Enterprise Community Loan Fund, Inc.

Financial Statements
and Independent Auditor's Report

December 31, 2020 and 2019

CohnReznick
ADVISORY • ASSURANCE • TAX

Enterprise Community Loan Fund, Inc.

Index

CohnReznick
ADVISORY • ASSURANCE • TAX

Independent Auditor's Report

The Board of Directors
Enterprise Community Loan Fund, Inc.

We have audited the accompanying financial statements of Enterprise Community Loan Fund, Inc., which comprise the statements of financial position as of December 31, 2020 and 2019, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of 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 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 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 financial statements referred to above present fairly, in all material respects, the financial position of Enterprise Community Loan Fund, Inc. as of December 31, 2020 and 2019, and the 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.

CohnReznick LLP

Bethesda, Maryland
April 28, 2021

Enterprise Community Loan Fund, Inc.

Statements of Financial Position
December 31, 2020 and 2019
($ in thousands)

Assets

	2020	2019
Cash and cash equivalents	$ 20,419	$ 15,594
Restricted cash and cash equivalents	35,277	29,395
Investments	502	495
Restricted investments	823	4,747
Contributions receivable, net	-	924
Interest receivable, net	2,071	1,142
Loans receivable, net of allowance for loan losses of $9,420 and $8,534, respectively	223,863	230,887
Notes receivable, net of allowance for loan losses of $3,687 and $1,555, respectively	606	623
Advances to affiliates	-	57
Investments in unconsolidated partnerships	6,797	6,053
Property and equipment, net	523	397
Other receivables and other assets, net	2	23
Total assets	$ 290,883	$ 290,337

Liabilities and Net Assets

	2020	2019
Liabilities		
Accounts payable and accrued expenses	$ 1,578	$ 1,201
Advances from affiliates	615	93
Funds held for others	4,654	6,059
Loans and notes payable, net	192,728	207,840
Other liabilities	-	7,338
Total liabilities	199,575	222,531
Commitments and contingencies	-	-
Net assets		
Without donor restrictions	68,402	54,505
With donor restrictions	22,906	13,301
Total net assets	91,308	67,806
Total liabilities and net assets	$ 290,883	$ 290,337

See Notes to Financial Statements.

Enterprise Community Loan Fund, Inc.

Statements of Activities
Years Ended December 31, 2020 and 2019
($ in thousands)

	2020			2019		
	Without donor restrictions	With donor restrictions	Total	Without donor restrictions	With donor restrictions	Total
Revenue and support						
Interest income	$ 13,097	$ -	$ 13,097	$ 12,851	$ -	$ 12,851
Investment income, net	98	-	98	433	-	433
Contributions	10,050	250	10,300	-	-	-
Grants	-	13,726	13,726	-	960	960
Other revenue	1,119	-	1,119	1,127	-	1,127
	24,364	13,976	38,340	14,411	960	15,371
Net assets released from restrictions	4,371	(4,371)	-	1,243	(1,243)	-
Total revenue and support	28,735	9,605	38,340	15,654	(283)	15,371
Expenses						
Program activities						
Interest on loans	5,720	-	5,720	5,688	-	5,688
Net change in allowance for loan losses	2,861	-	2,861	1,055	-	1,055
Grants	228	-	228	-	-	-
Direct program expenses	5,491	-	5,491	4,500	-	4,500
Total program activities	14,300	-	14,300	11,243	-	11,243
Support services						
Management and general	1,487	-	1,487	1,428	-	1,428
Total support services	1,487	-	1,487	1,428	-	1,428
Total expenses	15,787	-	15,787	12,671	-	12,671
Excess (deficiency) of revenue and support over expenses from operations	12,948	9,605	22,553	2,983	(283)	2,700
Net unrealized gain (loss) on investments	226	-	226	(135)	-	(135)
Equity increase in earnings of unconsolidated partnerships	723	-	723	40	-	40
Increase (decrease) in net assets	13,897	9,605	23,502	2,888	(283)	2,605
Net assets, beginning of year	54,505	13,301	67,806	51,617	13,584	65,201
Net assets, end of year	$ 68,402	$ 22,906	$ 91,308	$ 54,505	$ 13,301	$ 67,806

See Notes to Financial Statements.

Enterprise Community Loan Fund, Inc.

Statements of Functional Expenses
Years Ended December 31, 2020 and 2019
($ in thousands)

	2020				2019			
Expenses	Program activities	Management and general	Fundraising	Total	Program activities	Management and general	Fundraising	Total
Salaries and benefits	$ 3,231	$ 889	$ -	$ 4,120	$ 2,448	$ 819	$ -	$ 3,267
Professional and contract services	1,806	498	-	2,304	1,421	471	-	1,892
Occupancy	291	64	-	355	246	54	-	300
Grants	228	-	-	228	-	-	-	-
Depreciation and amortization	55	12	-	67	142	31	-	173
General and administrative costs and expenses	108	24	-	132	243	53	-	296
Interest on loans	5,720	-	-	5,720	5,688	-	-	5,688
Net change in allowance for loan losses	2,861	-	-	2,861	1,055	-	-	1,055
	$ 14,300	$ 1,487	$ -	$ 15,787	$ 11,243	$ 1,428	$ -	$ 12,671

See Notes to Financial Statements.

Enterprise Community Loan Fund, Inc.

Statements of Cash Flows
Years Ended December 31, 2020 and 2019
($ in thousands)

	2020	2019
Cash flows from operating activities		
Changes in net assets	$ 23,502	$ 2,605
Adjustments to reconcile changes in net assets to net cash provided by operating activities		
Net change in allowance for loan losses	2,861	1,055
Increase in equity in unconsolidated partnerships	(723)	(40)
Change in fair value of unconsolidated partnerships	(226)	135
Depreciation expense	67	173
Amortization of debt issuance costs	92	91
Decrease in contributions receivable	924	3,201
(Increase) decrease in interest receivable, net	(929)	81
Decrease in other receivables and other assets	21	1
Increase in accounts payable and accrued expenses	377	166
Increase in advances from affiliates	579	477
(Decrease) increase in funds held for others	(1,405)	1,647
(Decrease) increase in other liabilities	(7,338)	7,338
Net cash provided by operating activities	17,802	16,930
Cash flows from investing activities		
Advances on loans receivable	(63,266)	(70,722)
Repayments of loans receivable	69,561	51,386
Advances on notes receivable	(2,186)	(770)
Repayments of notes receivable	71	94
Investments in unconsolidated partnerships	(313)	(233)
Distributions from unconsolidated partnerships	518	381
Purchases of property and equipment	(193)	(187)
Net sales of investments	3,917	3,623
Net cash provided by (used in) investing activities	8,109	(16,428)
Cash flows from financing activities		
Proceeds from loans and notes payable	78,594	75,794
Loan and note repayments	(93,798)	(71,608)
Net cash (used in) provided by financing activities	(15,204)	4,186
Net increase in cash and cash equivalents	10,707	4,688
Cash and cash equivalents, beginning of year	44,989	40,301
Cash and cash equivalents, end of year	$ 55,696	$ 44,989

Enterprise Community Loan Fund, Inc.

Statements of Cash Flows
Years Ended December 31, 2020 and 2019
($ in thousands)

	2020	2019
Supplementary disclosure of cash flow information:		
Interest paid	$ 5,480	$ 5,552
Reconciliation of cash, cash equivalents, and restricted cash:		
Cash and cash equivalents	$ 20,419	$ 15,594
Restricted cash and cash equivalents	35,277	29,395
Total cash, cash equivalents, and restricted cash presented in the statement of cash flows	$ 55,696	$ 44,989
Significant noncash investing and financing activities:		
Recovery of loans receivable presented as a loan payable repayment	$ -	$ 158

See Notes to Financial Statements.

Note 1 - Organization and nature of operations

Basis of presentation

The financial statements include the accounts and transactions of Enterprise Community Loan Fund, Inc. ("Loan Fund"). Our financial statements have been prepared on an accrual basis. Loan Fund uses the equity and fair value methods to account for the interests in entities it does not control.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and disclosures of contingencies at the date of the financial statements and revenue and expenses recognized during the reporting period. Significant estimates are inherent in the preparation of these financial statements in a number of areas, including determining the fair value of unconditional contributions, estimation of potential losses relating to loans and evaluation of the collectability of contributions receivable. Actual results could differ from our estimates.

Organization and business

Loan Fund is a community development financial institution ("CDFI") that was formed in 1990 as a nonstock corporation in the State of Maryland and began operations in 1991. Loan Fund is tax-exempt under section 501(c)(3) of the Internal Revenue Code, as amended, and is a 509(a)(2) organization. Loan Fund is controlled by Enterprise Community Investment, Inc. ("Investment"), a 501(c)(4) social welfare organization. Investment is a wholly-owned subsidiary of Enterprise Community Partners, Inc. ("Partners"), a 501(c)(3) not-for-profit publicly supported charitable foundation.

Our mission is to deliver innovative financial products and technical assistance to mission-aligned organizations to acquire, develop and preserve quality affordable housing for low- and moderate-income families, and to revitalize their communities by providing access to good jobs, quality affordable housing, first-rate schools, transportation and healthy living environments. We are supported primarily by interest income and fees on loans. Generally we use contributions and grants to support our lending activities rather than our operations. We also receive loans from various not-for-profit organizations and financial institutions to fund loans to community development organizations.

Donor restrictions

Net assets, revenue, expenses, gains and losses are classified based on the existence or absence of donor imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

- Net assets without donor restrictions - Net assets not subject to donor imposed restrictions.

- Net assets with donor restrictions - Net assets subject to donor imposed restrictions that will be met by our actions and/or the passage of time, or maintained perpetually by us.

Revenue is reported as increases in net assets without donor restrictions unless use of the related assets are limited by donor imposed restrictions. Investment proceeds and realized/unrealized gains and losses are reported as changes in net assets without donor restrictions unless specifically limited by donor imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Expirations of donor restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications from net assets with donor restrictions to net assets without donor restrictions.

Note 2 - Significant accounting policies

Revenue recognition and related matters

Revenue is recognized when earned and realized pursuant to the following:

Interest income

Interest income on loans receivable and notes receivable is accrued on the principal balance outstanding at the contractual interest rate. Direct loan origination costs are offset against related origination fees and the net amount is amortized over the life of the loan as a component of interest income.

Contributions and grants

Contributions and grants that are unconditional promises to give are recognized as revenue in the period received. Contributions with donor-imposed restrictions and unconditional promises to give with payments due in future periods are recorded as increases to net assets with donor restrictions and are reclassified to net assets without donor restrictions at the time the requirement for release of restriction is met. Unconditional promises to give with payments due in future periods where the donor has explicitly permitted their use in the current period and the promise to give is otherwise free of a donor-imposed purpose restriction are recorded as increases in net assets without donor restrictions. Conditional promises to give are not recognized as revenue until the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at estimated fair value at the date of the gift. There were no contributions receivable at December 31, 2020. Contributions receivable at December 31, 2019 were promises expected to be collected in less than one year. Conditional promises to give received during 2019 were $7.5 million. As of December 31, 2019, $162,000 was in net assets with donor restrictions, since the conditions were met, and the remaining $7.3 million was in other liabilities. Conditions on the remaining $7.3 million were substantially met in 2020.

Cash and cash equivalents and investments

Investments with maturities at dates of purchase of three months or less are considered to be cash equivalents. Cash equivalents are invested in money market funds, certificates of deposit and corporate and U.S. agency bonds and notes, all with an equivalent rating of A2/P2 or higher. Investments consist primarily of marketable securities. Investments in marketable securities consist of U.S. Treasury and agency securities, and are carried at fair value. The original basis of such investments is the purchase price. Investment income is recorded when earned as an addition to net assets without donor restrictions unless restricted by the donor. Realized and unrealized gains and losses are recorded in the accompanying statements of activities as an increase or decrease in net assets without donor restrictions unless restricted by the donor. Investments also include stock with the Federal Home Loan Bank of Atlanta, which is accounted for using the cost method and is evaluated annually for impairment. As of and for the years ended December 31, 2020 and 2019, we did not identify any events or changes in circumstances that might have a significant adverse effect on the recorded cost of this investment requiring the recording of an impairment loss. The carrying value of this stock was $823,000 and $809,000 as of December 31, 2020 and 2019, respectively. Investments also include certificates of deposit with maturities at dates of purchase of more than three months, which are carried at fair value.

In June 2012, we received a donation of stock that does not trade on an active market. During our analysis of the fair valuation of the stock, we were unable to obtain comfort with the inputs utilized to assess the value of the stock and accordingly, no value was assigned at the time of donation. During 2018, the underlying company was acquired by a third party, and we received our full distribution of $150,000 in 2019.

Restricted cash and cash equivalents and restricted investments

Restricted cash and cash equivalents and restricted investments consist of funds held for lending activity, restricted contributions, and funds held for others under escrow, partnership and fiscal agency agreements.

Loans receivable

We make loans to community-based not-for-profit and for-profit mission aligned affordable housing developers, community organizations and certain affiliates for the purpose of supporting low-income communities. We have two segments of loans in our portfolio - housing loans and other loans. Housing loans are primarily used to acquire, renovate and/or construct multi-family residential housing. Our other loans generally provide financing for a variety of community development needs, including community facilities such as charter schools and health care centers as well as loans that encourage community development by supporting growth and operating needs of organizations in low-income communities. Our loans are generally collateralized by real estate. The majority of the loans have repayment terms requiring a balloon payment when construction or permanent financing on the underlying property is secured, the property is sold, or at the stated maturity date.

We may modify loans for a variety of reasons. Modifications include changes to interest rates, principal and interest payment terms, loan maturity dates, and collateral. Some modifications are in conjunction with a troubled debt restructuring when a loan is no longer performing under the current loan terms. These modifications may include the types of modifications noted above and/or a forbearance agreement. We also enter into loan participation agreements with other organizations as the lead lender. If certain conditions are met, these loan participations are accounted for as sales by derecognizing the participation interest sold. No gain or loss on sale is incurred. If the conditions are not met, we continue to carry the full loan receivable on our financial statements and reflect the participation component of the loan as a secured borrowing with a pledge of collateral. We had $1.5 million and $2.8 million in loan participations that did not meet the conditions for sale accounting treatment at December 31, 2020 and 2019, respectively. These loan participations were recorded in loans receivable, offset in loans payable, and represent no risk to Loan Fund (see Note 8). We retain the servicing rights on participations and provide loan servicing on other loan arrangements as well. Since the benefits of servicing approximate the costs, no servicing asset or liability is recognized.

During the loan approval process, underwriting criteria is generally consistent regardless of the portfolio segment. Criteria considered for housing loans include an analysis of the market, sponsor, primary repayment sources, loan takeout options, and collateral. For other loans and investments, more attention is focused on additional criteria, such as the borrower's business plan and cash flow from operations. Once loans are approved, our monitoring processes are consistently applied across portfolio segments.

As a result of these monitoring processes, we generally group our loans into three categories:

- <u>Performing</u> - Loans are performing and borrower is expected to fully repay obligations.

- <u>Monitored</u> - Loans are performing but require monitoring due to change in market, sponsor or other factors that have the potential to impact the borrower's ability to repay obligations.

- Impaired - The primary source of repayment is questionable and the value of the underlying collateral has declined, increasing the probability that we will be unable to collect all principal and interest due.

For impaired loans, we discontinue the accrual of interest income in our statements of activities. Interest payments received on these loans are recognized as either a reduction of principal or, if it is determined that principal can be fully repaid irrespective of collateral value, as interest income. Interest accrual is resumed when the quality of the loan improves sufficiently to warrant interest recognition.

Loans are carried at their unpaid principal balance, less an allowance for loan losses to reflect potentially uncollectible balances. The allowance for loan losses is based upon management's periodic evaluation of the underwriting criteria used to initially underwrite the loan as well as other credit factors, economic conditions, historic loss trends and other risks inherent in the overall portfolio such as geographic or sponsor concentration risks. The allowance is increased through a provision for loan losses which is charged to expense and reduced by charge-offs, net of recoveries. Loans are charged off when repayment is not expected to occur. When a third party guarantees loss coverage on a loan and a charge-off occurs, the amount received is netted against the charge-off for reporting purposes. After charge-off, we continue to pursue collection of the amount owed.

Property and equipment
Property and equipment are stated at cost less accumulated depreciation and amortization. If events or circumstances indicate that the carrying amount is not recoverable, the related asset is tested for impairment and written down to the fair value, if impaired. As of December 31, 2020 and 2019, we have not recognized any reduction in the carrying value of property and equipment. Upon meeting certain criteria, we capitalize external direct costs incurred and payroll and payroll-related expenses for employees who are directly associated with developing or obtaining software applications and related upgrades and enhancements. The cost of property and equipment is depreciated or amortized using the straight-line method over the estimated useful lives of the related assets, which range from three to seven years. As of December 31, 2020 and 2019, our property and equipment of $1.2 million and $1.0 million, respectively, consisted of software applications. Accumulated depreciation and amortization was $678,000 and $611,000 as of December 31, 2020 and 2019, respectively.

Debt issuance costs
Debt issuance costs, net of amortization, are reported as a direct deduction from the face amount of the loans payable to which such costs relate. Amortization of debt issuance costs is reported as a component of interest expense and is computed using an imputed rate of interest on loans payable with scheduled draws and using the straight-line method for loans payable with unscheduled draws. Amortization expense was $92,000 and $91,000, respectively, for the years ended December 31, 2020 and 2019, and is included as a component of interest expense on the accompanying statements of activities.

Investments in unconsolidated partnerships
We account for our investments in unconsolidated partnerships using the equity and fair value methods of accounting. Under the equity method, the initial investment is recorded at cost, increased by our share of income and contributions and decreased by our share of losses and distributions. Under the fair value method, investments without a readily determinable fair value may, as a practical expedient, be estimated by using the net asset value per share. See Note 6 for additional information.

Funds held for others
We hold assets, primarily cash and cash equivalents, for third parties pursuant to fiscal agency and similar contractual arrangements. The assets held are classified as restricted and the liability is included in funds held for others.

Income taxes
Loan Fund is recognized as a 501(c)(3) charitable organization and is exempt from income taxes with respect to charitable activities, except for unrelated business income. We did not have any unrelated business income during the years ended December 31, 2020 and 2019. Accordingly, no provision or benefit for income taxes has been recorded in the accompanying financial statements and there are no other tax positions which must be considered for disclosure. We do file tax returns required to be completed by tax-exempt entities with the Internal Revenue Service ("IRS") and other taxing authorities. These income tax returns are subject to examination by the IRS for a period of three years. While no income tax returns are currently being examined by the IRS, tax years since 2017 remain open for examination.

Expense allocation
Expenses by function have been allocated among program activities and management and general support services based on an analysis performed by us. Interest expense, net change in allowance for loan losses, and grant expense are program activities by nature. Staff time is reviewed for the allocation of all other operating expenses except professional and contract services. Professional and contract services is allocated based on its nature or staff time, depending on the type of expense.

Fair value of financial instruments
The carrying amount of investments in marketable securities and investments in unconsolidated partnerships not accounted for under the equity method are recorded at fair value. The carrying amount of other financial instruments approximate their fair value.

Change in accounting principle
During 2020, we adopted new guidance related to disclosure requirements for fair value measurement. This update requires the disclosure of transfers into and out of Level 3 of the fair value hierarchy and purchases and issues of Level 3 assets and liabilities. See Note 14 for additional information.

During 2019, we adopted new guidance related to contributions received and made. This update clarifies when contributions are considered to be conditional or unconditional. The changes required by the new guidance have been applied prospectively. Grants received with conditions are recorded as liabilities when the cash is received and recorded as contribution revenue upon satisfaction of the condition.

Note 3 - Liquidity

Loan Fund's financial assets available to meet general expenditures over the next twelve months consists of the following ($ in thousands):

	2020	2019
Financial assets at year end:		
Cash and cash equivalents and unrestricted investments	$ 20,921	$ 16,089
Restricted cash and cash equivalents and investments	36,100	34,142
Contributions receivable, net	-	924
Interest receivable, net	2,071	1,142
Loans receivable, net of allowance for loan losses	223,863	230,887
Notes receivable, net of allowance for loan losses	606	623
Advances to affiliates	-	57
Investments in unconsolidated partnerships	6,797	6,053
Total financial assets	290,358	289,917
Less amounts not available to be used within one year:		
Restricted cash and cash equivalents and investments	(36,100)	(34,142)
Contributions receivable, net	-	(924)
Loans receivable financed with loans and notes payable	(191,396)	(206,501)
Notes receivable, net of allowance for loan losses	(606)	(623)
Investments in unconsolidated partnerships	(6,797)	(6,053)
Financial assets available to meet general expenditures over the next twelve months	$ 55,459	$ 41,674

Loan Fund's liquidity policy includes maintaining unrestricted cash and cash equivalents sufficient to meet 4.5 months of expenses. Contributions receivable have donor-imposed restrictions that will not be met within one year. Loans payable could be drawn to finance the portion of loans receivable that is currently funded with our cash, providing the cash for additional liquidity.

Loan Fund also maintains lines of credit for potential liquidity needs, some of which are available for working capital (see Note 8). Commitments on these lines available for working capital totaled $70 million and $65 million at December 31, 2020 and 2019, with $61 million and $60 million, respectively, of which was undrawn.

Note 4 - Loans receivable, net

Since 1981, we have closed approximately $2.2 billion of loans to various community organizations. The sources of lending capital used and anticipated to be used to fund such loans are loans payable, notes payable, and net assets. As of December 31, 2020 and 2019, $97.8 million and $85.4 million, respectively, of loans receivable were due within one year. Loans are secured through a variety of collateral arrangements. As of December 31, 2020, 79% of loans receivable were secured by first liens placed on the underlying real estate; 4% were unsecured or secured by subordinate liens; and 17% were secured by nonreal estate assignments, including developer fees, equity pay-ins, third party credit enhancements or guarantees, and cash and investments. The loans bear interest at varying rates, which, in the aggregate, approximate 5.5% and 5.6% as of December 31, 2020 and 2019, respectively. In accordance with historical practices, it is expected that some of these loans will be extended at maturity. Our loan policy indicates that loans should generally only be extended if there is no material adverse change in the credit, and repayment is not threatened.

Loan participations outstanding totaled $45.7 million and $47.0 million at December 31, 2020 and 2019, respectively.

The allowance for loan losses based on total loans receivable was 4.04% and 3.56% as of December 31, 2020 and 2019, respectively. After adjusting for loan participations that did not meet the requirements for sale treatment, the allowance for loan losses was 4.06% and 3.61% for the same periods. The increase in the allowance is due to additional loans moving from performing to monitored, due to the impact of Covid-19.

As of December 31, the loan portfolio consisted of the following ($ in thousands):

	2020	2019
Loans receivable		
Loans to unaffiliated organizations	$ 226,926	$ 239,421
Loans to affiliated organizations	6,357	-
	233,283	239,421
Less: Allowance for Loan Losses	(9,420)	(8,534)
Loans receivable, net	$ 223,863	$ 230,887

Allowance for loan losses activity by portfolio segment for the years ended December 31 is summarized as follows ($ in thousands):

	2020			2019		
	Housing	Other	Total	Housing	Other	Total
Allowance for loan losses						
Balance at beginning of year	$ (5,629)	$ (2,905)	$ (8,534)	$ (5,106)	$ (3,050)	$ (8,156)
Net change in allowance for loan losses	(320)	(409)	(729)	(508)	145	(363)
Write-offs	-	-	-	-	-	-
Recoveries	(157)	-	(157)	(15)	-	(15)
Balance at end of year	$ (6,106)	$ (3,314)	$ (9,420)	$ (5,629)	$ (2,905)	$ (8,534)

As of December 31, loans by credit quality indicator and portfolio segment consist of the following ($ in thousands):

	2020			2019		
	Housing	Other	Total	Housing	Other	Total
Performing	$ 147,616	$ 47,150	$ 194,766	$ 154,589	$ 73,417	$ 228,006
Monitored	14,745	22,947	37,692	8,499	2,916	11,415
Impaired - without an increased allowance for loan losses	825	-	825	-	-	-
Total	$ 163,186	$ 70,097	$ 233,283	$ 163,088	$ 76,333	$ 239,421
Average investment in impaired loans	$ 279	$ -	$ 279	$ -	$ 138	$ 138
Interest income recognized on impaired loans - cash basis	$ -	$ -	$ -	$ -	$ 11	$ 11

During the years ended December 31, 2020 and 2019, three and one loans, respectively, were modified through troubled debt restructurings. The outstanding balance at restructure, and the additional commitments to lend as of December 31, by portfolio segment, are as follows ($ in thousands):

	2020			2019		
	Housing	Other	Total	Housing	Other	Total
Number	2	1	3	1	-	1
Balance at modification	$ 2,748	$ 1,283	$ 4,031	$ 929	$ -	$ 929
Additional commitments to lend as of year end	$ 260	$ -	$ 260	$ 751	$ -	$ 751

An aging of past due loans by portfolio segment as of December 31 is as follows ($ in thousands):

	2020			2019		
	Housing	Other	Total	Housing	Other	Total
Past due						
31-60 days	$ 230	$ -	$ 230	$ -	$ -	$ -
61-90 days	-	-	-	-	-	-
Over 90 days	1,725	-	1,725	-	-	-
Total	1,955	-	1,955	-	-	-
Current	161,231	70,097	231,328	163,088	76,333	239,421
Total	$ 163,186	$ 70,097	$ 233,283	$ 163,088	$ 76,333	$ 239,421

Note 5 - Notes receivable, net

As of December 31, notes receivable consisted of the following ($ in thousands):

	2020	2019
Notes to unaffiliated organizations	$ 4,293	$ 2,178
Less allowance for loan losses	(3,687)	(1,555)
Notes receivable, net	$ 606	$ 623

Notes receivable allowance activity for the years ended December 31 is summarized as follows ($ in thousands):

	2020	2019
Balance at beginning of year	$ (1,555)	$ (834)
Net change in allowance for loan losses	(2,132)	(692)
Recoveries	-	(29)
Balance at end of year	$ (3,687)	$ (1,555)

Note 6 - Investments in unconsolidated partnerships

We own interests in three California limited liability companies. The ownership interests are: 33.33% in the Bay Area Transit Oriented Affordable Housing Fund, LLC ("Bay Area TOD"), 33.33% in MATCH, LLC, and 25% in GSAF, LLC. We also own a 20% interest in a Georgia limited liability company, CDFI Coalition Revolving Fund, LLC ("CCRF"). The Bay Area TOD was created to provide loans for low-income housing and community services located close to accessible transportation within the San Francisco Bay Area of California. MATCH, LLC was created to provide funding to preserve, stabilize, and expand affordable housing available to low-income residents in Los Angeles County communities near existing and proposed transit nodes. GSAF, LLC was created to establish an affordable housing revolving development and acquisition program to implement the State of California's Affordable Housing Innovation Fund. CCRF was created to provide capital for the acquisition, construction, and/or rehabilitation of affordable housing and community development projects in the State of Georgia. These interests are accounted for under the equity method of accounting.

Our investment in Bay Area TOD, MATCH, LLC, GSAF, LLC and CDFI Coalition totaled $1.2 million and $438,000 at December 31, 2020 and 2019, respectively. Our equity increase in earnings of unconsolidated partnerships totaled $723,000 and $40,000 for the years ended December 31, 2020 and 2019, respectively. The net assets of these entities are not available to pay our obligations, and the creditors of these entities have no recourse to our assets.

We are also a 0.01% limited partner of Columbia Apartments LP. During 2017, we provided a $5 million capital contribution and are to receive a 6% annual return. Our earnings and return of capital are in a first priority position. Our investment in Columbia Apartments LP totaled $4.2 million and $4.5 million at December 31, 2020 and 2019, respectively. This interest is accounted for under the equity method of accounting.

We also have limited partner interests in two social investment funds. The funds seek to address pressing social and environmental challenges through debt and equity investments. Our interest in these investments is 0.72% and 1.60%. As of December 31, 2020 and 2019, our investment in the partnerships was $1.4 million and $1.1 million, respectively. These interests are accounted for under the fair value method of accounting.

Note 7 - Transactions with affiliates

We have extended an unsecured line of credit to Investment. The loan is structured as an arms-length transaction and the terms are based on what Investment can access from external lenders. Borrowings can be used by Investment for general corporate purposes. The borrowing capacity under this facility was $17 million at December 31, 2020 and 2019. The interest rate on borrowings was LIBOR plus 2.25%. There were no outstanding borrowings under this facility at December 31, 2020 and 2019. Effective January 27, 2021, the borrowing capacity under this facility was increased to $30 million. The credit facility is extended automatically on January 1 for successive one-year periods unless Loan Fund provides Investment 30 days notice that it will not extend.

During 2020, we extended two loans to wholly owned subsidiaries of Enterprise Community Development, Inc., which is controlled by Investment. The loans are for the purpose of preserving and renovating affordable housing properties. The total amount outstanding at December 31, 2020 was $6.4 million.

During 2020, Investment provided us an unrestricted contribution of $10 million for lending activities.

In the normal course of business, we utilize both the services of certain officers and professional and administrative personnel of affiliates and provide these services to them, where such services relate to our shared charitable purpose of creating low-income housing. We reimburse affiliates, and are reimbursed by them, for these services as well as for certain operating and administrative expenses. For 2020, the costs incurred for such services was $2.7 million from Investment and $93,000 from Partners, and the cost for services provided to Investment was $201,000. For 2019, the costs incurred for such services was $2.7 million from Investment and $15,000 from Partners, and the cost for services provided to Investment was $626,000.

As of December 31, 2020 and 2019, advances to affiliates were $0 and $57,000, and advances from affiliates were $615,000 and $93,000, respectively. Advances to and from affiliates are for administrative services and to transfer payments for loan related transactions.

Note 8 - Loans and notes payable

Loans and notes payable consist of the following at December 31 ($ in thousands):

	2020	2019
Loans and notes payable	$ 193,329	$ 208,533
Unamortized debt issuance costs	(601)	(693)
Total	$ 192,728	$ 207,840

As of December 31, 2020, loans payable bear interest at rates which vary from 0% to 4.15% and are repayable through 2047. Most of our borrowings are structured as unsecured. We have three facilities that require that we pledge collateral. Based on the requirements of the lender, we pledge the underlying loans receivable, government and agency securities, and/or cash to collateralize draws. Secured loans payable were $61.0 and $62.8 million as of December 31, 2020 and 2019. Most of our loans payable reflect borrowings that have been restricted by the lender for lending to various community development organizations. Some borrowings are further restricted for use in certain locations or in certain sectors and/or initiatives. Some of our loans payable may be utilized for working capital purposes. Additionally, certain of these loans payable are guaranteed by Partners and contain covenants that require us to provide reporting on a periodic basis and to meet and maintain specific financial ratios. As of December 31, 2020, the guaranteed amount was $73 million, which equates to 38% of our loans payable.

We had $1.5 million and $2.8 million of loans payable related to loan participation agreements that did not meet the conditions for sale accounting treatment at December 31, 2020 and 2019, respectively. These loans payable were offset by loans receivable and represent no risk to Loan Fund (see Note 2).

Certain of our loans payable are considered Equity Equivalent ("EQ2") investments. EQ2 investments are fully subordinated, unsecured obligations that carry a fixed interest rate and have a rolling maturity. The lender cannot accelerate repayment unless an uncured event of default exists. As of December 31, 2020 and 2019, loans payable included $7.0 million of EQ2 investments.

We offer an Impact Note program to individuals, including employees and board members, and institutions. Investments are a minimum of $25,000 for 1 to 10 years at interest rates of 0% to 3.5%. As of December 31, 2020 and 2019, amounts outstanding under the program were $20.8 million and $9.5 million, respectively. As of December 31, 2020 and 2019, the balance due to employees and board members was $76,000 and $25,000, respectively.

Approximate annual maturities of loans and notes payable for each of the next five years and thereafter are as follows ($ in thousands):

Due in 2021	$	30,094
2022		15,679
2023		27,130
2024		5,404
2025		4,263
Thereafter		110,759
	$	193,329

The debt due in 2021 consists of borrowings related to loan facilities that are used to fund outstanding loans receivable. We expect to make payments at or before scheduled maturity dates of the related loans using the proceeds from the collection of loans receivable, the refinancing of loan facilities, or through the use of operating cash.

Note 9 - Restrictions and limitations on net asset balances

During the years ended December 31, 2020 and 2019, net assets released from donor restrictions and the events or transactions which caused the restrictions to expire totaled $4.4 million and $1.2 million, respectively.

As of December 31, 2020 and 2019, net assets with donor restrictions were $22.9 million and $13.3 million, respectively, representing contributions receivable due in future periods and gifts and other unexpended revenue restricted to specific programs.

Note 10 - Benefit plans

Partners sponsors a qualified defined contribution plan available to substantially all Loan Fund employees. This plan allows employees to make pre-tax contributions pursuant to Section 401(k) of the Internal Revenue Code and provides for employer matching contributions for eligible employees in accordance with the provisions of the plan. We match eligible participants' contributions, as defined, after one year of employment, based on a formula set forth in the plan, and may make additional contributions, subject to certain limitations, at the discretion of the Partners Board of Trustees. Participants are immediately vested in their contributions, and our matching contributions are vested over a three-year period. After three years of service, all future matching contributions are automatically vested. We made matching contributions to the plan for the years ended December 31, 2020 and 2019 of $97,000 and $98,000, respectively.

The plan also includes a defined contribution provision, whereby we contribute an amount equal to a percentage, as defined by the plan, of the gross compensation of each employee. These contributions vest after six years. After six years of service, all future contributions are automatically vested. Total expenses under this plan totaled $123,000 for the years ended December 31, 2020 and 2019.

Note 11 - Management's view of financial information

Management focuses on operating income excluding contributions, grants, and net change in allowance for loan losses, with a goal of operating income excluding such items of at least break even. In general, management does not utilize contributions and grants to cover the cost of operations; rather these items are used to support lending programs and to increase net assets. The net change in allowance for loan losses is also below the line as it is a noncash item and has a negative impact on earnings when the loan portfolio is growing. Management's view of financial information for the years ended December 31 is as follows ($ in thousands):

	2020	2019
Total revenue and support, excluding contributions, grants, and net assets released from restrictions	$ 14,314	$ 14,411
Total expenses, excluding net change in allowance for loan losses and grant expense	(12,698)	(11,616)
Operating income, excluding the items noted above	1,616	2,795
Contributions, grants, and net assets released from restrictions	14,421	1,243
Net change in allowance for loan losses	(2,861)	(1,055)
Grant expense	(228)	-
Income from operations	12,948	2,983
Net unrealized gain (loss) on investments	226	(135)
Equity increase in earnings of unconsolidated partnerships	723	40
Increase in net assets without donor restrictions	$ 13,897	$ 2,888

Note 12 - Commitments and contingencies

Commitments and contingencies not reflected in the statement of financial position at December 31, 2020 are indicated below:

Loans

At December 31, 2020, we have commitments to fund loans to various community development organizations of approximately $69 million. We also have additional commitments for debt to fund these loans of approximately $157 million. Our loans may also be partially funded with net assets without donor restrictions.

Custodial accounts

During 2020, we held funds in an agency capacity through custodial accounts for participation and syndication programs. The cash and corresponding liability of $7.4 million at December 31, 2020 is not reflected in the financial statements.

Litigation

In the ordinary course of business, we may be involved in a number of lawsuits, claims and assessments. In the opinion of management, the result of these claims will not have a material impact on the financial statements.

Impact of Covid-19

The World Health Organization declared the novel strain of coronavirus ("Covid-19") a global pandemic on March 11, 2020, and recommended containment and mitigation measures worldwide. As of December 31, 2020, Loan Fund remains fully operational. Management continues to monitor the results of operations to evaluate the economic impact of the pandemic on Loan Fund. Management is actively working to identify and mitigate financial, operational, liquidity, and mission-related risks related to this pandemic.

Note 13 - Concentration of credit risk

Cash and cash equivalents are held primarily in checking accounts, certificates of deposit, and money market funds with carefully selected financial institutions. While at times certain deposits may exceed federally insured limits, we have not experienced any losses with respect to our cash and cash equivalent balances. Accordingly, management does not believe that we are exposed to significant credit risk with respect to cash and cash equivalents.

Note 14 - Fair value measurements

Fair value of assets or liabilities measured on a recurring basis is determined based on the price we would receive to sell an asset or pay to transfer a liability in an orderly transaction with a market participant at the measurement date. In the absence of active markets for the identical assets or liabilities, such measurements involve developing assumptions based on observable market data and, in the absence of such data, internal information that is consistent with what market participants would use in a hypothetical transaction that occurs at the measurement date.

Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect market assumptions. Preference is given to observable inputs. These two types of inputs create the following fair value hierarchy:

- Level 1 Inputs - Quoted prices for identical instruments in active markets.

- Level 2 Inputs - Quoted market prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value drivers are observable.

- Level 3 Inputs - Significant inputs to the valuation model are unobservable.

We maintain policies and procedures to value instruments using the best and most relevant data available. Additionally, management routinely performs various risk assessments that review valuation, including independent price validation for certain instruments. Further, in other instances, we retain independent pricing vendors to assist in valuing certain instruments. Investments in marketable securities were $0 and $3.9 million at December 31, 2020 and 2019, respectively, and were deemed to be Level 1 financial instruments. Investments in certificates of deposit were $502,000 and $495,000 at December 31, 2020 and 2019, respectively, and are also deemed to be Level 1 financial instruments. Investments in unconsolidated partnerships recorded at fair value, which is measured by our net asset value per share, were $1.4 million and $1.1 million at December 31, 2020 and 2019, respectively, and are deemed to be Level 3 financial instruments. There were no transfers into or out of Level 3 of the fair value hierarchy, and no purchases and issues of Level 3 assets and liabilities.

Note 15 - Subsequent events

Events that occur after the statement of financial position date but before the financial statements are available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the statement of financial position date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the statement of financial position date require disclosure in the accompanying notes. We evaluated our activity through April 28, 2021 (the date the financial statements were available to be issued) and concluded that no subsequent events have occurred that would require recognition in the financial statements. Management determined that other than the subsequent event disclosed in Note 7, no additional subsequent events require disclosure in the financial statements.

CohnReznick

ADVISORY • ASSURANCE • TAX

Independent Member of Nexia International

cohnreznick.com