NORTHCOUNTRY COOPERATIVE
DEVELOPMENT FUND
D/B/A SHARED CAPITAL COOPERATIVE

FINANCIAL STATEMENTS

FOR THE YEARS ENDED
DECEMBER 31, 2016 AND 2015

NORTHCOUNTRY COOPERATIVE DEVELOPMENT FUND
D/B/A SHARED CAPITAL COOPERATIVE

FINANCIAL STATEMENTS

For the Years Ended December 31, 2016 and 2015

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INDEPENDENT AUDITOR'S REPORT

Board of Directors and Members
Minneapolis, Minnesota

We have audited the accompanying financial statements of Northcountry Cooperative Development Fund d/b/a Shared Capital Cooperative, which comprise the balance sheets as of December 31, 2016 and 2015, and the related statements of operations, stockholders' equity, and cash flows for the years then ended, and the related notes to 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 from 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.

(Continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Shared Capital Cooperative as of December 31, 2016 and 2015, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Mahoney Ulbrich Christiansen Russ P.A.

Saint Paul, Minnesota
April 5, 2017

NORTHCOUNTRY COOPERATIVE DEVELOPMENT FUND
D/B/A SHARED CAPITAL COOPERATIVE

BALANCE SHEETS

December 31, 2016 and 2015

	2016	2015
ASSETS		
Current assets:		
Cash	$ 501,791	$ 4,165,576
Funds held for others	361,278	828,536
Current maturities of loans receivable	1,717,799	1,606,508
Accrued interest receivable	40,241	29,645
Grants and other receivables	23,510	2,418
Prepaid expenses	9,446	14,057
Total current assets	2,654,065	6,646,740
Loans receivable - net, less current maturities	8,044,911	5,510,313
Other assets	31,819	40,359
Office equipment, net	3,941	7,612
Investments in other entities	148,160	148,160
Deferred income tax asset	166,200	166,200
Total assets	$ 11,049,096	$ 12,519,384
LIABILITIES AND STOCKHOLDERS' EQUITY		
Notes payable due on demand	$ 1,471,177	$ 1,640,301
Current maturities of notes payable	2,742,784	3,594,763
Funds due to others	361,278	828,536
Accounts payable	7,517	12,286
Secured borrowings	99,764	-
Accrued expenses	14,671	14,839
Patronage refund payable	-	9,570
Deferred grants	-	20,000
Total current liabilities	4,697,191	6,120,295
Notes payable, less portion due on demand and current maturities	4,444,648	4,572,663
Total liabilities	9,141,839	10,692,958
Stockholders' equity		
Preferred stock, $10 par value, 500,000 shares authorized, 169,903 and 142,686 shares outstanding in 2016 and 2015, respectively	1,699,031	1,426,864
Common stock - voting, $10 par value, 1,000 shares authorized, 474 and 438 shares outstanding in 2016 and 2015, respectively	4,740	4,380
Common stock - nonvoting, $10 par value, 500,000 shares authorized, 157,893 and 157,893 shares outstanding in 2016 and 2015, respectively	1,578,929	1,578,929
Additional paid-in capital	584,481	492,813
Retained earnings (accumulated deficit)	(1,959,924)	(1,676,560)
Total stockholders' equity	1,907,257	1,826,426
Total liabilities and stockholders' equity	$ 11,049,096	$ 12,519,384

See accompanying notes to financial statements.

NORTHCOUNTRY COOPERATIVE DEVELOPMENT FUND
D/B/A SHARED CAPITAL COOPERATIVE

STATEMENTS OF OPERATIONS

For the Years Ended December 31, 2016 and 2015

	2016	2015
Interest income:		
Loans receivable	$ 607,242	$ 520,411
Operating cash investments	14,208	15,896
Total interest income	621,450	536,307
Interest expense	(167,580)	(197,635)
Net interest income	453,870	338,672
Provision for loan losses, net	(203,688)	(29,490)
Net interest income after provision for loan losses	250,182	309,182
Noninterest income:		
Fees and service charges	84,656	92,895
Grant revenue	78,150	337,105
Other income	15,943	17,114
Total noninterest income	178,749	447,114
Income before noninterest expenses	428,931	756,296
Noninterest expenses:		
Compensation and employee benefits	510,250	443,721
Contract services	46,732	120,077
Office	20,125	22,086
Advertising / branding	23,080	33,583
Depreciation	13,111	4,119
Occupancy	17,050	17,444
Other	59,780	60,615
Total noninterest expenses	690,128	701,645
Income (loss) before patronage refund and income taxes	(261,197)	54,651
Patronage refund	-	(9,570)
Income (loss) before income taxes	(261,197)	45,081
Income tax expense - deferred	-	(14,000)
Net income (loss)	$ (261,197)	$ 31,081

See accompanying notes to financial statements.

NORTHCOUNTRY COOPERATIVE DEVELOPMENT FUND
D/B/A SHARED CAPITAL COOPERATIVE

STATEMENTS OF STOCKHOLDERS' EQUITY

For the Years Ended December 31, 2016 and 2015

	Preferred Stock		Common Stock - Voting		Common Stock - Nonvoting		Additional Paid-In Capital	Retained Earnings (Accumulated Deficit)	Total Stockholders' Equity
	Shares	Amount	Shares	Amount	Shares	Amount			
Balance, December 31, 2014	120,596	$ 1,205,960	433	$ 4,330	48,500	$ 485,000	$ 467,929	$ (1,686,737)	$ 476,482
Transfer from notes payable	-	-	-	-	-	-	540	-	540
Preferred stock:									
Noncash stock dividend	2,090	20,904	-	-	-	-	-	(20,904)	-
Issuance of stock	20,000	200,000	-	-	-	-	-	-	200,000
Common stock:									
Issuance of stock to new shareholders	-	-	13	130	109,393	1,093,929	17,620	-	1,111,679
Redemption of stock	-	-	(6)	(60)	-	-	(2,130)	-	(2,190)
Reclassification	-	-	(2)	(20)	-	-	20	-	-
Capital contributions from existing shareholders	-	-	-	-	-	-	8,834	-	8,834
Net income	-	-	-	-	-	-	-	31,081	31,081
Balance, December 31, 2015	142,686	1,426,864	438	4,380	157,893	1,578,929	492,813	(1,676,560)	1,826,426
Transfer from notes payable	-	-	-	-	-	-	180	-	180
Preferred stock:									
Noncash stock dividend	2,217	22,167	-	-	-	-	-	(22,167)	-
Issuance of stock	25,000	250,000	-	-	-	-	-	-	250,000
Common stock:									
Patronage refund	-	-	-	-	-	-	9,570	-	9,570
Issuance of stock to new shareholders	-	-	38	380	-	-	68,545	-	68,925
Redemption of stock	-	-	(3)	(30)	-	-	(745)	-	(775)
Reclassification	-	-	1	10	-	-	(10)	-	-
Capital contributions from existing shareholders	-	-	-	-	-	-	14,128	-	14,128
Net loss	-	-	-	-	-	-	-	(261,197)	(261,197)
Balance, December 31, 2016	169,903	$ 1,699,031	474	$ 4,740	157,893	$ 1,578,929	$ 584,481	$ (1,959,924)	$ 1,907,257

See accompanying notes to financial statements.

NORTHCOUNTRY COOPERATIVE DEVELOPMENT FUND
D/B/A SHARED CAPITAL COOPERATIVE

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2016 and 2015
Increase (Decrease) in Cash and Cash Equivalents

	2016	2015
Cash flows from operating activities:		
Net income (loss)	$ (261,197)	$ 31,081
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation	13,111	4,119
Provision for loan losses	203,688	29,490
Income tax expense - deferred	-	14,000
Patronage refund satisfied with stock	9,570	-
Changes in operating assets and liabilities:		
Receivables	(31,688)	93,584
Prepaid expenses	4,611	(24,546)
Accounts payable	(4,769)	(25,403)
Accrued interest	(12,115)	94,419
Accrued expenses	(9,738)	18,851
Deferred grants	(20,000)	(25,000)
Net cash from operating activities	(108,527)	210,595
Cash flows from investing activities:		
Collections on loans receivable	1,014,919	1,294,571
Issuance of loans receivable	(3,864,496)	(1,104,961)
Funds received for borrower, net	-	(322,965)
Purchase of office equipment	(900)	(3,197)
Net cash from investing activities	(2,850,477)	(136,552)
Cash flows from financing activities:		
Issuance of notes payable	1,719,460	1,703,983
Repayments on notes payable	(2,856,283)	(532,709)
Proceeds from secured borrowing	99,764	-
Proceeds from issuance of preferred stock	250,000	200,000
Proceeds from issuance of common stock	68,925	1,111,679
Proceeds from additional paid in capital contribution	14,128	8,834
Redemption of common stock	(775)	(2,190)
Net cash from financing activities	(704,781)	2,489,597
Net increase (decrease) in cash and cash equivalents	(3,663,785)	2,563,640
Cash and cash equivalents - beginning of year	4,165,576	1,601,936
Cash and cash equivalents - end of year	$ 501,791	$ 4,165,576
Supplemental disclosures of cash flow information:		
Cash paid for interest	$ 179,855	$ 103,217
Stockholders' equity issued for notes payable	$ 180	$ 540
Noncash preferred stock dividend	$ 22,167	$ 20,904

See accompanying notes to financial statements.

1. ORGANIZATION

Northcountry Cooperative Development Fund operates under the assumed name Shared Capital Cooperative and expects to change its name to Shared Capital Cooperative in 2017. Shared Capital Cooperative (Shared Capital) is a member-owned and member-governed financial intermediary providing loans to support the growth and development of cooperative enterprises. Shared Capital provides financing to consumer, worker, housing and producer cooperatives and their members throughout the United States.

Shared Capital obtains funds from its members as well as from non-member institutions interested in supporting the cooperative economy, including foundations, religious organizations, community groups, cooperative coalitions, financial institutions and socially responsible organizations.

Shared Capital was formed in 1978 and is organized as a cooperative association under Chapter 308A of Minnesota law and is certified as a Community Development Financial Institution (CDFI) by the United Stated Department of Treasury. Shared Capital has more than 213 member cooperatives and 240 individual members.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to change are the allowance for loan losses and the valuation allowance for the deferred income tax asset.

Cash Equivalents - Shared Capital considers all investment instruments purchased with original maturities of three months or less and time deposits with insignificant early withdrawal penalties to be cash equivalents.

Credit Risk - Financial instruments that potentially subject Shared Capital to credit risk include cash on deposit at banks. Shared Capital has not experienced any losses in such accounts. As of December 31, 2016 and 2015, balances exceed the insured limits by approximately $50,000 and $4,500,000, respectively. Shared Capital management does not believe it is exposed to any significant concentration of credit risk on cash.

(Continued)

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Additionally, loans receivable subject Shared Capital to a credit risk. Generally, loans are collateralized by property, equipment and inventory of the borrower.

Grants Revenue - Grant revenue is recorded when earned or over the grant period. Grants received in advance are recorded as deferred grants.

Loans Receivable - Shared Capital provides commercial loans to cooperatively owned businesses throughout the United States. The ability of the borrowers to honor their contracts is dependent upon sound management of the cooperative, general economic conditions and the value of real estate collateral in the member's geographic area.

Loans receivable are stated at unpaid principal balances, less an allowance for loan losses. Interest on loans is recognized over the term of the loan and is calculated using the simple-interest method on principal amounts outstanding.

Loans are placed on non-accrual status or charged off if all or a portion of the loan is deemed to be uncollectible by management based on economic conditions, business conditions and collection efforts. It is Shared Capital's policy that any loan that is more than 120 days delinquent will be charged off unless management determines that pay off of the loan is imminent, whether through collections, liquidation or foreclosure. The Board of Directors must approve the charge off of any loan, generally upon recommendation from the Loan and Finance Committees.

All interest accrued but not collected for loans that are placed on non-accrual status or charged off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Non-refundable commitment fees are recognized upon receipt. Loan fees are recognized as income upon closing of the loan because incremental direct costs incurred on each loan exceed the fees charged.

(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Loan Losses - The allowance for loan losses is a non-cash reserve established against potential or expected losses on loans. Each loan in the portfolio is assigned a risk rating and each rating has a corresponding percentage that must be set aside as an allowance. The ratings and the allowance are evaluated regularly by management based upon qualitative factors that are subjective and require a high degree of management judgment. These factors include adverse situations that may affect the borrower's ability to repay, estimated value of the underlying collateral and prevailing economic conditions. The Loan Committee establishes initial risk ratings at the time loans are approved and must approve any changes to ratings. In addition, on a quarterly basis, the Loan Committee reviews and approves all risk ratings and the allowance for loan losses. The Board of Directors reviews the allowance and risk ratings at least annually.

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the loan is uncollectible. Subsequent recoveries are credited to income.

Other Assets – Other assets consist of website development and trademark costs. Website development costs are amortized over a 3-year period and trademark costs are amortized over a 10-year period, using the straight-line method.

Office Equipment - Office equipment is capitalized at cost. Depreciation is provided using the straight-line method over estimated useful lives of three to seven years. When an asset is retired, or sold, its cost and related accumulated depreciation are removed from the account and the resulting gain or loss is reflected in the statement of operations. Accumulated depreciation was $12,790 and $8,219 as of December 31, 2016 and 2015.

Fair Value Measurements - Shared Capital determines fair value, when necessary, based on the assumptions that market participants would use when pricing the asset or liability. Shared Capital does not currently have any financial assets or liabilities that are measured at fair value on a recurring or non-recurring basis.

Investments in Other Entities - Investments in other entities are carried at cost.

(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes - Shared Capital is taxed as a cooperative and is subject to the provisions of Subchapter T of the Internal Revenue Code. The bylaws require Shared Capital to annually distribute net income from patronage to its members, based on their patronage with Shared Capital, at the Board's discretion. The distributions may be in the form of cash, stock or allocated surplus, which reduces Shared Capital's income tax liability. However, losses in Shared Capital's patronage business may, at the Board's discretion, be carried forward to offset future distributions of net income from patronage.

Members of Shared Capital receiving qualified patronage dividends consent to include them in their taxable income.

Income taxes are provided for the tax effects of the transactions reported in the financial statements and consist of taxes currently due plus deferred income taxes related primarily to the difference between the basis of loans receivable for financial and income tax reporting, which consists of the allowance for loan losses. The deferred income tax asset includes the future tax return consequences of that difference, which will be deductible when the loans are written off. A deferred income tax asset is also recognized for operating losses that are available to offset future taxable income. The deferred income taxes are reflected at income tax rates applicable to the period in which the deferred income taxes are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred income taxes are adjusted through the provision for income taxes. If it is more likely than not that all or some portion of the deferred income tax asset will not be realized, a valuation allowance is recognized. Management believes there are no uncertain tax positions.

Federal and state tax authorities generally have the right to examine income tax returns for a period of three years after they are filed. The Cooperative is not currently under examination by any taxing jurisdiction. Any interest or penalties associated with income tax positions are reported in other noninterest expenses. There was no such interest or penalties in 2016 and 2015.

Reclassifications - Certain reclassifications have been made to the December 31, 2015 financial statements in order for them to conform to the December 31, 2016 presentation. These reclassifications had no effect on net income (loss) or stockholder's equity.

(Continued)

3. LOANS RECEIVABLE

The following table presents the recorded investment in loans, net of participations, by portfolio segment and the allowance for loan losses as of December 31:

	2016	2015
Cooperative housing mortgage loans	$ 4,260,753	$ 3,561,965
Cooperative business mortgage loans	712,783	666,270
Cooperative business loans	5,202,350	3,041,711
Loans to individuals to purchase cooperative housing (Share)	122,637	180,768
Total loans	10,298,523	7,450,714
Less allowance for loan losses	(535,813)	(333,893)
	$9,762,710	$ 7,116,821

The following reconciles notes receivable to the balance sheet presentation:

	2016	2015
Current maturities	$1,717,799	$ 1,606,508
Long-term	8,044,911	5,510,313
	$9,762,710	$ 7,116,821

A description of the loans follows:

- Cooperative housing mortgage loans are loans for multifamily housing properties secured by a mortgage.
- Cooperative business mortgage loans are loans for commercial real estate secured by a mortgage.
- Cooperative business loans are loans secured by other business assets excluding real estate.
- Loans to individuals to purchase cooperative housing.

The following table presents the change in the allowance for loan losses in 2016 and 2015:

	2016	2015
Beginning balance	$ 333,893	$ 304,403
Provision for loan losses	203,688	29,490
Loans charged off	(1,768)	-
Ending balance	$ 535,813	$ 333,893

(Continued)

3. LOANS RECEIVABLE (Continued)

In addition to the loans summarized above, Shared Capital services $3,490,581 at December 31, 2016 and $2,167,946 at December 31, 2015 of loan participations, which have been sold to other lenders.

The following table presents the aging of loans by portfolio segment:

	Cooperative housing mortgage loans	Cooperative business mortgage loans	Cooperative business loans	Loans to individuals (Share)	Total
2016:					
Current	$ 4,260,753	$ 712,783	$ 5,202,350	$ 122,637	$10,298,523
31 - 90	-	-	-	-	-
90 + days	-	-	-	-	-
Total	$ 4,260,753	$ 712,783	$ 5,202,350	$ 122,637	$10,298,523
2015:					
Current	$ 3,561,965	$ 666,270	$ 3,041,711	$ 180,768	$ 7,450,714
31 - 90	-	-	-	-	-
90 + days	-	-	-	-	-
Total	$ 3,561,965	$ 666,270	$ 3,041,711	$ 180,768	$ 7,450,714

The following table presents the allowance for loan losses by portfolio segment:

2016:					
Beginning balance	$ 146,174	$ 40,681	$ 144,714	$ 2,324	$ 333,893
Loans written off			(1,768)		(1,768)
Addition (Reduction), net	(17,419)	(3,565)	225,548	(876)	203,688
Ending balance	$ 128,755	$ 37,116	$ 368,494	$ 1,448	$ 535,813
2015:					
Beginning balance	$ 134,783	$ 51,538	$ 115,333	$ 2,749	$ 304,403
Addition (Reduction), net	11,391	(10,857)	29,381	(425)	29,490
Ending balance	$ 146,174	$ 40,681	$ 144,714	$ 2,324	$ 333,893

(Continued)

3. **LOANS RECEIVABLE (Continued)**

The following table and the accompanying explanations present informative data regarding the credit quality of loans receivable at December 31, 2016:

	Cooperative housing mortgage loans	Cooperative business mortgage loans	Cooperative business loans	Loans to individuals (Share)	Total
2016:					
A	$ 2,147,139	$ 167,383	$ 173,813	$ 119,227	$ 2,607,562
B	1,533,370	458,673	1,504,777	-	3,496,820
C	445,545	-	1,573,789	-	2,019,334
D	-	-	1,552,839	-	1,552,839
E	-	-	350,000	-	350,000
F	134,699	86,727	-	3,410	224,836
G	-	-	47,132	-	47,132
Total	$ 4,260,753	$ 712,783	$ 5,202,350	$ 122,637	$10,298,523
2015:					
A	$ 1,690,459	$ 146,778	$ 229,773	$ 148,038	$ 2,215,048
B	1,283,453	330,838	1,421,181	28,076	3,063,548
C	451,691	96,787	895,269	-	1,443,747
D	-	-	488,022	-	488,022
F	136,362	91,867	-	4,654	232,883
G	-	-	7,466	-	7,466
Total	$ 3,561,965	$ 666,270	$ 3,041,711	$ 180,768	$ 7,450,714

3. LOANS RECEIVABLE (Continued)

The following categories are used to assess the risk profile of the loan portfolio:

		Allowance %	
Category	Description of Creditworthiness	Commercial	Share
A+	Highest credit quality, borrower is stable and reliable	0%	0%
A	Borrower is stable and reliable	1%	.5%
B	Good borrower, but some recent internal or external changes	3%	1.5%
C	Good borrower, but recent significant internal or external changes and challenges	5%	3%
D	Borrower is either rebounding or heading into a period of significant difficulties	10%	6%
E	Relatively weak borrower facing some internal or external challenges	15%	10%
F	Weak borrower facing significant challenges	25+%	25+%
G	Doubtful	Up to 100%	Up to 100%

Loans are considered impaired if it is probable that at least some of the principal and interest payments will not be collected. Other information related to loan impairment as of December 31, 2016 follows:

- All loans are individually reviewed for impairment
- Three business loans ($148,053) were impaired. One of these was on non-accrual status although the business was still operating; two loans were to businesses that had ceased operations, one of which had filed for bankruptcy and the other loan ($14,194) is fully guaranteed and will be repaid in full.

(Continued)

4. NOTES PAYABLE

Notes payable, including accrued interest, are summarized as follows:

	2016	2015
Senior loans payable:		
Institutional	$ 2,910,713	$ 2,281,077
Subordinate loans payable:		
Cooperatives	3,975,604	5,476,085
Individuals	772,292	548,371
Institutional	500,000	500,000
Institutional EQ2	500,000	1,002,194
	$ 8,658,609	$ 9,807,727

The following reconciles notes payable to the balance sheet presentation:

	2016	2015
Notes payable due on demand	$ 1,471,177	$ 1,640,301
Current maturities of notes payable	2,742,784	3,594,763
Notes payable, less portion due on demand and current maturities	4,444,648	4,572,663
	$ 8,658,609	$ 9,807,727

4. NOTES PAYABLE (Continued)

Principal maturities of notes payable, including accrued interest, are as follows:

Accrued interest ($282,070 in 2015)	$ 251,168
Due on demand – 30 days	275,338
Due on demand – 90 days	944,671
	1,471,177
2017	2,742,784
2018	402,431
2019	1,464,832
2020	1,369,054
2021	662,427
Thereafter	545,904
	$ 8,658,609

Notes payable at December 31, 2016, have interest rates ranging from 0.20% to 4.5%, are unsecured, and mature through 2028.

An institutional EQ2 note from BMO Harris Bank NA Community Investments in the amount of $500,000 matures in December 2017 and is reflected in 2017 maturities above.

5. SECURED BORROWINGS

In December 2016, Shared Capital transferred a participation in a loan receivable in exchange for cash. The agreement requires Shared Capital to repurchase the participation in December 2017. Because this transfer does not meet the requirement for loan sale accounting, Shared Capital recorded the liability as a secured borrowing. The secured borrowing is collateralized by the loan receivable associated with the participation.

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6. FUNDS HELD FOR OTHERS

Shared Capital has an agreement with NASCO Development Services (NDS) to provide loan servicing functions for their Kagawa Fund. Shared Capital accumulates principal and interest collections, net of remitting interest due to investors of the Kagawa Fund, for use in providing additional loans on behalf of the Kagawa Fund. NASCO Development Services and the Kagawa Fund investors bear all risk of loss pertaining to these loans. Shared Capital receives a servicing fee for administering the portfolio and closing and origination fees on new loans issued.

At December 31, 2016 and 2015, Shared Capital is servicing $201,443 and $83,711 of loans for the Kagawa Fund respectively, which is not included in loans receivable. Shared Capital also holds $260,571 at December 31, 2016 and $116,472 at December 31, 2015, payable to NDS and available for lending.

At December 31, 2016, Shared Capital also held $100,707 on behalf of another lender to be used to purchase a portion of a closed loan that is pending disbursement. At December 31, 2015, Shared Capital held $712,064 on behalf of another lender to be distributed as the participant portion of a pending loan disbursement.

7. STOCKHOLDERS' EQUITY

Preferred Stock - At the discretion of the Board of Directors, Shared Capital may pay holders of Class A preferred stock an annual dividend of up to 8% in the form of cash, additional shares of Class A preferred stock or equity credits. The Class A preferred stock has no voting rights and shares may only be transferred upon the approval of the Board of Directors. The Class A preferred stock has a liquidation preference over other equity. Stock dividends of $22,167 and $20,904 were declared and issued during 2016 and 2015.

Shared Capital has an agreement with an investor that allows the investor to redeem all or part of its $500,000 of preferred stock under certain conditions on or after April 1, 2021.

Additional Paid-In Capital - Additional paid-in capital requirements are determined on a multi-tiered format based for businesses on the assets and for housing on the number of units. New members contributed additional paid-in capital of $78,295 in 2016 and $17,620 in 2015. Existing members contributed additional paid-in capital of $14,128 in 2016 and $8,834 in 2015.

(Continued)

7. **STOCKHOLDERS' EQUITY (Continued)**

Members agreed to convert $180 of Shared Capital notes payable into additional paid in capital during 2016 (in 2015, $540 was converted into equity). This was done to meet increased member equity requirements approved by the board of directors in 2010.

8. **LEASE OBLIGATIONS**

Shared Capital leases its office space under the terms of an operating lease agreement that expires on June 30, 2017. Rent due in 2017 is $7,800. Rent expense was $16,950 in 2016 and $17,400 in 2015.

9. **RETIREMENT PLAN**

Shared Capital has established a salary reduction retirement plan with matching contributions for participating employees. The plan has received IRS approval under Section 408(p) of the Internal Revenue Code. The plan covers all employees who have met certain service requirements. Shared Capital will match the elective contributions of an employee in an amount not exceeding 3% of the employee's compensation. Matching contributions were $9,965 in 2016 and $7,576 in 2015.

10. **INVESTMENTS IN OTHER ENTITIES**

Shared Capital holds 5% investments in two limited liability companies that own commercial buildings that are leased to cooperatives as part of New Market Tax Credit projects. Shared Capital has also made a loan to one of these cooperatives. Shared Capital has notes payable to both cooperatives, and they both hold common stock and preferred stock in Shared Capital.

There are no dividends on these investments but Shared Capital expects to receive a return equal to at least Shared Capital's average annual rate of return on loans upon the wind down of these investments after 2023.

11. INCOME TAXES

Shared Capital has Federal net operating loss carry forwards of approximately $1,700,000 that begin to expire in 2027. Minnesota net operating loss carry forwards of approximately $1,800,000 begin to expire in 2022.

The deferred income tax asset consists of the future tax effect of net operating loss carryforwards and the allowance for loan losses. For financial statement purposes an allowance for loan losses is recorded based on management's review of loans receivable. For income tax purposes, loan losses are deductible when incurred. Deferred tax assets are $524,000 and $463,000 at December 31, 2016 and 2015, respectively.

Realization of the deferred income tax asset is dependent upon sufficient future taxable income during the net operating loss carry forward period. Management expects it is more likely than not that a portion of the deferred income tax assets may not be realized, accordingly, a deferred income tax valuation allowance of $357,800 and $296,800 has been recorded at December 31, 2016 and 2015. The deferred income tax valuation allowance did not change in 2016 or 2015.

Utilization of the deferred income tax asset is dependent upon Shared Capital generating sufficient income within the net operating loss carryforward period. Due to the uncertainty of future income, it is at least reasonably possible that management's view of future income will change in the near term.

12. TRANSACTIONS WITH RELATED PARTIES

Several directors of Shared Capital are employed by, or directors of, Shared Capital member organizations or other organizations that borrow from, lend to, or hold common or preferred stock in Shared Capital. Several Shared Capital directors as well as several staff members are members of the cooperative's individual class of members and hold common stock, and may also lend to Shared Capital.

Several staff members are directors of member organizations or other organizations that borrow from, lend to, or hold common or preferred stock in Shared Capital. Directors of Shared Capital are employees of both cooperatives that are partners in the two LLCs in which Shared Capital holds equity investments (see Note 10), and a Shared Capital staff member is a director of one of the cooperatives.

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12. TRANSACTIONS WITH RELATED PARTIES (Continued)

Such activities were in the ordinary course of business at normal credit terms including interest rates and collateralization and do not represent more than a normal risk of collection.

Significant related party balances are summarized as follows:

Transaction Type	Where Reported	2016	2015
Investments in affiliated entities	Investments in other entities	$ 148,160	$ 148,160
Preferred stock held by affiliated entities	Preferred stock	$ 382,428	$ 162,290
Notes payable to affiliates	Notes payable	$ 671,284	$ 214,254
Loans receivable from affiliates	Loans receivable	$ 791,969	$ 531,706

Significant related party transactions for years ended December 31 are as follows:

Transaction Type	Where Reported	2016	2015
Interest income earned from affiliates	Interest income: Loans receivable	$ 26,516	$ 20,137
Interest paid to affiliates	Interest expense	$ 18,089	$ 15,959
Amounts borrowed from affiliates	Notes payable	$ 590,543	$ 161,058
Amounts loaned to affiliates	Loans receivable	$ 791,969	$ 531,706
Preferred stock dividends paid to affiliates	Preferred stock	$ 3,794	$ 1,474

13. COMMITMENTS

As of December 31, 2016, Shared Capital has made commitments of approximately $2,800,000 to lend funds in the normal course of business to meet the financing needs of its members. These are commitments to extend credit that involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the financial statements.

14. SUBSEQUENT EVENTS

Management has evaluated subsequent events through April 5, 2017, the date on which the financial statements were available for issue, and identified the following significant events or transactions to disclose.

In March 2017, Shared Capital's board submitted to the membership a proposal to change the name of the organization to Shared Capital Cooperative. The member vote will take place by mail ballot and at the Annual General Membership Meeting on April 18, 2017.

On March 24, 2017, Shared Capital closed on a $500,000 line of credit agreement payable to National Cooperative Bank.