794	\$ 4,863,984	\$ 764,711	\$ 177,103	\$ 941,814	\$ 5,805,798
Payroll taxes and fringe benefits	893,349	299,223	68,653	1,261,225	195,914	34,138	230,052	1,491,277
Provision for loan losses	3,492,248	578,725	-	4,070,973	-	-	-	4,070,973
Interest expense	2,974,626	169,782	-	3,144,408	-	-	-	3,144,408
Loan costs	380,410	212,900	-	593,310	-	-	-	593,310
Occupancy expenses	218,537	99,335	14,900	332,772	149,002	14,900	163,902	496,674
Technology expense	182,095	82,770	12,416	277,281	124,155	12,416	136,571	413,852
Travel	143,157	20,242	3,353	166,752	130,397	19,542	149,939	316,691
Consultants	13,827	25,156	105,808	144,791	143,213	-	143,213	288,004
Taxes and licenses	90,496	41,135	6,170	137,801	61,702	6,170	67,872	205,673
Professional fees	49,868	-	1,600	51,468	81,850	8,770	90,620	142,088
Depreciation	56,346	25,612	3,842	85,800	38,418	3,842	42,260	128,060
Insurance	52,338	23,789	3,568	79,695	35,684	3,568	39,252	118,947
Office supplies	16,063	7,301	1,095	24,459	10,952	1,095	12,047	36,506
Other operating costs	38,769	4,645	35	43,449	197,518	2,668	200,186	243,635
Total expenses	<u>\$ 12,253,075</u>	<u>\$ 2,518,859</u>	<u>\$ 506,234</u>	<u>\$ 15,278,168</u>	<u>\$ 1,933,516</u>	<u>\$ 284,212</u>	<u>\$ 2,217,728</u>	<u>\$ 17,495,896</u>
Percent of total expenses	<u>70%</u>	<u>14%</u>	<u>3%</u>	<u>87%</u>	<u>11%</u>	<u>2%</u>	<u>13%</u>	<u>100%</u>

Craft3 and Subsidiaries

Consolidated Statements of Cash Flows

	Years Ended December 31,	
	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 788,165	\$ 54,224
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation	104,019	128,060
Provision for loan losses	2,574,759	4,070,973
Net realized and unrealized gains on investments	(74,539)	(12,657)
Accretion of discounts on investments, net	(34,653)	(34,921)
Deferred income tax expense	-	359,165
Changes in operating assets and liabilities		
Grants receivable	(1,652,368)	1,796,397
Accrued interest, other receivables, and prepaid expenses	(1,248,055)	(102,425)
Other assets	90,848	538,179
Accounts payable and accrued expenses	958,589	212,380
	1,506,765	7,009,375
Net cash flows from operating activities		
CASH FLOWS FROM INVESTING ACTIVITIES		
Loans receivable	(55,844)	(2,881,444)
Purchases of investments	(12,742,498)	(7,800,599)
Proceeds from sales of investments	-	477,921
Maturities of investments	12,889,601	8,750,000
Purchases of furniture and equipment	(42,483)	(81,457)
	48,776	(1,535,579)
Net cash flows used in investing activities		
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of long-term debt	30,396,098	17,216,624
Principal payments on long-term debt	(19,935,357)	(24,439,368)
	10,460,741	(7,222,744)
Net cash flows from (used in) financing activities		
CHANGE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	12,016,282	(1,748,948)
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, beginning of year	11,967,887	13,716,835
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, end of year	\$ 23,984,169	\$ 11,967,887
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for interest on long-term debt	\$ 2,409,008	\$ 3,120,394
SUPPLEMENTAL NONCASH DISCLOSURES		
Net acquisition of assets in settlement of loans	\$ -	\$ 2,000,000

Craft3 and Subsidiaries

Notes to Consolidated Financial Statements

Note 1 – Organization and Summary of Significant Accounting Policies

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

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

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

Craft3 Capital Corporation ("C3CC") is a wholly-owned, for-profit subsidiary of Craft3. C3CC was established to provide loans to small and mid-market businesses in the State of Washington that can create or retain large numbers of jobs. During the year ended December 31, 2018, C3CC's long-term debt was repaid in full and remaining assets and liabilities were transferred to Craft3.

Craft3 Future Fund ("CFF") is a wholly-owned, not-for-profit subsidiary of Craft3. CFF was established to invest in clean energy projects.

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 was utilized to facilitate the funding of a NMTC-related investment.

Craft3 Investment VII, LLC; Craft3 Investment VIII, LLC; and Craft3 Investment IX, LLC were established to facilitate NMTC investments. In 2018, the seven-year term of the NMTCs expired for these entities and Craft3 obtained 100% ownership. These entities had little to no activity after the NMTC expiration date and will be dissolved before their next license renewal dates. During 2019, Craft3 Investment X LLC and Craft3 Investment XII LLC were established to facilitate NMTC investments. Craft3 owns a small interest in these LLC's, and accounts for the interest at cost.

Principles of consolidation

These consolidated financial statements include the accounts of Craft3 and its wholly-owned subsidiaries, C3CC, CFF, Windfarm, and Investment II (collectively, "Craft3"). All material intercompany balances and transactions have been eliminated in consolidation.

Related entities

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

Craft3 and Subsidiaries

Notes to Consolidated Financial Statements

Note 1 – Organization and Summary of Significant Accounting Policies (continued)

Basis of accounting

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

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

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

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

Use of estimates

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

Cash and cash equivalents

All short-term deposits and investments with an original maturity of three months or less are considered to be unrestricted cash and cash equivalents unless the amounts are restricted. Craft3 has cash balances in excess of federally insured limits. Craft3 places its cash and restricted cash with high quality financial institutions.

Craft3 and Subsidiaries

Notes to Consolidated Financial Statements

Note 1 – Organization and Summary of Significant Accounting Policies (continued)

Restricted cash

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

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

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 19,149,928	\$ 6,582,876
Restricted cash:		
Self-Help Credit Union Reserve Accounts	1,403,094	1,441,079
U.S. Department of Agriculture Intermediary Relending Program ("IRP")	3,095,401	1,821,555
U.S. Small Business Administration Intermediary Lending Program ("ILP")	335,746	122,377
Banner Bank	<u>-</u>	<u>2,000,000</u>
Total restricted cash	<u>4,834,241</u>	<u>5,385,011</u>
Total cash, cash equivalents, and restricted cash	<u>\$ 23,984,169</u>	<u>\$ 11,967,887</u>

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

The funds held at Banner Bank were restricted as of December 31, 2018 as part of the \$10 million syndication described in Note 9. During the year ended December 31, 2019, the borrower agreement was amended to remove the restriction.

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

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

Investments

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

Craft3 and Subsidiaries

Notes to Consolidated Financial Statements

Note 1 – Organization and Summary of Significant Accounting Policies (continued)

Grants receivable, accrued interest, and other receivables

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

Accounts and grants receivable are stated at their principal balances and are generally uncollateralized. As of December 31, 2019 and 2018, Craft3 determined that no allowance for doubtful accounts was required.

Loans receivable and reserves for loan losses

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

A loan is placed on non-accrual status when it is specifically determined to be impaired and when, in the opinion of management, there is an indication that the borrower may be unable to make payments as they become due. Craft3's policy requires that a loan be placed on non-accrual status when payments are 120 days or more past due and the value of the related collateral does not exceed the outstanding balance due. Interest income generally is not recognized on impaired loans. Payments received on such loans are applied as a reduction of the loan principal balance. Generally, a loan would not be converted back to accrual status unless the borrower has made 12 consecutive payments on time.

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

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

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

Craft3 and Subsidiaries

Notes to Consolidated Financial Statements

Note 1 – Organization and Summary of Significant Accounting Policies (continued)

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

Credit quality indicators

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

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

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

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

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

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

Craft3 and Subsidiaries

Notes to Consolidated Financial Statements

Note 1 – Organization and Summary of Significant Accounting Policies (continued)

Furniture and equipment

Furniture and equipment are recorded at cost. Depreciation is recorded using the straight-line method over the estimated useful lives of the assets ranging from 3 to 30 years, or in the case of leasehold improvements, the lesser of the useful life of the asset or the lease term. Purchases of assets with a cost in excess of \$2,500 are capitalized. Maintenance and repairs are charged to expense as incurred and major replacements and improvements are capitalized. Furniture and equipment balances are shown net of accumulated depreciation of \$815,805 and \$711,786 at December 31, 2019 and 2018, respectively.

Foreclosed and repossessed assets

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

Revenue and revenue recognition

Revenue is recognized when earned. Program service fees and payments under cost-reimbursable contracts received in advance are deferred to the applicable period in which the related services are performed or expenditures are incurred, respectively. Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

Interest income

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

Deferred fee income

Craft3 charges fees based on loan types and related funding requirements. Loan fees (less direct expenses) are deferred and recognized ratably over the term of the loan.

Functional allocation of expenses

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

Income taxes

Craft3 is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. C3CC files as a for-profit corporation. See Note 13 for further discussion. Craft3 and C3CC are subject to certain business and occupation taxes, which apply equally to for-profit and nonprofit businesses, imposed by state and local taxing authorities. The taxes are assessed on a percentage of a portion of Craft3's revenues. Unrelated business income tax, if any, is insignificant and no tax provision has been made in the accompanying consolidated financial statements.

Craft3 and Subsidiaries

Notes to Consolidated Financial Statements

Note 1 – Organization and Summary of Significant Accounting Policies (continued)

Craft3 had no uncertain tax positions as of December 31, 2019 and 2018. Interest and penalties related to unrecognized tax benefits are recognized by Craft3 as an administrative expense. During the years ended December 31, 2019 and 2018, Craft3 recognized no interest and penalties.

Fair value of assets and liabilities

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

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

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

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

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

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

Craft3 used the following methods and significant assumptions to estimate fair value for its assets and liabilities measured and carried at fair value in the 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 things. 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, primarily shares in a real estate company holding wetlands mitigation credits, are measured based on the underlying assets' observable market price. For real estate, prices are derived from independent appraisals, recent sales and offers, less disposition costs.

Note 1 – Organization and Summary of Significant Accounting Policies (continued)

New accounting pronouncements

During the year ended December 31, 2019, Craft3 adopted Financial Accounting Standards Board (“FASB”) Accounting Standards Update (“ASU”) No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. This guidance clarifies current guidance about whether a transfer of assets is a contribution or an exchange transaction, where exchange transactions are characterized by the resource provider receiving commensurate value in return for the resources transferred. For asset transfers that are considered to be contributions, entities must determine whether the contribution is conditional on the basis of whether an agreement includes a barrier that must be overcome and either a right of return of assets transferred or a right of release of a promisor’s obligation to transfer assets. If the contribution is determined to be unconditional, an entity must then determine whether the contribution is restricted on the basis of the current definition of a donor-imposed restriction, which includes a consideration of how broad or narrow the purpose of the agreement is, and whether the resources are available for use only after a specified date. This update applies to both resources received by a recipient and resources given by a resource provider, except for transfers of assets from government entities to business entities.

On January 1, 2019, Craft3 adopted ASU 2014-09 *Revenue from Contracts with Customers* and all subsequent amendments to the ASU (collectively, “ASC 606”), which (i) creates a single framework for recognizing revenue from contracts with customers that fall within its scope and (ii) revises when it is appropriate to recognize a gain (loss) from the transfer of nonfinancial assets, such as repossessed assets. To determine revenue recognition for arrangements that an entity determines are within the scope of Topic 606, Craft3 performs the following five steps: (i) identify the contract(s) with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when (or as) the Craft3 satisfies a performance obligation. The majority of the Craft3’s revenues come from interest income and other sources, including loans and investments, that are outside the scope of ASC 606. Craft3’s services that fall within the scope of ASC 606 are presented within Revenue and Other Support and are recognized as revenue as Craft3 satisfies its obligation to the customer. Services within the scope of ASC 606 include NMTC management and servicing fees and were immaterial to the financial statements.

The Company adopted ASC 606 using the modified retrospective method applied to all contracts not completed as of January 1, 2019. Results for reporting periods beginning after January 1, 2019 are presented under ASC 606 while prior period amounts continue to be reported in accordance with legacy GAAP. The adoption of ASC 606 did not result in a material change to the accounting for any of the in scope revenue streams; as such, no cumulative effect adjustment was recorded.

In November 2016, the FASB issued ASU 2016-18 *Statement of Cash Flows (Topic 230): Restricted Cash*. ASU 2016-18 requires entities to show the changes in the total of cash, cash equivalents, restricted cash and restricted cash equivalents in the statement of cash flows. As a result, entities will no longer present transfers between cash and cash equivalents and restricted cash and restricted cash equivalents in the statement of cash flows. The ASU requires changes in Craft3’s restricted cash to be classified as either operating activities, investing activities or financing activities in the Consolidated Statements of Cash Flows, depending on the nature of the activities that gave rise to the restriction. Craft3 adopted ASU 2016-18 effective January 1, 2019 using a retrospective transition method which resulted in an increase of cash flows from investing activities of \$710,296.

Craft3 and Subsidiaries

Notes to Consolidated Financial Statements

Note 1 – Organization and Summary of Significant Accounting Policies (continued)

Reclassifications

Certain account reclassifications have been made to the financial statements in the prior year in order to conform to the current year presentation. These reclassifications have no effect on previously reported net assets or change in net assets.

Subsequent events

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

Craft3 has evaluated subsequent events through April 29, 2020, which is the date the consolidated financial statements became available for issuance.

Craft3 and Subsidiaries

Notes to Consolidated Financial Statements

Note 2 – Investments

Investments consist of the following as of December 31:

	<u>2019</u>	<u>2018</u>
Unrestricted Investments		
Municipal bonds	\$ 2,703,669	\$ 2,909,216
Federal agency securities	2,096,160	947,193
Corporate bonds	496,100	487,235
U.S. Government obligations	-	996,186
Restricted Investments		
U.S. Government obligations	<u>2,247,634</u>	<u>2,241,644</u>
Total	<u>\$ 7,543,563</u>	<u>\$ 7,581,474</u>

Debt instruments issued by agencies of the U.S. Government include debt issued by Fannie Mae and the Federal Home Loan Bank System.

A portion of the investments are restricted for the Intermediary Relending Program.

The net unrealized gain (loss) on investments as of December 31, 2019 and 2018 was \$74,539 and \$12,657, respectively.

Craft3 and Subsidiaries

Notes to Consolidated Financial Statements

Note 3 – Fair Value Measurements

The following table presents information about assets measured at fair value on a recurring and nonrecurring basis as of December 31, 2019 and 2018, and indicates the fair value hierarchy of the valuation technique utilized by Craft3 to determine such fair value:

	Fair Value Measurements at Report Date Using:			
	Fair Value	Level 1	Level 2	Level 3
December 31, 2019				
Recurring items				
Investments				
Municipal bonds	\$ 2,703,669	\$ -	\$ 2,703,669	\$ -
U.S. Government obligations	2,247,634	2,247,634	-	-
Federal agency securities	2,096,160	-	2,096,160	-
Corporate bonds	496,100	496,100	-	-
Total recurring items	<u>\$ 7,543,563</u>	<u>\$ 2,743,734</u>	<u>\$ 4,799,829</u>	<u>\$ -</u>
Nonrecurring items				
Foreclosed and repossessed assets	<u>\$ 1,971,009</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,971,009</u>
December 31, 2018				
Recurring items				
Investments				
Municipal bonds	\$ 2,909,216	\$ -	\$ 2,909,216	\$ -
U.S. Government obligations	3,237,830	3,237,830	-	-
Federal agency securities	947,193	-	947,193	-
Corporate bonds	487,235	487,235	-	-
Total recurring items	<u>\$ 7,581,474</u>	<u>\$ 3,725,065</u>	<u>\$ 3,856,409</u>	<u>\$ -</u>
Nonrecurring items				
Foreclosed and repossessed assets	<u>\$ 2,000,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,000,000</u>

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 non-recurring basis are assets that due to an event or circumstance, were required to be re-measured at fair value after initial recognition in the financial statements at some time during the reporting period.

The following table provides a description of valuation technique, significant unobservable inputs, and qualitative information about the unobservable inputs for Craft3's assets classified as Level 3 and measured at fair value on a nonrecurring basis at December 31, 2019 and 2018:

Financial Instrument	Valuation Technique	Unobservable Inputs	Discount
Foreclosed and repossessed assets	Discounted cash flows	Discount rate	8%

Craft3 and Subsidiaries

Notes to Consolidated Financial Statements

Note 4 – Grants Receivable

Grants receivable consist of the following at December 31:

	<u>2019</u>	<u>2018</u>
Washington Department of Ecology	\$ 2,162,178	\$ 21,418
U.S. Department of Treasury	525,000	700,000
Oregon Department of Environmental Quality	-	283,352
Others	-	30,040
	<u> </u>	<u> </u>
Total grants receivable	<u>\$ 2,687,178</u>	<u>\$ 1,034,810</u>

Note 5 – Related Parties

The equity associated with CFF, Investment II, and Windfarm are included within net assets without donor restrictions in these consolidated financial statements. The equity and net assets (liabilities) included in the consolidated financial statements at December 31, 2019 and 2018, for these subsidiaries was:

	<u>2019</u>	<u>2018</u>
Windfarm	\$ 1,933	\$ 2,050
Investment II	(454,947)	(28,816)
CFF	(1,237,029)	-
	<u> </u>	<u> </u>
Total	<u>\$ (1,690,043)</u>	<u>\$ (26,766)</u>

As described in Note 1, during the year ended December 31, 2018, C3CC's long-term debt was repaid in full and remaining assets and liabilities were transferred to Craft3.

Note 6 – Loans Receivable

Customers may access one or more types of loan products available from Craft3. However, no single customer (individual, business, or principal) shall access from Craft3 more than \$3,000,000 (\$10,000,000 if there is a government guarantee of at least 70%) of total principal outstanding to a borrower, co-borrower, guarantor, or in situations where common collateral is used. The Board of Directors, as an exception to the policy, must specifically approve any loan or investment that will cause a violation of this policy. The borrower exposure limit excludes amounts loaned to borrowers from other entities that may be managed by Craft3, namely the related party LLCs discussed in Note 14.

Craft3 and Subsidiaries

Notes to Consolidated Financial Statements

Note 6 – Loans Receivable (continued)

At December 31, 2019, outstanding loans to individual borrowers were as large as \$9,259,593 and loans yielded interest rates from 0% to 12% per annum. At December 31, 2018, outstanding loans to individual borrowers were as large as \$9,414,303 and loans yielded interest rates from 0% to 18.90% per annum. Commercial loans are generally made to small and mid-size businesses and nonprofit organizations in a variety of industries located in the Pacific Northwest. Consumer loans generally consist of clean water (that is, septic system repair and replacement) and energy retrofit loans.

The following table represents the approximate number of loans made and outstanding by specific industries at December 31:

	2019			2018		
	Number of Loans	Balance	Percentage of Total	Number of Loans	Balance	Percentage of Total
Manufacturing	41	\$ 21,001,459	16%	51	\$ 22,434,358	17%
Clean energy	26	16,573,653	12%	26	18,548,575	14%
Fish, shellfish, seafood	12	16,316,420	12%	17	17,416,274	13%
Clean water	951	16,217,780	12%	857	14,413,476	11%
Energy retrofit	1,160	9,806,763	8%	949	8,144,368	6%
Real estate	16	8,632,117	7%	18	7,395,520	6%
Tourism	30	6,890,215	5%	31	12,587,359	10%
Services	57	6,473,199	5%	63	8,580,761	7%
Retail	65	6,220,406	5%	57	6,260,379	5%
Community development	15	5,069,743	4%	127	9,509,607	7%
Professional services	30	4,870,675	4%	29	4,300,831	3%
Agriculture	14	3,856,327	3%	10	1,086,956	1%
Consumer ADA	61	438,125	1%	-	-	0%
Forestry, wood products	3	364,250	1%	-	248,140	0%
Other	31	6,366,953	5%	-	-	0%
Totals	<u>2,512</u>	<u>129,098,085</u>	<u>100%</u>	<u>2,235</u>	<u>130,926,604</u>	<u>100%</u>
Deferred loan origination fees		(1,055,437)			(309,378)	
Reserve for loan losses		<u>(7,344,675)</u>			<u>(7,400,338)</u>	
		<u>\$ 120,697,973</u>			<u>\$ 123,216,888</u>	

Loans receivable consist of the following at December 31:

	2019	2018
Commercial loans receivable	\$ 102,565,966	\$ 107,467,123
Consumer loans receivable	<u>26,532,119</u>	<u>23,459,481</u>
Total loans receivable	<u>\$ 129,098,085</u>	<u>\$ 130,926,604</u>

Craft3 and Subsidiaries
Notes to Consolidated Financial Statements

Note 6 – Loans Receivable (continued)

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

	<u>2019</u>	<u>2018</u>
Current portion of commercial loans receivable	\$ 17,981,928	\$ 19,996,512
Current portion of consumer loans receivable	1,744,056	1,738,884
Less: deferred loan fees	<u>(316,605)</u>	<u>(117,653)</u>
Total current portion loans receivable, net	<u>\$ 19,409,379</u>	<u>\$ 21,617,743</u>

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

	<u>2019</u>	<u>2018</u>
Total loans receivable	\$ 129,098,085	\$ 130,926,604
Less: current portion, net	(19,409,379)	(21,617,743)
Less: loan loss reserve	(7,344,675)	(7,400,338)
Less: deferred loan fees	<u>(1,055,437)</u>	<u>(309,378)</u>
Total long-term portion loans receivable, net	<u>\$ 101,288,594</u>	<u>\$ 101,599,145</u>

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

	<u>2019</u>	<u>2018</u>
Loan loss reserve, beginning of year	\$ 7,400,338	\$ 6,537,415
Charge-offs	(3,622,639)	(4,228,559)
Recoveries	992,217	1,020,509
Provision for loan losses	<u>2,574,759</u>	<u>4,070,973</u>
Loan loss reserve, end of year	<u>\$ 7,344,675</u>	<u>\$ 7,400,338</u>

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

Craft3 and Subsidiaries

Notes to Consolidated Financial Statements

Note 6 – Loans Receivable (continued)

	<u>2019</u>	<u>2018</u>
General reserve	\$ 4,950,215	\$ 5,026,684
Specific reserve	<u>2,394,460</u>	<u>2,373,654</u>
Total reserve	<u>\$ 7,344,675</u>	<u>\$ 7,400,338</u>

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

In addition, through one of the energy loan programs, an off-balance sheet reserve is being held in fully insured bank accounts by the funder of the program. The balance of this reserve is not on Craft3's books at year-end, but is available to Craft3 for unrecovered losses on certain energy loans once payments are 180 days delinquent and best efforts to collect the outstanding payments have been exercised. The balance as of December 31, 2019 and 2018, was \$181,512 and \$181,097, respectively.

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

Management has assessed compliance with loan loss reserve requirements according to the Small Business Administration's Community Advantage Program. As of December 31, 2019, management believes it is in compliance with these requirements.

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

2020	\$ 19,725,984
2021	24,987,290
2022	15,352,885
2023	7,409,538
2024	5,982,606
Thereafter	<u>55,639,782</u>
	<u>\$ 129,098,085</u>

Craft3 and Subsidiaries

Notes to Consolidated Financial Statements

Note 7 – Energy Loan Sale

On December 1, 2013, and October 1, 2015, Craft3 sold 1,252 and 438 energy loans ("the Loans") respectively, to Self-Help Credit Union ("SHCU"). The Loans were sold at par and the total principal balance of the Loans was \$15,700,426 for the sale that occurred on December 1, 2013, and \$6,443,833 for the sale that occurred on October 1, 2015. At December 31, 2019 and 2018, the outstanding balance of the sold loans serviced by Craft3 was \$4,246,298 and \$5,632,985, 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, 2019, 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 \$173,608
- Craft3 Self-Help Federal Credit Union ("SHFCU") Reserve Account balance of \$1,168,716

Enhabit (formerly known as Clean Energy Works, Inc.) is an unrelated organization that partnered with Craft3 in the loan program. Enhabit has established a loan loss reserve ("Enhabit Reserve") for eligible loans funded in 2011 and 2012. The reserve funds available in the Enhabit Reserve totaled \$993,938 at the time of the sale in 2013. The Reserve Accounts and the Enhabit Reserve combine to be the Reserve Sources and provide the guarantee for 30% of the Loans mentioned above.

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. If the Loan is eligible, Enhabit Reserve funds will be used first. If the Loan is not eligible for Enhabit Reserve funds or if the Enhabit Reserve funds are depleted, funds from the SHCU Reserve will be withdrawn. If there are no remaining funds in the Enhabit Reserve, funds may be withdrawn from the SHFCU Reserve. SHCU is responsible for the potential loss on the next 20% of Loans and Craft3 guarantees the remaining 50% of losses related to the Loans.

Craft3 and Subsidiaries

Notes to Consolidated Financial Statements

Note 8 – Credit Quality and Reserve for Loan Losses

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

	December 31, 2019			
	Pass	Pass – Watch List	Problem	Total Loans
Manufacturing	\$ 18,553,709	\$ 566,470	\$ 1,881,280	\$ 21,001,459
Clean energy	12,307,621	3,325,016	941,016	16,573,653
Fish, shellfish, seafood	6,640,772	44,430	9,631,218	16,316,420
Clean water	15,809,167	116,600	292,013	16,217,780
Energy retrofit	9,254,765	272,330	279,668	9,806,763
Real estate	8,331,102	-	301,015	8,632,117
Tourism	5,558,994	1,317,341	13,880	6,890,215
Services	3,291,595	3,062,047	119,557	6,473,199
Retail	5,335,598	181,528	703,280	6,220,406
Community development	5,069,743	-	-	5,069,743
Professional services	2,884,617	1,057,061	928,997	4,870,675
Agriculture	3,856,327	-	-	3,856,327
Consumer ADA	414,713	23,412	-	438,125
Forestry, wood products	130,203	234,047	-	364,250
Other	6,278,622	88,331	-	6,366,953
Totals	<u>\$ 103,717,548</u>	<u>\$ 10,288,613</u>	<u>\$ 15,091,924</u>	<u>\$ 129,098,085</u>

	December 31, 2018			
	Pass	Pass – Watch List	Problem	Total Loans
Manufacturing	\$ 20,126,411	\$ 2,274,082	\$ 33,865	\$ 22,434,358
Clean energy	17,149,797	-	1,398,778	18,548,575
Fish, shellfish, seafood	12,280,849	3,883,699	1,251,726	17,416,274
Clean water	14,110,103	111,267	192,106	14,413,476
Energy retrofit	7,677,590	222,106	244,672	8,144,368
Real estate	6,943,444	452,076	-	7,395,520
Tourism	11,183,355	245,762	1,158,242	12,587,359
Services	4,603,870	2,205,941	1,770,950	8,580,761
Retail	5,475,894	775,862	8,623	6,260,379
Community development	9,323,302	186,305	-	9,509,607
Professional services	3,482,066	59,963	758,802	4,300,831
Agriculture	995,321	46,219	45,416	1,086,956
Forestry, wood products	248,140	-	-	248,140
Totals	<u>\$ 113,600,142</u>	<u>\$ 10,463,282</u>	<u>\$ 6,863,180</u>	<u>\$ 130,926,604</u>

Craft3 and Subsidiaries

Notes to Consolidated Financial Statements

Note 8 – Credit Quality and Reserve for Loan Losses (continued)

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

	December 31, 2019						Total Loans
	Current	1–30 Days Past Due	31–60 Days Past Due	61–90 Days Past Due	91–120 Days Past Due	120+ Days Past Due	
Manufacturing	\$ 16,508,589	\$ 4,492,870	\$ -	\$ -	\$ -	\$ -	\$ 21,001,459
Clean energy	16,412,373	131,047	-	30,233	-	-	16,573,653
Fish, shellfish, seafood	4,494,412	18,685	-	-	-	11,803,323	16,316,420
Clean water	15,769,841	343,635	49,756	-	28,197	26,351	16,217,780
Energy retrofit	9,744,100	-	-	-	16,057	46,606	9,806,763
Real estate	8,331,102	-	-	-	301,015	-	8,632,117
Tourism	5,964,823	925,392	-	-	-	-	6,890,215
Services	6,381,070	92,129	-	-	-	-	6,473,199
Retail	6,105,087	70,895	18,546	-	-	25,878	6,220,406
Community development	5,069,743	-	-	-	-	-	5,069,743
Professional services	4,011,500	-	-	-	-	859,175	4,870,675
Agriculture	3,856,327	-	-	-	-	-	3,856,327
Consumer ADA	425,509	-	12,616	-	-	-	438,125
Forestry, wood products	364,250	-	-	-	-	-	364,250
Other	6,366,953	-	-	-	-	-	6,366,953
Totals	\$ 109,805,679	\$ 6,074,653	\$ 80,918	\$ 30,233	\$ 345,269	\$ 12,761,333	\$ 129,098,085

	December 31, 2018						Total Loans
	Current	1–30 Days Past Due	31–60 Days Past Due	61–90 Days Past Due	91–120 Days Past Due	120+ Days Past Due	
Manufacturing	\$ 18,581,186	\$ 3,853,172	\$ -	\$ -	\$ -	\$ -	\$ 22,434,358
Clean energy	18,094,840	453,735	-	-	-	-	18,548,575
Fish, shellfish, seafood	4,763,351	6,515,213	21,165	6,116,545	-	-	17,416,274
Clean water	13,973,848	264,743	99,486	16,814	32,533	26,052	14,413,476
Energy retrofit	7,935,602	-	-	89,354	36,286	83,126	8,144,368
Real estate	7,395,520	-	-	-	-	-	7,395,520
Tourism	10,525,793	928,251	-	-	-	1,133,315	12,587,359
Services	6,987,924	-	-	1,592,837	-	-	8,580,761
Retail	6,260,379	-	-	-	-	-	6,260,379
Community development	9,495,578	-	14,029	-	-	-	9,509,607
Professional services	4,265,249	35,582	-	-	-	-	4,300,831
Agriculture	1,086,956	-	-	-	-	-	1,086,956
Forestry, wood products	248,140	-	-	-	-	-	248,140
Totals	\$ 109,614,366	\$ 12,050,696	\$ 134,680	\$ 7,815,550	\$ 68,819	\$ 1,242,493	\$ 130,926,604

Included in Fish, shellfish, and seafood are two loans funded by Craft3 and Investment II to unrelated entities arising from the same NMTC transaction. The loan funded by Craft3 had a principal balance of \$5,916,172 and \$6,315,200 as of December 31, 2019 and 2018, respectively, and is included in the 121+ days past due category and the 1-30 days past due category and, respectively. The Craft3 loan proceeds passed through the borrower into the NMTC transaction and funded the loan made by Investment II. Investment II then made a loan to the end borrower, an unrelated entity. The loan funded by Investment II had a principal balance of \$5,887,150 and \$6,116,545 as of December 31, 2019 and 2018, respectively, and is included in the 121+ days past due category and 61-90 days past due category, respectively. The repayment of the Investment II loan will pass-through the entities involved in the NMTC transaction to repay the Craft3 loan. Repayment of the Investment II loan is supported by a USDA 90 percent guarantee and the loans remain on accrual status due to the terms of the guarantee.

Craft3 and Subsidiaries

Notes to Consolidated Financial Statements

Note 8 – Credit Quality and Reserve for Loan Losses (continued)

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

	December 31, 2019		
	Commercial	Consumer	Total Loans
Loans individually evaluated for impairment	\$ 18,460,629	\$ 984,023	\$ 19,444,652
Loans collectively evaluated for impairment	84,105,337	25,548,096	109,653,433
Totals	\$ 102,565,966	\$ 26,532,119	\$ 129,098,085

	December 31, 2018		
	Commercial	Consumer	Total Loans
Loans individually evaluated for impairment	\$ 16,539,708	\$ 786,755	\$ 17,326,463
Loans collectively evaluated for impairment	90,927,415	22,672,726	113,600,141
Totals	\$ 107,467,123	\$ 23,459,481	\$ 130,926,604

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

	December 31, 2019				
	Unpaid Contractual Principal Balance	Recorded Investment with No Allowance	Recorded Investment with an Allowance	Total Recorded Investment	Specific Allowance
Commercial	\$ 23,636,236	\$ 10,187,669	\$ 8,272,960	\$ 18,460,629	\$ 2,394,460
Consumer	-	984,023	-	984,023	-
	\$ 23,636,236	\$ 11,171,692	\$ 8,272,960	\$ 19,444,652	\$ 2,394,460

	December 31, 2018				
	Unpaid Contractual Principal Balance	Recorded Investment with No Allowance	Recorded Investment with an Allowance	Total Recorded Investment	Specific Allowance
Commercial	\$ 20,685,464	\$ 10,361,441	\$ 6,178,267	\$ 16,539,708	\$ 2,373,654
Consumer	-	786,755	-	786,755	-
	\$ 20,685,464	\$ 11,148,196	\$ 6,178,267	\$ 17,326,463	\$ 2,373,654

Craft3 and Subsidiaries

Notes to Consolidated Financial Statements

Note 8 – Credit Quality and Reserve for Credit Losses (continued)

Interest recognized on impaired loans subsequent to the determination of impairment was immaterial to the consolidated financial statements for the years ended December 31, 2019 and 2018.

As of December 31, 2019 and 2018, loans on nonaccrual were as follows:

	<u>2019</u>	<u>2018</u>
Commercial	\$ 2,584,067	\$ 1,982,131
Consumer	<u>132,812</u>	<u>163,964</u>
	<u>\$ 2,716,879</u>	<u>\$ 2,146,095</u>

The following table presents troubled debt restructurings as of December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Commercial	<u>\$ 9,059,400</u>	<u>\$ 12,721,053</u>

During the years ended December 31, 2019 and 2018, Craft3 restructured commercial loans totaling approximately \$1,480,720 and \$7,018,105, respectively. There were no TDRs that defaulted during the years ended December 31, 2019 and 2018 and for which the default occurred within 12 months of the modification date.

During the year ended December 31, 2019, Craft3 complied with the loan loss reserve amount requirements of the Small Business Administration's (SBA) Community Advantage (CA) Pilot Loan Program.

Craft3 and Subsidiaries

Notes to Consolidated Financial Statements

Note 9 – Long-Term Debt

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

Long-term notes payable

	<u>2019</u>	<u>2018</u>
Notes payable to financial institutions in varying amounts with interest rates ranging from 1% to 5.38%. Notes are unsecured and the final due date is May 15, 2027.	\$ 38,335,000	\$ 39,950,000
Notes payable to individuals, businesses, nonprofit organizations, and trusts in varying amounts with interest rates ranging from 0% to 4.25%. Notes are unsecured and have a variety of due dates; the final due date is December 31, 2029.	37,762,846	31,463,589
Notes payable to U.S. Department of Agriculture with 1% interest rates. Notes are secured by the program receivables and a portion of restricted cash, and the final due date is October 20, 2044.	6,059,429	6,501,387
Note payable from Craft3 Investment II, LLC to Pacesetter CDE XXIV, LLC with a variable interest rate based on the Wall Street Journal Prime Rate plus 4.25%. The note is unsecured and the final due date is October 25, 2035.	6,213,362	6,213,362
Notes payable to government agencies in varying amounts with interest rates ranging from 0% to 2.4%. Notes are unsecured and the final due date is August 26, 2031.	<u>9,714,881</u>	<u>4,879,439</u>
Total long-term notes payable	98,085,518	89,007,777
Less: current portion	<u>(21,831,824)</u>	<u>(21,593,808)</u>
	<u>\$ 76,253,694</u>	<u>\$ 67,413,969</u>

Craft3 and Subsidiaries
Notes to Consolidated Financial Statements

Note 9 – Long-Term Debt (continued)

Equity equivalent investments

	2019	2018
Notes payable to financial institutions in varying amounts with interest rates ranging from 1% to 4%. Notes are unsecured with a variety of due dates; the final due date is July 31, 2029.	\$ 8,697,568	\$ 6,447,568
Notes payable to government agencies in varying amounts with interest rates ranging from 2.0% to 2.4%. Notes are unsecured with a variety of due dates; the final due date is September 30, 2029.	2,500,000	3,367,000
Total equity equivalent investments	11,197,568	9,814,568
Less: current portion	(1,147,568)	(2,444,919)
	\$ 10,050,000	\$ 7,369,649

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

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

	2019	2018
Long-term notes payable	\$ 21,831,824	\$ 21,593,808
Equity equivalent investments debt	1,147,568	2,444,919
	\$ 22,979,392	\$ 24,038,727

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

2020	\$ 22,979,392
2021	16,490,654
2022	9,864,203
2023	5,877,297
2024	25,143,992
Thereafter	28,927,548
	\$ 109,283,086

Craft3 and Subsidiaries

Notes to Consolidated Financial Statements

Note 9 – Long-Term Debt (continued)

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. Craft3 was out of compliance with certain covenants and received waivers from lenders as of December 31, 2019.

In December 2014, Craft3 entered into a \$10 million revolving line of credit with a group of banks partially secured by \$2 million on deposit at Banner Bank. At the borrower's option, the line of credit shall bear interest at a rate of either prime or 30-day LIBOR plus a margin and will have a termination date of December 2024. As of December 31, 2019 and 2018, there was no outstanding balance on the line of credit.

Note 10 – Leasing Agreements

Craft3 leases office space and other properties under non-cancelable operating leases that expire at various dates through 2031. Craft3 also leases property under month-to-month agreements. Expenditures under these leases are included on the consolidated statements of functional expenses as occupancy expenses. The following is a summary of future minimum lease payments for the years ending December 31:

2020	\$	388,882
2021		358,995
2022		353,415
2023		379,932
2024		298,037
Thereafter		<u>1,154,774</u>
	\$	<u><u>2,934,035</u></u>

Rent expense was \$401,329 and \$388,406 for the years ended December 31, 2019 and 2018, respectively.

Craft3 and Subsidiaries

Notes to Consolidated Financial Statements

Note 11 – Grants and Contributions

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

	<u>2019</u>	<u>2018</u>
Washington Department of Ecology	\$ 2,395,849	\$ 2,766,329
Washington Department of Commerce	1,431,735	-
Community Development Financial Institutions Fund	525,000	-
Meyer Memorial Trust	175,000	-
Oregon Department of Environmental Quality	119,039	1,063,015
JPMorgan Chase Foundation	75,000	75,000
Seattle Foundation	50,000	-
U.S. Department of the Treasury	-	700,000
Northwest Area Foundation	-	400,000
The Heron Foundation	-	100,000
Others	<u>147,093</u>	<u>318,898</u>
Total grants and contributions	<u><u>\$ 4,918,716</u></u>	<u><u>\$ 5,423,242</u></u>

Note 12 – Contingent Liabilities and Funds Subject to Recapture

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

In prior years, Craft3 received grants totaling approximately \$3,440,000 to fund energy efficiency loans in two underserved Portland neighborhoods. Craft3 is required to return 70% of the principal of these loans to Enhabit as the loans are repaid or sold. Craft3 did not return any funds to Enhabit during 2019 or 2018. As of December 31, 2019, the remaining amount eligible for repayment was \$65,975.

Note 13 – Federal Income Taxes

As described in Note 1, C3CC is a Craft3 subsidiary that files a tax return as a for-profit corporation. The tax provision associated with C3CC is composed of a \$356,165 deferred expense for the year ended December 31, 2018. Due to the dissolution of C3CC during 2019, there is no provision for taxes for the year ended December 31, 2019.

Due to the dissolution of C3CC in 2019, there was no net deferred tax asset or liability at December 31, 2019.

Craft3 and Subsidiaries

Notes to Consolidated Financial Statements

Note 13 – Federal Income Taxes (continued)

Investment II and the other subsidiaries are organized as limited liability corporations ("LLCs"). Net income from the LLCs is passed through to Craft3, which is a nonprofit corporation organized under Internal Revenue Code Section 501(c)(3). No liability has been recorded for uncertain tax positions as of December 31, 2019 or 2018, and management believes no material uncertain tax positions have been taken.

Note 14 – New Markets Tax Credits

As discussed in Note 1, Craft3 is certified by the Community Development Financial Institutions Fund, a division within the U.S. Department of the Treasury. Craft3 has applied for and received allocations of NMTCs within the meaning of the Internal Revenue Code. These credits can be offered to certain investors for the purpose of stimulating increased investment and economic growth in low-income communities.

Craft3 is related to a series of LLCs that are used to take advantage of the NMTCs. In some cases, NMTC program periods expired, and Craft3 obtained 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.

As discussed in Note 1, the seven-year NMTC term expired during 2018 for Craft3 Investment VII, LLC, Craft3 Investment VIII, LLC, and Craft3 Investment IX, LLC and Craft3 obtained 100% ownership of these entities. These entities had little to no activity after the NMTC expiration date and will be dissolved before their next license renewal dates.

During 2019 Craft Investment X LLC and Craft Investment XII LLC were formed to take advantage of NTCs. As of December 31, 2019, Craft3 owned 0.01% of these entities and they were not consolidated with Craft3 due to lack of control.

The activities with these entities are summarized as follows:

- *Craft3 Investment VII, LLC ("Investment VII")* – Craft3 invested \$1,800 into Investment VII in prior years, and had no advances to Investment VII at December 31, 2019 or 2018. During 2019 and 2018, Craft3 earned fees of \$0 and \$187,720, respectively, from Investment VII.
- *Craft3 Investment VIII, LLC ("Investment VIII")* – Craft3 invested \$460 into Investment VIII in prior years, and had no advances to Investment VIII at December 31, 2019 or 2018. During 2019 and 2018, Craft3 earned fees of \$0 and \$54,928, respectively, from Investment VIII.
- *Craft3 Investment IX, LLC ("Investment IX")* – Craft3 invested \$1,628 into Investment IX in prior years, and had no advances to Investment IX. at December 31, 2019 or 2018. During both 2019 and 2018, Craft3 earned fees of \$0 and \$167,451, respectively, from Investment IX.

Craft3 and Subsidiaries

Notes to Consolidated Financial Statements

Note 14 – New Markets Tax Credits (continued)

- *Craft3 Investment X, LLC ("Investment X")* – Craft3 invested \$1,200 into Investment X during 2019, and had no advances to Investment X at December 31, 2019. During 2019, Craft3 earned fees of \$26,666 from Investment X.
- *Craft3 Investment XII, LLC ("Investment XII")* – Craft3 invested \$1,000 into Investment XII during 2019, and had no advances to Investment XII at December 31, 2019. During 2019, Craft3 earned fees of \$15,638 from Investment XII.

Note 15 – Net Assets with Donor Restrictions

Net assets with donor restrictions by purpose and net assets released from restrictions (by grantor/donor) as of December 31, 2019 and 2018 and for the years ended December 31, 2019 and 2018 are as follows:

	2018	Grants and Contributions	Net Assets Released	2019
Subject to expenditure for specified purpose:				
Lending activities:				
Meyer Memorial Trust Clean Water	\$ 36,477	\$ -	\$ (36,477)	\$ -
General operations:				
Meyer Memorial Trust Manufactured Homes Grant	-	125,000	-	125,000
Union Bank KNCP Grant	-	142	-	142
JPMC Small Business Phase II	-	42,444	-	42,444
Wells Fargo Foundation	132,649	-	(132,649)	-
Northwest Area Foundation – Uplift America	364,575	-	(137,450)	227,125
NWAFCFRP Subgrants	-	35,000	-	35,000
Meyer Memorial Trust Food & Farm	50,000	-	(50,000)	-
Bullitt ADU	30,000	-	(30,000)	-
Philanthropy Northwest	156,292	-	(156,292)	-
	<u>733,516</u>	<u>202,586</u>	<u>(506,391)</u>	<u>429,711</u>
Total net assets with donor restrictions	<u>\$ 769,993</u>	<u>\$ 202,586</u>	<u>\$ (542,868)</u>	<u>\$ 429,711</u>

Craft3 and Subsidiaries

Notes to Consolidated Financial Statements

Note 15 – Net Assets with Donor Restrictions (continued)

	2017	Grants and Contributions	Net Assets Released	2018
Subject to expenditure for specified purpose:				
Lending activities:				
JPMorgan Chase Foundation	\$ 362,832	\$ -	\$ (362,832)	\$ -
Meyer Memorial Trust Clean Water	200,000	-	(163,523)	36,477
	<u>562,832</u>	-	<u>(526,355)</u>	<u>36,477</u>
General operations:				
Kaiser Permanente	48,027	-	(48,027)	-
Meyer Memorial Trust Land Conservation	168,346	-	(168,346)	-
Meyer Memorial Trust Expansion	193,819	-	(193,819)	-
JPMorgan Chase Foundation – Opportunity Fund Collaboration	38,566	-	(38,566)	-
Wells Fargo Foundation	182,564	-	(49,915)	132,649
Northwest Area Foundation – Uplift America	40,313	400,000	(75,738)	364,575
Meyer Memorial Trust Clean Water	50,000	-	(50,000)	-
JPMorgan Chase Foundation – Small Business Forward	74,708	-	(74,708)	-
Meyer Memorial Trust Food & Farm	50,000	-	-	50,000
Bullitt ADU	-	30,000	-	30,000
Philanthropy Northwest	-	260,000	(103,708)	156,292
	<u>846,343</u>	<u>690,000</u>	<u>(802,827)</u>	<u>733,516</u>
Total net assets with donor restrictions	<u>\$ 1,409,175</u>	<u>\$ 690,000</u>	<u>\$ (1,329,182)</u>	<u>\$ 769,993</u>

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

	2019	2018
Satisfaction of purpose restrictions:		
Lending activities	\$ 36,477	\$ 526,355
General operations	506,391	802,827
	<u>542,868</u>	<u>1,329,182</u>
Total net assets with donor restrictions released	<u>\$ 542,868</u>	<u>\$ 1,329,182</u>

There were no net assets restricted for Board designated purposes as of December 31, 2019 or 2018.

Craft3 and Subsidiaries

Notes to Consolidated Financial Statements

Note 16 – Liquidity and Funds Available

The following table reflects Craft3's financial assets as of December 31, 2019 available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date. Financial assets are considered unavailable when illiquid or not convertible to cash within one year. Other considerations of non-liquid assets are donor restricted assets for specific expenditures, contractual reserve requirements, or governing board designations.

Cash and cash equivalents	\$ 19,149,928
Investments, at fair value	5,295,929
Accrued interest and other receivables	2,349,461
Current portion of loans receivable, net	<u>19,409,379</u>
	<u>\$ 46,204,697</u>

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

Note 17 – Subsequent Event

Subsequent to year end, an outbreak of a novel coronavirus (COVID-19) occurred in the United States, along with various other countries globally. On March 11, 2020, the World Health Organization assessed the novel coronavirus outbreak and characterized it as a pandemic. Subsequent to the declaration of a pandemic, a variety of federal, state, and local governments have taken actions in response to the pandemic, which have ranged by jurisdiction, but are generally expected to result in a variety of negative economic consequences, the scope of which are not currently known or quantifiable. In addition, the Federal Open Market Committee of the United States Federal Reserve System lowered the federal funds target rate by 1.50%, reduced the rate for discount window loans, and took other actions to promote the stability of the financial system.

The duration and intensity of the impact of COVID-19 on the global economy and resulting impact to Craft3 is unknown. A broad-based reduction in interest rates may reduce Craft3's interest income or may result in increased prepayments of commercial loans. A reduction in economic output or a recession in the U.S. economy, both of which appear probable as a result of the pandemic, may also result in a decreased valuation of many of Craft3's assets.

On March 27, 2020, the Coronavirus Aid, Relief and Economic Security Act (CARES Act) was signed into law. The CARES Act included a \$2 trillion stimulus package to address the reduction in U.S. economic activity and provide limited regulatory relief to certain industries. Section 4013 of the CARES Act stipulates that a financial institution may elect to not apply GAAP requirements to loan modifications related to the COVID-19 pandemic that would otherwise be categorized as a troubled debt restructuring (TDR). Subsequent to yearend, Craft3 processed approximately 110 loan modifications, totaling approximately \$16,500,000, for borrowers impacted by COVID-19 related economic disruption. For these modifications, Craft3 has elected to not apply GAAP TDR accounting as stipulated in the CARES Act.

Craft3 and Subsidiaries

Notes to Consolidated Financial Statements

Note 17 – Subsequent Event (continued)

The loans are predominately business loans ranging between approximately \$1,000,000 and \$3,000 each. Non-performance by borrowers in accordance with modified loan terms or an increase in requested modifications may reduce Craft3 expected cash flows from loan repayment, require an increase to loan loss reserves and loan charge offs may increase depending on the collectability of cash flows.

Additionally, subsequent to year end, Craft3 exercised its rights under the borrowing agreement with a customer in the fisheries industry to repossess collateral securing a defaulted loan in the amount of approximately \$3,700,000 with a net book value of approximately \$2,555,000 as of December 31, 2019. The collateral value is in excess of the net book value of the loan and Craft3 does not expect to record additional reserves upon repossession or a loss on sale. Craft3 is negotiating the sale of collateral to an unrelated third-party and expects the sale to close during 2020.

Supplemental Information

Craft3 and Subsidiaries
Consolidating Statement of Financial Position
December 31, 2019

	Craft3	Craft3 Future Fund	Craft3 Investment II, LLC	Windfarm Investments, Inc.	Eliminating Entries	Consolidated Total
ASSETS						
CURRENT ASSETS						
Cash and cash equivalents	\$ 19,084,765	\$ 56,951	\$ 6,911	\$ 1,301	\$ -	\$ 19,149,928
Restricted cash and cash equivalents	3,431,147	-	-	-	-	3,431,147
Investments, at fair value	5,295,297	-	-	632	-	5,295,929
Restricted investments, at fair value	2,247,634	-	-	-	-	2,247,634
Grants receivable	2,687,178	-	-	-	-	2,687,178
Accrued interest, other receivables, and prepaid expenses	2,034,638	12,081	689,884	-	-	2,736,603
Current portion of commercial loans receivable, net	17,605,784	9,974	49,565	-	-	17,665,323
Current portion of consumer loans receivable, net	1,744,056	-	-	-	-	1,744,056
Total current assets	54,130,499	79,006	746,360	1,933	-	54,957,798
LOANS RECEIVABLE						
Commercial loans, net	94,379,407	1,243,972	5,887,150	-	-	101,510,529
Consumer loans, net	26,532,119	-	-	-	-	26,532,119
Total loans receivable	120,911,526	1,243,972	5,887,150	-	-	128,042,648
Less: current portion, net	(19,349,840)	(9,974)	(49,565)	-	-	(19,409,379)
Less: reserve for loan losses	(7,272,175)	(72,500)	-	-	-	(7,344,675)
Total loans receivable, net of current portion and reserve for loan losses	94,289,511	1,161,498	5,837,585	-	-	101,288,594
OTHER ASSETS						
Cash and cash equivalents restricted for loan loss reserves	1,403,094	-	-	-	-	1,403,094
Furniture and equipment, net	564,721	-	-	-	-	564,721
Investment in subsidiaries	784,014	-	-	-	(784,014)	-
Other	2,116,603	-	-	-	-	2,116,603
Total other assets	4,868,432	-	-	-	(784,014)	4,084,418
Total assets	<u>\$ 153,288,442</u>	<u>\$ 1,240,504</u>	<u>\$ 6,583,945</u>	<u>\$ 1,933</u>	<u>\$ (784,014)</u>	<u>\$ 160,330,810</u>

Craft3 and Subsidiaries
Consolidating Statement of Financial Position
December 31, 2019

LIABILITIES AND NET ASSETS	<u>Craft3</u>	<u>Craft3 Future Fund</u>	<u>Craft3 Investment II, LLC</u>	<u>Windfarm Investments, Inc.</u>	<u>Eliminating Entries</u>	<u>Consolidated Total</u>
CURRENT LIABILITIES						
Accounts payable and accrued expenses	\$ 1,444,625	\$ 3,475	\$ 825,530	\$ -	\$ -	\$ 2,273,630
Current portion of long-term liabilities	<u>22,979,392</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>22,979,392</u>
Total current liabilities	24,424,017	3,475	825,530	-	-	25,253,022
LONG-TERM DEBT						
Notes payable	91,872,156	-	6,213,362	-	-	98,085,518
Equity equivalent investments	<u>11,197,568</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>11,197,568</u>
Total long-term debt	103,069,724	-	6,213,362	-	-	109,283,086
Less: current portion	<u>(22,979,392)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(22,979,392)</u>
Total long-term debt, net of current portion	<u>80,090,332</u>	<u>-</u>	<u>6,213,362</u>	<u>-</u>	<u>-</u>	<u>86,303,694</u>
Total liabilities	104,514,349	3,475	7,038,892	-	-	111,556,716
NET ASSETS						
Without donor restrictions	48,388,488	1,237,029	(454,947)	1,933	(828,120)	48,344,383
With donor restrictions	<u>385,605</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>44,106</u>	<u>429,711</u>
Total net assets	<u>48,774,093</u>	<u>1,237,029</u>	<u>(454,947)</u>	<u>1,933</u>	<u>(784,014)</u>	<u>48,774,094</u>
Total liabilities and net assets	<u>\$ 153,288,442</u>	<u>\$ 1,240,504</u>	<u>\$ 6,583,945</u>	<u>\$ 1,933</u>	<u>\$ (784,014)</u>	<u>\$ 160,330,810</u>

Craft3 and Subsidiaries
Consolidating Statement of Activities
December 31, 2019

	Craft3	Craft3 Future Fund	Craft3 Investment II, LLC	Windfarm Investments, Inc.	Eliminating Entries	Consolidated Total
REVENUE AND OTHER SUPPORT						
Interest income on outstanding loans	\$ 9,647,575	\$ 63,889	\$ 543,627	\$ -	\$ -	\$ 10,255,091
Grants and contributions	4,918,716	-	-	-	-	4,918,716
Loan closing and origination fees	1,176,967	16,923	-	-	-	1,193,890
NMTC management and service fees	58,301	-	-	-	-	58,301
Interest income on investments	454,393	-	-	-	-	454,393
Miscellaneous income	426,443	-	-	-	(425,806)	637
Total revenue and other support	16,682,395	80,812	543,627	-	(425,806)	16,881,028
EXPENSES						
Program services						
Commercial lending activities	9,772,067	76,151	969,758	-	-	10,817,976
Consumer lending activities	2,474,854	-	-	-	-	2,474,854
Consulting and management services	688,669	-	-	-	-	688,669
Total program services	12,935,590	76,151	969,758	-	-	13,981,499
Supporting services						
Management and administration	1,926,932	4,217	-	117	-	1,931,266
Development	254,637	-	-	-	-	254,637
Total supporting services	2,181,569	4,217	-	117	-	2,185,903
Total expenses	15,117,159	80,368	969,758	117	-	16,167,402
Change in net assets before unrealized losses, and federal income tax	1,565,236	444	(426,131)	(117)	(425,806)	713,626
NET UNREALIZED GAINS ON INVESTMENTS	74,539	-	-	-	-	74,539
Change in net assets/net income (loss)	\$ 1,639,775	\$ 444	\$ (426,131)	\$ (117)	\$ (425,806)	\$ 788,165

