REPORT OF INDEPENDENT AUDITORS
AND CONSOLIDATED FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION

CRAFT3 AND SUBSIDIARIES

December 31, 2020 and 2019

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, 2020 and 2019, 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, 2020 and 2019, 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, 2020 and the consolidating statements of activities for the year then ended are presented for the purposes of additional analysis and are not a required part of the consolidated financial statements.

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

Moss Adams LLP

Portland, Oregon
April 30, 2021

ASSETS

	December 31, 2020		December 31, 2019	
CURRENT ASSETS				
Cash and cash equivalents	$	28,347,100	$	19,149,928
Restricted cash and cash equivalents		5,232,620		3,431,147
Investments, at fair value		21,915,588		5,295,929
Restricted investments, at fair value		2,261,615		2,247,634
Grants receivable		764,600		2,687,178
Accrued interest, other receivables, and prepaid expenses		2,337,159		2,736,603
Current portion of commercial loans receivable, net deferred loan fees		21,540,824		17,665,323
Current portion of consumer loans receivable, net deferred loan fees		2,013,471		1,744,056
Total current assets		84,412,977		54,957,798
LOANS RECEIVABLE				
Commercial loans, net deferred loan fees		90,222,444		102,075,529
Consumer loans, net deferred loan fees		28,849,638		26,532,119
Total loans receivable, net		119,072,082		128,607,648
Less: current portion, net deferred loan fees		(23,554,295)		(19,409,379)
Less: reserve for loan losses		(8,140,148)		(7,344,675)
Total loan receivable, net of current portion		87,377,639		101,853,594
OTHER ASSETS				
Cash and cash equivalents, restricted for loan loss reserves		607,637		1,403,094
Furniture and equipment, net		508,591		564,721
Foreclosed and other repossessed assets		3,947,642		2,032,640
Other		5,444		83,963
Total other assets		5,069,314		4,084,418
Total assets	$	176,859,930	$	160,895,810

LIABILITIES AND NET ASSETS

	2020		2019	
CURRENT LIABILITIES				
Accounts payable and accrued expenses	$	3,982,532	$	2,838,630
Current portion of long-term debt		26,082,089		22,979,392
Total current liabilities		30,064,621		25,818,022
LONG-TERM DEBT				
Notes payable		104,002,295		97,085,518
Equity equivalent investments and subordinated notes payable		12,197,568		12,197,568
Total long-term debt		116,199,863		109,283,086
Less: current portion		(26,082,089)		(22,979,392)
Total long-term debt, net of current portion		90,117,774		86,303,694
Total liabilities		120,182,395		112,121,716
NET ASSETS				
Without donor restrictions		55,737,252		48,344,383
With donor restrictions		940,283		429,711
Total net assets		56,677,535		48,774,094
Total liabilities and net assets	$	176,859,930	$	160,895,810

Craft3 and Subsidiaries
Consolidated Statements of Activities

	For the Year Ended December 31,					
	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND OTHER SUPPORT						
Interest income on outstanding loans	$ 6,464,328	$ -	$ 6,464,328	$ 10,255,091	$ -	$ 10,255,091
Grants and contributions	8,485,997	10,738,525	19,224,522	4,716,130	202,586	4,918,716
Loan origination and servicing fees	1,228,986	-	1,228,986	1,193,890	-	1,193,890
Investment income (loss)	(42,495)	-	(42,495)	454,393	-	454,393
NMTC management and servicing fees	374,365	-	374,365	58,301	-	58,301
Miscellaneous income	5,162	-	5,162	637	-	637
Net assets released from restrictions	10,227,953	(10,227,953)	-	542,868	(542,868)	-
Total revenue and other support	26,744,296	510,572	27,254,868	17,221,310	(340,282)	16,881,028
EXPENSES						
Program services						
Commercial lending activities	14,176,979	-	14,176,979	10,817,976	-	10,817,976
Consumer lending activities	2,522,415	-	2,522,415	2,474,854	-	2,474,854
Consulting and management services	701,075	-	701,075	688,669	-	688,669
Total program services	17,400,469	-	17,400,469	13,981,499	-	13,981,499
Supporting services						
Management and administration	1,933,594	-	1,933,594	1,931,266	-	1,931,266
Development	331,638	-	331,638	254,637	-	254,637
Total supporting services	2,265,232	-	2,265,232	2,185,903	-	2,185,903
Total expenses	19,665,701	-	19,665,701	16,167,402	-	16,167,402
Change in net assets before unrealized gains	7,078,595	510,572	7,589,167	1,053,908	(340,282)	713,626
NET UNREALIZED GAINS ON INVESTMENTS	314,274	-	314,274	74,539	-	74,539
Change in net assets	7,392,869	510,572	7,903,441	1,128,447	(340,282)	788,165
NET ASSETS, beginning of year	48,344,383	429,711	48,774,094	47,215,936	769,993	47,985,929
NET ASSETS, end of year	$ 55,737,252	$ 940,283	$ 56,677,535	$ 48,344,383	$ 429,711	$ 48,774,094

See accompanying notes.

For the Year Ended December 31, 2020

	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	$ 3,587,840	$ 1,250,275	$ 471,343	$ 5,309,458	$ 777,522	$ 198,008	$ 975,530	$ 6,284,988
Payroll taxes and fringe benefits	930,436	353,116	117,521	1,401,073	181,433	45,229	226,662	1,627,735
Provision for loan losses	2,841,170	197,255	-	3,038,425	-	-	-	3,038,425
Grants made	2,989,537	-	-	2,989,537	-	-	-	2,989,537
Interest expense	2,643,880	205,080	-	2,848,960	1,750	-	1,750	2,850,710
Loan servicing expenses	502,592	199,901	-	702,493	-	-	-	702,493
Occupancy expenses	233,004	112,744	7,516	353,264	165,358	15,033	180,391	533,655
Technology expense	199,211	96,392	6,426	302,029	141,375	12,852	154,227	456,256
Consultants	24,553	2,224	66,250	93,027	233,360	30,013	263,373	356,400
Other operating costs	2,643	3,896	386	6,925	182,037	2,730	184,767	191,692
Depreciation	69,617	33,686	2,246	105,549	49,406	4,491	53,897	159,446
Taxes and licenses	64,317	28,880	1,925	95,122	42,357	3,851	46,208	141,330
Professional fees	2,411	-	24,962	27,373	79,778	11,732	91,510	118,883
Insurance	51,785	25,057	1,670	78,512	36,751	3,341	40,092	118,604
Travel	18,146	6,246	319	24,711	31,228	3,336	34,564	59,275
Office supplies	15,837	7,663	511	24,011	11,239	1,022	12,261	36,272
Total expenses	$ 14,176,979	$ 2,522,415	$ 701,075	$ 17,400,469	$ 1,933,594	$ 331,638	$ 2,265,232	$ 19,665,701

Craft3 and Subsidiaries
Consolidated Statements of Functional Expenses

	For the Year Ended December 31, 2019							
	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	$ 3,383,271	$ 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
Provision for loan losses	2,405,339	169,420	-	2,574,759	-	-	-	2,574,759
Interest expense	2,847,656	207,711	-	3,055,367	-	-	-	3,055,367
Loan servicing expenses	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
Consultants	19,500	26,824	57,000	103,324	137,573	-	137,573	240,897
Other operating costs	22,965	6,219	303	29,487	252,749	1,357	254,106	283,593
Depreciation	48,542	20,804	2,080	71,426	29,472	3,121	32,593	104,019
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
Travel	110,860	24,365	7,064	142,289	125,459	14,583	140,042	282,331
Office supplies	19,955	8,552	855	29,362	12,116	1,283	13,399	42,761
Total expenses	$ 10,817,976	$ 2,474,854	$ 688,669	$ 13,981,499	$ 1,931,266	$ 254,637	$ 2,185,903	$ 16,167,402
Percent of total expenses	67%	15%	4%	86%	12%	2%	14%	100%

See accompanying notes.

	Years Ended December 31, 2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 7,903,441	$ 788,165
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation	159,446	104,019
Provision for loan losses	3,038,425	2,574,759
Net unrealized gains on investments	(314,274)	(74,539)
Net realized losses on investments	442,550	-
Net amortization and accretion of premiums and discounts on investments	117,727	(34,653)
Impairment of foreclosed and repossessed assets	357,362	-
Changes in operating assets and liabilities		
Grants receivable	1,922,578	(1,652,368)
Accrued interest, other receivables, and prepaid expenses	399,444	(1,248,055)
Other assets	78,519	42,465
Accounts payable and accrued expenses	1,143,902	958,589
Net cash flows from operating activities	15,249,120	1,458,382
CASH FLOWS FROM INVESTING ACTIVITIES		
Net change in loans receivable	3,602,497	(55,844)
Purchases of investments	(33,881,493)	(12,742,498)
Proceeds from sales and maturities of investments	17,001,850	12,889,601
Purchases of furniture and equipment	(103,316)	(42,483)
Proceeds from sales of foreclosed and repossessed assets	1,417,753	48,383
Net cash flows (used in) from investing activities	(11,962,709)	97,159
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of long-term debt	31,368,631	30,396,098
Principal payments on long-term debt	(24,451,854)	(19,935,357)
Net cash flows from financing activities	6,916,777	10,460,741
CHANGE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	10,203,188	12,016,282
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, beginning of year	23,984,169	11,967,887
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, end of year	$ 34,187,357	$ 23,984,169
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for interest on long-term debt	$ 2,814,762	$ 2,409,008
SUPPLEMENTAL NONCASH DISCLOSURES		
Net acquisition of real assets in settlement of loans	$ 3,690,117	$ -

See accompanying notes.

Note 1 – Organization and Summary of Significant Accounting Policies

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

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

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

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

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

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

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

Principles of consolidation

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

Related entities

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

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 restriction*s – 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.

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:

	2020	2019
Cash and cash equivalents	$ 28,347,100	$ 19,149,928
Restricted cash:		
Self-Help Credit Union Reserve Accounts	607,637	1,403,094
U.S. Department of Agriculture Intermediary Relending Program ("IRP")	4,806,042	3,095,401
U.S. Small Business Administration Intermediary Lending Program ("ILP")	426,578	335,746
Total restricted cash	5,840,257	4,834,241
Total cash, cash equivalents, and restricted cash	$ 34,187,357	$ 23,984,169

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

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

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

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

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

Accounts and grants receivable are stated at their principal balances and are generally uncollateralized. As of December 31, 2020 and 2019, Craft3 determined that no allowance for doubtful accounts was required.

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

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 90 days or more past due and the value of the related collateral does not exceed the outstanding balance due. Interest income generally is not recognized on impaired loans. Payments received on such loans are applied as a reduction of the loan principal balance. If the loan was past due when placed in nonaccrual status, the borrower must remain current on contractual payments for a period of six months before it may be reinstated.

The reserves (general and specific) for loan losses are maintained at a level that, in management's judgment, is adequate to absorb credit losses inherent in the loan portfolio 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.

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.

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 $975,251 and $815,805 at December 31, 2020 and 2019, 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
Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met and barriers to entitlement have been satisfied.

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

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

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

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

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

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

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

Craft3 had no uncertain tax positions as of December 31, 2020 and 2019. Interest and penalties related to unrecognized tax benefits are recognized by Craft3 as an administrative expense. During the years ended December 31, 2020 and 2019, 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.

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

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

Agency transactions
During the year ended December 31, 2020, Craft3 received $4,452,000 from grantors to provide grants to businesses and individuals meeting eligibility criteria established by the grantor. Craft3 fully disbursed the funds as of December 31, 2020 and accounted for the funds as agency transactions, with no impact to the change in net assets for the year ended December 31, 2020. As part of the grant award, Craft3 received $224,750 for administrative costs, which are presented within the consolidated statements of activities. There were no agency transactions for the year ended December 31, 2019.

Adoption of new accounting standards
In August 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement*. This ASU was issued to improve the effectiveness of disclosures surrounding fair value measurements. The ASU removes numerous disclosures from Topic 820 including: transfers between level 1 and 2 of the fair value hierarchy, the policy for timing of transfers between levels, and the valuation process for level 3 fair value measurements. Craft3 adopted this ASU as of January 1, 2020, on a retrospective basis except certain provisions of the guidance which are only required to be applied on a prospective basis. The adoption of ASC 2018-13 did not have a material impact on Craft3's consolidated financial statements.

Reclassifications
Certain amounts in the prior year consolidated financial statements have been reclassified to conform to the current year presentation. The reclassifications had no impact on previously reported net assets.

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

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.

Craft3 has evaluated subsequent events through April 30, 2021, which is the date the consolidated financial statements became available for issuance.

Note 2 – Investments

Investments consist of the following as of December 31:

	2020	2019
Unrestricted Investments		
Municipal bonds	$ 8,551,063	$ 2,703,669
Corporate bonds	7,045,083	496,100
Federal agency securities	5,823,732	2,096,160
Foreign bonds	495,710	-
Restricted Investments		
U.S. Government obligations	2,261,615	2,247,634
Total	$ 24,177,203	$ 7,543,563

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 on investments as of December 31, 2020 and 2019 was $314,289 and $74,539, respectively.

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, 2020 and 2019, 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, 2020				
Recurring items				
Investments				
Municipal bonds	$ 8,551,063	$ -	$ 8,551,063	$ -
Corporate bonds	7,045,083	7,045,083	-	-
Federal agency securities	5,823,732	-	5,823,732	-
U.S. Government obligations	2,261,615	2,261,615	-	-
Foreign bonds	495,710	495,710	-	-
Total recurring items	$ 24,177,203	$ 9,802,408	$ 14,374,795	$ -
Nonrecurring items				
Foreclosed and repossessed assets	$ 3,947,642	$ -	$ -	$ 3,947,642
December 31, 2019				
Recurring items				
Investments				
Municipal bonds	$ 2,703,669	$ -	$ 2,703,669	$ -
Corporate bonds	496,100	496,100	-	-
Federal agency securities	2,096,160	-	2,096,160	-
U.S. Government obligations	2,247,634	2,247,634	-	-
Total recurring items	$ 7,543,563	$ 2,743,734	$ 4,799,829	$ -
Nonrecurring items				
Foreclosed and repossessed assets	$ 1,971,009	$ -	$ -	$ 1,971,009

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

Craft3 utilizes the following valuation technique, significant unobservable inputs, and qualitative information about the unobservable inputs for its assets classified as Level 3 and measured at fair value on a nonrecurring basis at December 31, 2020 and 2019. Foreclosed or repossessed assets are comprised of real estate valued using market values assessed by a professional appraiser with additional discounts for selling costs and a private company investment valued using a discounted cash flow model based on sales of units of the investment and income generating activities.

Note 4 – Grants Receivable

Grants receivable consist of the following at December 31:

	2020	2019
Washington Department of Ecology	$ -	$ 2,162,178
U.S. Department of Treasury	-	525,000
Northwest Area Foundation	720,000	-
City of Spokane	44,600	-
Total grants receivable	$ 764,600	$ 2,687,178

Note 5 – Related Parties

The equity associated with CFF, WA OREO, Investment II, and Windfarm are included within net assets without donor restrictions in these consolidated financial statements. The equity and net assets (liabilities) included in the consolidated financial statements at December 31, 2020 and 2019, for these subsidiaries was:

	2020	2019
Windfarm	$ 632	$ 1,933
WA OREO	2,350,729	-
Investment II	(1,473,739)	(454,947)
CFF	1,337,532	1,237,029
Total	$ 2,215,154	$ 784,015

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 $3,500,000 (the maximum loan size, in aggregate, to any customer may not exceed $10,000,000 regardless of a government enhancement) of total principal outstanding to a borrower, coborrower, 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.

Note 6 – Loans Receivable (continued)

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 outstanding by specific industries at December 31:

	2020			2019		
	Number of Loans	Balance	Percentage of Total	Number of Loans	Balance	Percentage of Total
Clean water	1,051	$ 17,984,303	15%	951	$ 16,217,780	13%
Manufacturing	46	17,153,008	14%	41	21,001,458	16%
Clean energy	23	14,314,069	12%	26	16,573,653	13%
Real estate	24	13,167,962	11%	16	8,632,117	7%
Agriculture	16	10,464,312	9%	14	3,856,327	2%
Energy retrofit	1,234	10,241,237	9%	1,160	9,806,763	7%
Services	79	6,262,909	5%	57	6,473,199	5%
Fish, shellfish, seafood	10	6,313,988	5%	12	16,316,420	13%
Other	40	5,678,275	5%	31	6,366,953	5%
Retail	57	5,190,718	4%	65	6,220,406	5%
Tourism	24	5,159,416	4%	30	6,890,215	5%
Professional services	33	3,406,013	3%	30	4,870,675	4%
Community development	13	3,778,624	3%	15	5,069,743	4%
Consumer ADA	-	-	0%	61	438,126	0%
Education	62	309,795	0%	-	-	0%
Forestry, wood products	1	39,885	1%	3	364,250	1%
Totals	2,713	119,464,514	100%	2,512	129,098,085	100%
Net deferred loan origination fees		(392,432)			(490,437)	
Reserve for loan losses		(8,140,148)			(7,344,675)	
		$ 110,931,934			$ 121,262,973	

Loans receivable consist of the following at December 31:

	2020	2019
Commercial loans receivable	$ 90,614,876	$ 102,565,966
Consumer loans receivable	28,849,638	26,532,119
Total loans receivable	$ 119,464,514	$ 129,098,085

Note 6 – Loans Receivable (continued)

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

	2020	2019
Current portion of commercial loans receivable	$ 21,654,685	$ 17,981,928
Current portion of consumer loans receivable	2,013,471	1,744,056
Less: net deferred loan fees	(113,861)	(316,605)
Total current portion loans receivable, net	$ 23,554,295	$ 19,409,379

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

	2020	2019
Total loans receivable	$ 119,464,514	$ 129,098,085
Less: current portion, net	(23,554,295)	(19,409,379)
Less: loan loss reserve	(8,140,148)	(7,344,675)
Less: net deferred loan fees	(392,432)	(490,437)
Total long-term portion loans receivable, net	$ 87,377,639	$ 101,853,594

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

	2020	2019
Loan loss reserve, beginning of year	$ 7,344,675	$ 7,400,338
Charge-offs	(3,905,519)	(3,622,639)
Recoveries	1,662,567	992,217
Provision for loan losses	3,038,425	2,574,759
Loan loss reserve, end of year	$ 8,140,148	$ 7,344,675

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

	2020	2019
General reserve	$ 7,363,483	$ 4,950,215
Specific reserve	776,665	2,394,460
Total reserve	$ 8,140,148	$ 7,344,675

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.

Note 6 – Loans Receivable (continued)

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, 2020 and 2019, was $181,550 and $181,512, 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, 2020, 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:

2021	$ 23,668,156
2022	12,273,138
2023	9,594,425
2024	10,405,426
2025	8,649,980
Thereafter	54,873,389
	$ 119,464,514

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, 2020 and 2019, the outstanding balance of the sold loans serviced by Craft3 was $2,993,398 and $4,246,298, 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, 2020, 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 $145,488
- Craft3 Self-Help Federal Credit Union ("SHFCU") Reserve Account balance of $399,054

Note 7 – Energy Loan Sale (continued)

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 and $69,353 as of December 31, 2020. 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.

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, 2020			
	Pass	Pass – Watch List	Problem	Total Loans
Clean water	$ 17,629,687	$ 137,075	$ 217,541	$ 17,984,303
Manufacturing	15,838,008	118,734	1,196,266	17,153,008
Clean energy	14,291,747	22,322	-	14,314,069
Real estate	12,879,370	-	288,592	13,167,962
Agriculture	9,710,562	753,750	-	10,464,312
Energy retrofit	9,736,401	249,413	255,423	10,241,237
Services	3,723,544	2,453,431	85,934	6,262,909
Fish, shellfish, seafood	777,608	78,726	5,457,654	6,313,988
Other	5,139,247	107,559	431,469	5,678,275
Retail	3,051,761	1,576,337	562,620	5,190,718
Tourism	4,716,389	443,027	-	5,159,416
Professional services	1,150,538	1,150,147	1,105,328	3,406,013
Community development	3,116,392	662,232	-	3,778,624
Education	305,040	4,755	-	309,795
Forestry, wood products	39,885	-	-	39,885
Totals	$ 102,106,179	$ 7,757,508	$ 9,600,827	$ 119,464,514

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

	December 31, 2019			
	Pass	Pass – Watch List	Problem	Total Loans
Clean water	$ 15,809,167	$ 116,599	$ 292,014	$ 16,217,780
Manufacturing	18,553,708	566,470	1,881,280	21,001,458
Clean energy	12,307,621	3,325,016	941,016	16,573,653
Real estate	8,331,102	-	301,015	8,632,117
Agriculture	3,856,327	-	-	3,856,327
Energy retrofit	9,254,765	272,330	279,668	9,806,763
Services	3,291,595	3,062,047	119,557	6,473,199
Fish, shellfish, seafood	6,640,772	44,430	9,631,218	16,316,420
Other	6,278,622	88,331	-	6,366,953
Retail	5,335,598	181,529	703,279	6,220,406
Tourism	5,558,994	1,317,341	13,880	6,890,215
Professional services	2,884,617	1,057,061	928,997	4,870,675
Community development	5,069,743	-	-	5,069,743
Consumer ADA	414,713	23,413	-	438,126
Forestry, wood products	130,203	234,047	-	364,250
Totals	$ 103,717,547	$ 10,288,614	$ 15,091,924	$ 129,098,085

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, 2020							
	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	Loans on Non-Accrual	Total Loans
Clean water	$ 17,711,765	$ 146,467	$ 54,524	$ -	$ -	$ -	$ 71,547	$ 17,984,303
Manufacturing	16,180,523	-	-	-	-	-	972,485	17,153,008
Clean energy	14,314,069	-	-	-	-	-	-	14,314,069
Real estate	12,879,370	-	-	-	-	-	288,592	13,167,962
Agriculture	10,464,312	-	-	-	-	-	-	10,464,312
Energy retrofit	10,168,572	-	-	3,815	25,264	-	43,586	10,241,237
Services	6,176,975	-	-	-	-	-	85,934	6,262,909
Fish, shellfish, seafood	589,911	-	-	-	-	-	5,724,077	6,313,988
Other	5,584,676	93,599	-	-	-	-	-	5,678,275
Retail	4,628,098	-	-	-	-	-	562,620	5,190,718
Tourism	5,017,340	142,076	-	-	-	-	-	5,159,416
Professional services	2,300,685	-	-	-	-	-	1,105,328	3,406,013
Community development	3,778,624	-	-	-	-	-	-	3,778,624
Education	241,295	68,500	-	-	-	-	-	309,795
Forestry, wood products	39,885	-	-	-	-	-	-	39,885
Totals	$ 110,076,100	$ 450,642	$ 54,524	$ 3,815	$ 25,264	$ -	$ 8,854,169	$ 119,464,514

	December 31, 2019							
	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	Loans on Non-Accrual	Total Loans
Clean water	$ 15,769,841	$ 343,635	$ 49,756	$ -	$ 28,197	$ 26,351	$ -	$ 16,217,780
Manufacturing	16,182,641	4,462,147	-	-	-	-	356,670	21,001,458
Clean energy	16,280,275	131,047	-	-	-	-	162,331	16,573,653
Real estate	8,331,102	-	-	-	-	-	301,015	8,632,117
Agriculture	3,856,327	-	-	-	-	-	-	3,856,327
Energy retrofit	9,713,868	-	-	30,233	16,057	46,605	-	9,806,763
Services	5,342,232	1,011,409	-	-	-	-	119,558	6,473,199
Fish, shellfish, seafood	4,494,412	18,685	-	-	-	-	11,803,323	16,316,420
Other	6,366,953	-	-	-	-	-	-	6,366,953
Retail	5,517,127	1,663	-	-	-	-	701,616	6,220,406
Tourism	5,950,943	925,392	-	-	-	-	13,880	6,890,215
Professional services	2,884,617	1,057,060	-	-	-	-	928,998	4,870,675
Community development	3,643,689	30,724	18,546	-	-	-	1,376,784	5,069,743
Consumer ADA	425,509	-	12,617	-	-	-	-	438,126
Forestry, wood products	364,250	-	-	-	-	-	-	364,250
Totals	$ 105,123,786	$ 7,981,762	$ 80,919	$ 30,233	$ 44,254	$ 72,956	$ 15,764,175	$ 129,098,085

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

Included in fish, shellfish, and seafood and community development categories, respectively, 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 $266,423 and $5,313,605 as of December 31, 2020, Both loans were placed on non-accrual in April 2020. As the financing held a 90% USDA B&I guarantee, in July 2020 a $5,167,635 estimated guarantee loan was honored. Because of the NMTC structure of the financing, the funds received is being held with the investor awaiting redeployment. The fisheries loan remains on non-accrual until the redeployment of funds.

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

	December 31, 2020		
	Commercial	Consumer	Total Loans
Loans individually evaluated for impairment	$ 10,851,493	$ 864,207	$ 11,715,700
Loans collectively evaluated for impairment	79,763,383	27,985,431	107,748,814
Totals	$ 90,614,876	$ 28,849,638	$ 119,464,514

	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

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

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

	December 31, 2020				
	Unpaid Contractual Principal Balance	Recorded Investment with No Allowance	Recorded Investment with an Allowance	Total Recorded Investment	Specific Allowance
Commercial	$ 12,215,277	$ 7,706,219	$ 3,145,274	$ 10,851,493	$ 776,665
Consumer	-	864,207	-	864,207	-
	$ 12,215,277	$ 8,570,426	$ 3,145,274	$ 11,715,700	$ 776,665

	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

Interest recognized on impaired loans subsequent to the determination of impairment was immaterial to the consolidated financial statements for the years ended December 31, 2020 and 2019.

As of December 31, 2020 and 2019, loans on nonaccrual were as follows:

	2020	2019
Commercial	$ 8,739,036	$ 15,631,363
Consumer	115,133	132,812
	$ 8,854,169	$ 15,764,175

The following table presents troubled debt restructurings as of December 31, 2020 and 2019:

	2020	2019
Commercial - principal balance	$ 5,121,448	$ 9,059,400
Commercial - loan count	18	12

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

During the years ended December 31, 2020 and 2019, Craft3 restructured commercial loans totaling approximately $2,133,644 and $1,480,720, respectively. There were no TDRs that defaulted during the years ended December 31, 2020 and 2019 and for which the default occurred within 12 months of the modification date.

During 2020, Craft3 processed approximately 232 loan modifications, totaling approximately $35,135,079 for borrowers impacted by COVID-19 related economic disruption. These modifications were short term in nature and resulted in insignificant delays in cash flows. As such, they were not considered troubled debt restructurings. Of these loan modifications, 6 remain under deferral as of December 31, 2020.

The loans are predominately business loans ranging between approximately $3,000 and $1,000,000 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.

Note 9 – Long-Term Debt

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

Long-term notes payable

	2020	2019
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.	$ 44,472,013	$ 38,335,000
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.	42,676,877	36,762,846
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.	5,613,040	6,059,429
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.	1,180,903	6,213,362
Notes payable to government agencies in varying amounts with interest rates ranging from 0.70% to 1.3%. Notes are unsecured and the final due date is July 1, 2039.	10,059,462	9,714,881
Total long-term notes payable	104,002,295	97,085,518
Less: current portion	(24,102,731)	(21,831,824)
	$ 79,899,564	$ 75,253,694

Note 9 – Long-Term Debt (continued)

Equity equivalent investments and subordinated debt

	2020	2019
Notes payable to financial institutions in varying amounts with interest rates ranging from 1% to 4%. Notes are unsecured with a variety of due dates; the final due date is July 31, 2029.	$ 8,697,568	$ 8,697,568
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	2,500,000
Subordinated note payable to private foundation with interest rate of 3%. Note is unsecured with a due date of December 2021.	1,000,000	1,000,000
Total equity equivalent investments and subordinated notes payable	12,197,568	12,197,568
Less: current portion	(1,979,358)	(1,147,568)
	$ 10,218,210	$ 11,050,000

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:

	2020	2019
Long-term notes payable	$ 24,102,731	$ 21,831,824
Equity equivalent investments and subordinated notes payable	1,979,358	1,147,568
	$ 26,082,089	$ 22,979,392

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

2021	$ 26,082,089
2022	14,632,102
2023	7,628,529
2024	24,198,214
2025	17,892,511
Thereafter	25,766,418
	$ 116,199,863

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. As of December 31, 2020, management believes Craft3 was in compliance with all covenants.

In December 2014, Craft3 entered into a $10 million revolving line of credit with a group of banks. 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, 2020 and 2019, there was no outstanding balance on the line of credit.

In April 2020, Craft3 received a loan through the Small Business Administration (SBA) in the amount of $1,246,159, under the criteria outlined in the Paycheck Protection Program (PPP) of the CARES Act of 2020. Under the terms of the agreement, payments of principal and interest are due starting November 2020 and the loan accrues interest at a rate of 1.00% per annum. The loan matures in April 15, 2022. As of December 31, 2020, the balance of the loan was included in long-term notes payable. In April 2021, the loan was forgiven in full by the SBA.

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:

2021	$ 405,005
2022	400,345
2023	427,801
2024	346,863
2025	310,509
Thereafter	868,920
	$ 2,759,443

Rent expense was $419,666 and $401,329 for the years ended December 31, 2020 and 2019, respectively.

Note 11 – Grants and Contributions

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

	2020	2019
Chicago Community Foundation	$ 10,000,000	$ -
Municipal and state grants	4,260,194	3,946,623
Other private foundation grants	3,590,000	225,000
Financial institution grants	1,088,000	115,500
Community Development Financial Institutions Fund	-	525,000
Others	286,328	106,593
Total grants and contributions	$ 19,224,522	$ 4,918,716

During the year ended December 31, 2020, Craft3 was awarded a one-time unrestricted grant in the amount of $10 million from the Chicago Community Foundation. This grant is nonrecurring and Craft3 plans to use the funds to expand loan programs to historically marginalized communities.

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 2020 or 2019. As of December 31, 2020, the remaining amount eligible for repayment to Enhabit was $43,937.

Note 13 – Federal Income Taxes

All Craft3 subsidiaries are organized as limited liability corporations ("LLCs"). Net income from the LLCs is passed through to Craft3, which is a nonprofit corporation organized under Internal Revenue Code Section 501(c)(3). No liability has been recorded for uncertain tax positions as of December 31, 2020 or 2019, 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.

Note 14 – New Markets Tax Credits (continued)

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.

During 2019, Craft Investment X LLC and Craft Investment XII LLC were formed to take advantage of NMTCs. As of December 31, 2020, Craft3 owned 0.01% of these entities and they were not consolidated with Craft3 due to lack of control. Management fees earned from NMTC entities totaled $299,170 and $33,161 for the years ended December 31, 2020 and 2019, respectively.

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, 2020 and 2019 and for the years ended December 31, 2020 and 2019 are as follows:

	2019	Grants and Contributions	Net Assets Released	2020
Subject to expenditure for specified purpose:				
Lending activities:				
Meyer Memorial Trust Manufactured Homes Grant	$ 125,000	$ 75,000	$ -	$ 200,000
JPMC Advancing Cities	-	500,000	-	500,000
OFN Google Grant	-	125,000	-	125,000
Various COVID-19 related awards	-	9,318,525	(9,203,242)	115,283
	125,000	10,018,525	(9,203,242)	940,283
General operations:				
Union Bank KNCP Grant	142	25,000	(25,142)	-
JPMC Small Business Phase II	42,444	-	(42,444)	-
Northwest Area Foundation – Uplift America	227,125	-	(227,125)	-
NWAF CFRP Subgrants	35,000	695,000	(730,000)	-
	304,711	720,000	(1,024,711)	-
Total net assets with donor restrictions	$ 429,711	$ 10,738,525	$ (10,227,953)	$ 940,283

Note 15 – Net Assets with Donor Restrictions (continued)

	2018	Grants and Contributions	Net Assets Released	2019
Subject to expenditure for specified purpose:				
Lending activities:				
Meyer Memorial Trust Manufactured Homes Grant	$ -	$ 125,000	$ -	$ 125,000
Meyer Memorial Trust Clean Water	36,477	-	(36,477)	-
	36,477	125,000	(36,477)	125,000
General operations:				
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
NWAF CFRP 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)	-
	733,516	77,586	(506,391)	304,711
Total net assets with donor restrictions	$ 769,993	$ 202,586	$ (542,868)	$ 429,711

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:

	2020	2019
Satisfaction of purpose restrictions:		
Lending activities	$ 9,203,242	$ 36,477
General operations	1,024,711	506,391
Total net assets with donor restrictions released	$ 10,227,953	$ 542,868

There were no net assets restricted for Board designated purposes as of December 31, 2020 or 2019.

Note 16 – Liquidity and Funds Available

The following table reflects Craft3's financial assets as of December 31, 2020 and 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.

	2020	2019
Cash and cash equivalents	$ 28,347,100	$ 19,149,928
Investments, at fair value	21,915,588	5,295,929
Accrued interest and other receivables	1,964,881	2,349,461
Current portion of loans receivable, net	23,554,295	19,409,379
	$ 75,781,864	$ 46,204,697

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 – COVID-19 Pandemic

During 2020, 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 as a result of the pandemic may also result in a decreased valuation of many of Craft3's assets.

Supplemental Information

Craft3 and Subsidiaries
Consolidating Statement of Financial Position
December 31, 2020

	Craft3	WA OREO	Craft3 Future Fund	Craft3 Investment II, LLC	Windfarm Investments, Inc.	Eliminating Entries	Consolidated Total
ASSETS							
CURRENT ASSETS							
Cash and cash equivalents	$ 28,169,480	$ -	$ 170,709	$ 6,911	$ -	$ -	$ 28,347,100
Restricted cash and cash equivalents	5,232,620	-	-	-	-	-	5,232,620
Investments, at fair value	21,915,588	-	-	-	-	-	21,915,588
Restricted investments, at fair value	2,261,615	-	-	-	-	-	2,261,615
Grants receivable	764,600	-	-	-	-	-	764,600
Accrued interest, other receivables, and prepaid expenses	1,837,693	-	11,633	487,833	-	-	2,337,159
Current portion of commercial loans receivable, net	21,529,975	-	10,849	-	-	-	21,540,824
Current portion of consumer loans receivable, net	2,013,471	-	-	-	-	-	2,013,471
Total current assets	83,725,042	-	193,191	494,744	-	-	84,412,977
LOANS RECEIVABLE							
Commercial loans, net*	88,720,676	-	1,235,345	266,423	-	-	90,222,444
Consumer loans, net	28,849,638	-	-	-	-	-	28,849,638
Total loans receivable	117,570,314		1,235,345	266,423	-	-	119,072,082
Less: current portion, net	(23,543,446)	-	(10,849)	-	-	-	(23,554,295)
Less: reserve for loan losses	(8,067,648)	-	(72,500)	-	-	-	(8,140,148)
Total loans receivable, net of current portion and reserve for loan losses	85,959,220	-	1,151,996	266,423	-	-	87,377,639
OTHER ASSETS							
Cash and cash equivalents restricted for loan loss reserves	607,637	-	-	-	-	-	607,637
Furniture and equipment, net	508,591	-	-	-	-	-	508,591
Foreclosed and repossessed assets	1,596,913	2,350,729	-	-	-	-	3,947,642
Investment in subsidiaries	2,214,522	-	-	-	-	(2,214,522)	-
Other	5,444	-	-	-	632	(632)	5,444
Total other assets	4,933,107	2,350,729	-	-	632	(2,215,154)	5,069,314
Total assets	$ 174,617,369	$ 2,350,729	$ 1,345,187	$ 761,167	$ 632	$ (2,215,154)	$ 176,859,930

*$1,235,345 in CFF column represents a Sharia compliant investment

Craft3 and Subsidiaries
Consolidating Statement of Financial Position
December 31, 2020

	Craft3	WA OREO	Craft3 Future Fund	Craft3 Investment II, LLC	Windfarm Investments, Inc.	Eliminating Entries	Consolidated Total
LIABILITIES AND NET ASSETS							
CURRENT LIABILITIES							
Accounts payable and accrued expenses	$ 2,969,874	$ -	$ 7,655	$ 1,005,003	$ -	$ -	$ 3,982,532
Current portion of long-term liabilities	26,082,089	-	-	-	-	-	26,082,089
Total current liabilities	29,051,963	-	7,655	1,005,003	-	-	30,064,621
LONG-TERM DEBT							
Notes payable	102,772,392	-	-	1,229,903	-	-	104,002,295
Equity equivalent investments	12,197,568	-	-	-	-	-	12,197,568
Total long-term debt	114,969,960	-	-	1,229,903	-	-	116,199,863
Less: current portion	(26,082,089)	-	-	-	-	-	(26,082,089)
Total long-term debt, net of current portion	88,887,871	-	-	1,229,903	-	-	90,117,774
Total liabilities	117,939,834	-	7,655	2,234,906	-	-	120,182,395
NET ASSETS							
Without donor restrictions	55,737,252	2,350,729	1,337,532	(1,473,739)	632	(2,215,154)	55,737,252
With donor restrictions	940,283	-	-	-	-	-	940,283
Total net assets	56,677,535	2,350,729	1,337,532	(1,473,739)	632	(2,215,154)	56,677,535
Total liabilities and net assets	$ 174,617,369	$ 2,350,729	$ 1,345,187	$ 761,167	$ 632	$ (2,215,154)	$ 176,859,930

Craft3 and Subsidiaries
Consolidating Statement of Activities
December 31, 2020

	Craft3	WA OREO	Craft3 Future Fund	Craft3 Investment II, LLC	Windfarm Investments, Inc.	Eliminating Entries	Consolidated Total
REVENUE AND OTHER SUPPORT							
Interest income on outstanding loans	$ 7,049,195	$ -	$ 105,017	$ (689,884)	$ -	$ -	$ 6,464,328
Grants and contributions	19,224,522	-	-	-	-	-	19,224,522
Loan origination and servicing fees	1,228,761	-	225	-	-	-	1,228,986
Investment loss	(42,495)	-	-	-	-	-	(42,495)
NMTC management and service fees	374,365	-	-	-	-	-	374,365
Miscellaneous income (loss)	(914,870)	-	-	-	-	920,032	5,162
Total revenue and other support	26,919,478	-	105,242	(689,884)	-	920,032	27,254,868
EXPENSES							
Program services							
Commercial lending activities	13,848,071	-	-	328,908	-	-	14,176,979
Consumer lending activities	2,522,415	-	-	-	-	-	2,522,415
Consulting and management services	701,075	-	-	-	-	-	701,075
Total program services	17,071,561	-	-	328,908	-	-	17,400,469
Supporting services							
Management and administration	1,927,554	-	4,739	-	1,301	-	1,933,594
Development	331,638	-	-	-	-	-	331,638
Total supporting services	2,259,192	-	4,739	-	1,301	-	2,265,232
Total expenses	19,330,753	-	4,739	328,908	1,301	-	19,665,701
Change in net assets before unrealized gains	7,588,725	-	100,503	(1,018,792)	(1,301)	920,032	7,589,167
NET UNREALIZED GAINS ON INVESTMENTS	314,274	-	-	-	-	-	314,274
Change in net assets	$ 7,902,999	$ -	$ 100,503	$ (1,018,792)	$ (1,301)	$ 920,032	$ 7,903,441

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