

SHARED CAPITAL COOPERATIVE

FINANCIAL STATEMENTS

December 31, 2017 and 2016

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Shared Capital Cooperative
St. Paul, Minnesota

We have audited the accompanying financial statements of Shared Capital Cooperative, which comprise the balance sheet as of December 31, 2017, and the related statements of income, equity, and cash flows for the year 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 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.

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, 2017, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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Prior Period Financial Statements

The financial statements of Shared Capital Cooperative as of December 31, 2016 were audited by other auditors whose report, dated April 5, 2017, expressed an unmodified opinion on those statements.

Wegner CPAs, LLP

Wegner CPAs, LLP
Madison, Wisconsin
April 23, 2018

SHARED CAPITAL COOPERATIVE
BALANCE SHEETS
December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 537,037	\$ 863,069
Accounts receivable	941	23,510
Prepaid expenses	21,640	6,832
Accrued interest receivable	52,191	40,241
Current portion of notes receivable	<u>1,867,446</u>	<u>1,717,799</u>
Total current assets	2,479,255	2,651,451
Property and equipment - net	27,652	3,941
Intangible assets - net	25,893	34,433
OTHER ASSETS		
Security deposit	3,000	-
Equity in other cooperatives	154,560	148,160
Notes receivable less current portion - net of loan loss allowance	8,301,849	8,044,911
Deferred tax asset	<u>166,200</u>	<u>166,200</u>
Total assets	<u><u>\$ 11,158,409</u></u>	<u><u>\$ 11,049,096</u></u>
LIABILITIES AND EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$ 9,946	\$ 7,517
Accrued expenses	212,142	114,435
Deferred revenue	3,456	-
Funds held for others	274,949	361,278
Current portion of accrued interest payable	204,065	226,688
Current portion of long-term debt	<u>2,962,849</u>	<u>1,220,009</u>
Total current liabilities	3,667,407	1,929,927
LONG-TERM LIABILITIES		
Long-term debt net of current portion	5,762,642	7,187,432
Accrued interest payable net of current portion	<u>67,570</u>	<u>24,480</u>
Total liabilities	9,497,619	9,141,839
EQUITY		
Preferred stock, \$10 par value, 500,000 shares authorized, 169,903 shares issued and outstanding	1,699,031	1,699,031
Common stock - voting, \$10 par value, 1,000 shares authorized, 494 and 474 shares issued and outstanding	4,940	4,740
Common stock - nonvoting, \$10 par value, 500,000 shares authorized, 157,893 shares issued and outstanding	1,578,929	1,578,929
Additional paid-in capital	627,978	584,481
Accumulated deficit	<u>(2,250,088)</u>	<u>(1,959,924)</u>
Total equity	<u>1,660,790</u>	<u>1,907,257</u>
Total liabilities and equity	<u><u>\$ 11,158,409</u></u>	<u><u>\$ 11,049,096</u></u>

See accompanying notes.

SHARED CAPITAL COOPERATIVE
STATEMENTS OF INCOME
Years ended December 31, 2017 and 2016

	2017	2016
	Amount	Amount
REVENUE		
Interest income - loans	\$ 704,967	\$ 607,242
Interest income - cash accounts	1,393	14,208
Loan fees	33,465	84,656
Loan recovery income	24,199	343
Contributions	10,550	78,150
Consulting income	3,200	7,828
Other	103	7,772
Total revenue	777,877	800,199
EXPENSES		
Personnel	479,718	510,250
Interest	191,556	167,580
Provision for loan losses	171,866	203,688
Outside services	56,886	25,861
Seminars, travel, and training	50,913	40,761
Occupancy	37,797	25,958
Legal	20,212	18,734
Advertising	18,520	23,080
Depreciation and amortization	14,694	13,111
Office supplies	10,261	10,090
Board expense	8,940	12,293
Dues	5,051	4,680
Fees	1,130	3,173
Miscellaneous	497	2,137
Total expenses	1,068,041	1,061,396
Net loss before income taxes and patronage dividend	(290,164)	(261,197)
Provision for income taxes	-	-
Patronage dividend	-	-
Net loss	\$ (290,164)	\$ (261,197)

See accompanying notes.

SHARED CAPITAL COOPERATIVE
STATEMENTS OF EQUITY
Years ended December 31, 2017 and 2016

	Preferred Stock	Common Stock - Voting	Common Stock - Nonvoting	Additional Paid-in Capital	Accumulated Deficit	Total Equity
Balance December 31, 2015	\$ 1,426,864	\$ 4,380	\$ 1,578,929	\$ 492,813	\$ (1,676,560)	\$ 1,826,426
Purchases	250,000	380	-	68,545	-	318,925
Redemptions	-	(30)	-	(745)	-	(775)
Conversion from notes payable	-	-	-	180	-	180
Patronage dividend	-	-	-	9,570	-	9,570
Preferred stock dividend	22,167	-	-	-	(22,167)	-
Capital contributions	-	-	-	14,128	-	14,128
Reclassification	-	10	-	(10)	-	-
Net loss	-	-	-	-	(261,197)	(261,197)
Balance December 31, 2016	1,699,031	4,740	1,578,929	584,481	(1,959,924)	1,907,257
Purchases	-	270	-	45,788	-	46,058
Redemptions	-	(70)	-	(2,291)	-	(2,361)
Net loss	-	-	-	-	(290,164)	(290,164)
Balance December 31, 2017	\$ 1,699,031	\$ 4,940	\$ 1,578,929	\$ 627,978	\$ (2,250,088)	\$ 1,660,790

See accompanying notes.

SHARED CAPITAL COOPERATIVE
STATEMENTS OF CASH FLOWS
Years ended December 31, 2017 and 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$ (290,164)	\$ (261,197)
Adjustments to reconcile net loss to net cash flows from operating activities		
Depreciation and amortization	14,694	13,111
Bad debts	13,222	1,768
Change in loan loss allowance	158,644	201,920
Patronage refund satisfied with stock	-	9,570
(Increase) decrease in assets		
Accounts receivable	22,569	(31,688)
Prepaid expenses	(14,808)	4,611
Accrued interest receivable	(11,950)	-
Security deposit	(3,000)	-
Equity in other cooperatives	(6,400)	-
Increase (decrease) in liabilities		
Accounts payable	2,429	(4,769)
Accrued expenses	97,707	(21,853)
Deferred revenue	3,456	(20,000)
Funds held for others	(86,329)	361,278
Accrued interest payable	20,467	-
Net cash flows from operating activities	(79,463)	252,751
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments on notes receivable	1,292,049	1,014,919
Purchases of property and equipment	(29,865)	(900)
Issuance of notes receivable	(1,870,500)	(3,864,496)
Net cash flows from investing activities	(608,316)	(2,850,477)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of long-term debt	1,327,606	1,819,224
Payments on long-term debt	(1,009,556)	(2,856,283)
Borrowings on line of credit	511,545	-
Payments on line of credit	(511,545)	-
Purchases of common stock	46,058	68,925
Redemptions of common stock	(2,361)	(775)
Issuance of preferred stock	-	250,000
Additional paid in capital contributions	-	14,128
Net cash flows from financing activities	361,747	(704,781)
Net change in cash	(326,032)	(3,302,507)
Cash - beginning of year	863,069	4,165,576
Cash - end of year	\$ 537,037	\$ 863,069
SUPPLEMENTARY DISCLOSURES		
Cash paid for interest	\$ 171,089	\$ 179,855
Noncash financing transactions		
Notes payable converted to additional paid-in capital	-	180
Stock dividend on preferred stock	-	22,167

See accompanying notes.

SHARED CAPITAL COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

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 States Department of Treasury. Shared Capital has more than 213 member cooperatives and 240 individual members.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Notes 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.

Notes 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 amount outstanding.

Loans are placed on non-accrual status or written 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 written off unless management determines that repayment of the loan is imminent, whether through collections, liquidation, or foreclosure. The Board of Directors must approve the write off of any loan, generally upon recommendation from the Loan and Finance Committees.

Property and Equipment

Purchases of property and equipment over \$1,000 are capitalized at cost and depreciated using the straight-line method over the estimated useful lives of the assets.

Intangible Assets

Intangible assets consist of website development and trademark costs. Website development costs are amortized over 3 years and trademark costs are amortized over 10 years using the straight-line method.

Advertising

Advertising costs are expensed as incurred.

SHARED CAPITAL COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 1 - 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 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. 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. Loan losses are charged against the allowance when management believes the loan is uncollectible. Subsequent recoveries are recorded as loan recovery income.

Loan Fees

Loan fees consist of non-refundable commitment fees which are recognized as income upon receipt and loan service fees which are recognized as income when a loan is closed.

Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

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 of Shared Capital require the cooperative to annually distribute net income from patronage to its members, based on their patronage with Shared Capital, at the discretion of the Board of Directors. The distributions reduce Shared Capital's income tax liability. However, losses in Shared Capital's patronage business may be carried forward to offset future distributions of net income from patronage.

Reclassifications

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

Date of Management's Review

Management has evaluated subsequent events through April 23, 2018, the date which the financial statements were available to be issued.

SHARED CAPITAL COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 2 - NOTES RECEIVABLE

Recorded investments in loans by portfolio segment at December 31, 2017 and 2016 consisted of the following:

	<u>2017</u>	<u>2016</u>
Cooperative housing mortgage loans	\$ 3,444,900	\$ 4,260,753
Cooperative business mortgage loans	701,647	712,783
Cooperative business loans	6,608,464	5,202,350
Loans to individuals to purchase cooperative housing (Share)	<u>108,741</u>	<u>122,637</u>
Total notes receivable	10,863,752	10,298,523
Less allowance for loan losses	<u>694,457</u>	<u>535,813</u>
Notes receivable - net	<u><u>\$ 10,169,295</u></u>	<u><u>\$ 9,762,710</u></u>

In addition to the loans summarized above, December 31, 2017 and 2016 Shared Capital serviced \$4,689,083 and \$3,490,581 of loan participations, which have been sold to other lenders.

Descriptions of the loan portfolio segments are as 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 are loans to purchase cooperative housing.

The change in the allowance for loans losses in 2017 and 2016 consisted of the following:

	<u>2017</u>	<u>2016</u>
Beginning allowance	\$ 535,813	\$ 333,893
Provision for loan losses	171,866	203,688
Loans written off	<u>(13,222)</u>	<u>(1,768)</u>
Ending allowance	<u><u>\$ 694,457</u></u>	<u><u>\$ 535,813</u></u>

SHARED CAPITAL COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 2 - NOTES RECEIVABLE (continued)

The allowance for loan losses by portfolio segment at December 31, 2017 and 2016 was as follows:

	Cooperative housing mortgage loans	Cooperative business mortgage loans	Cooperative business loans	Loans to individuals (Share)	Total
Beginning allowance	\$ 128,755	\$ 37,116	\$ 368,494	\$ 1,448	\$ 535,813
Loans written off	-	-	(13,221)	-	(13,221)
Addition (Reduction)	41,299	11,905	118,197	464	171,865
2017 Ending allowance	<u>\$ 170,054</u>	<u>\$ 49,021</u>	<u>\$ 473,470</u>	<u>\$ 1,912</u>	<u>\$ 694,457</u>
Beginning allowance	\$ 146,174	\$ 40,681	\$ 144,714	\$ 2,324	\$ 333,893
Loans written off	-	-	(1,768)	-	(1,768)
Addition (Reduction)	(17,419)	(3,565)	225,548	(876)	203,688
2016 Ending allowance	<u>\$ 128,755</u>	<u>\$ 37,116</u>	<u>\$ 368,494</u>	<u>\$ 1,448</u>	<u>\$ 535,813</u>

The aging of loans by portfolio segment at December 31, 2017 and 2016 was as follows:

	Cooperative housing mortgage loans	Cooperative business mortgage loans	Cooperative business loans	Loans to individuals (Share)	Total
Current	\$ 3,444,900	\$ 701,648	\$ 6,608,463	\$ 108,741	\$ 10,863,752
31 - 90	-	-	-	-	-
90 + days	-	-	-	-	-
2017 Total	<u>\$ 3,444,900</u>	<u>\$ 701,648</u>	<u>\$ 6,608,463</u>	<u>\$ 108,741</u>	<u>\$ 10,863,752</u>
Current	\$ 4,260,753	\$ 712,783	\$ 5,202,350	\$ 122,637	\$ 10,298,523
31 - 90	-	-	-	-	-
90 + days	-	-	-	-	-
2016 Total	<u>\$ 4,260,753</u>	<u>\$ 712,783</u>	<u>\$ 5,202,350</u>	<u>\$ 122,637</u>	<u>\$ 10,298,523</u>

SHARED CAPITAL COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 2 - NOTES RECEIVABLE (continued)

The credit quality of loans receivable at December 31, 2017 and 2016 was as follows:

	Cooperative housing mortgage loans	Cooperative business mortgage loans	Cooperative business loans	Loans to individuals (Share)	Total
A	\$ 1,414,945	\$ 125,329	\$ 113,874	\$ 108,741	\$ 1,762,889
B	1,458,181	576,319	145,000	-	2,179,500
C	571,774	-	1,177,224	-	1,748,998
D	-	-	1,996,664	-	1,996,664
E	-	-	1,282,764	-	1,282,764
F	-	-	1,892,937	-	1,892,937
G	-	-	-	-	-
2017 Total	<u>\$ 3,444,900</u>	<u>\$ 701,648</u>	<u>\$ 6,608,463</u>	<u>\$ 108,741</u>	<u>\$ 10,863,752</u>
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
2016 Total	<u>\$ 4,260,753</u>	<u>\$ 712,783</u>	<u>\$ 5,202,350</u>	<u>\$ 122,637</u>	<u>\$ 10,298,523</u>

The categories used to assess the risk profile within the loan portfolio are as follows:

Category	Description of Creditworthiness	Commercial	Share
A+	Highest credit quality, borrower is stable and reliable	0%	0%
A	Borrower is stable and reliable	1%	0.5%
B	Good borrower, but some recent internal or external changes	3%	2%
C	Good borrower, but recent significant internal or external changes	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 likely that at least some of the principal and interest payments will not be collected. All loans are individually reviewed for impairment. One business loan of \$13,221 was written off as impaired in 2017. One business loan of \$1,768 was written off as impaired in 2016.

SHARED CAPITAL COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 3 - PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2017 and 2016 consisted of the following:

	2017	2016
Leasehold improvements	\$ 5,634	\$ 487
Office equipment and furniture	40,962	16,244
Property and equipment	46,596	16,731
Less accumulated depreciation	18,944	12,790
Property and equipment - net	\$ 27,652	\$ 3,941

Depreciation expense for 2017 and 2016 was \$6,154 and \$6,473.

NOTE 4 - INTANGIBLE ASSETS

Intangible assets at December 31, 2017 and 2016 consisted of the following:

	2017	2016
Intangible assets	\$ 41,071	\$ 41,071
Less accumulated amortization	15,178	6,638
Intangible assets - net	\$ 25,893	\$ 34,433

Amortization expense for 2017 and 2016 was \$8,540 and \$6,638.

NOTE 5 - EQUITY IN OTHER COOPERATIVES

Shared Capital holds 5% investments in two limited liability companies which own commercial buildings that are leased to cooperatives as part of New Market Tax Credit projects. These investments are recorded at cost. The investments may not be redeemed until the New Market Tax Credit projects unwind in 2023.

NOTE 6 - LINE OF CREDIT

In 2017 Shared Capital established a \$500,000 line of credit with National Cooperative Bank secured by cash deposits that bears an interest rate of 3.48% and expires in March 2019. There was no outstanding balance on the line of credit at December 31, 2017.

SHARED CAPITAL COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 7 - LONG-TERM DEBT

Long-term debt consists of various notes payable to institutional investors, other cooperatives, and individuals.

Long-term debt at December 31, 2017 and 2016 consisted of the following:

	2017	2016
Senior loans payable		
Institutional	\$ 2,839,787	\$ 2,826,280
Subordinate loans payable		
Cooperatives	4,039,114	3,860,280
Individuals	946,590	749,889
Institutional	500,000	485,496
Institutional EQ2	400,000	485,496
Long-term debt	\$ 8,725,491	\$ 8,407,441

Long-term debt at December 31, 2017 consisted of the following:

Due on demand	\$ 1,053,710
Due in 2018	1,909,139
Long-term debt net of current portion	5,762,642
Long-term debt	\$ 8,725,491

Future minimum principal payments on long-term debt consist of the following:

Due on demand - 30 days	\$ 153,560
Due on demand - 90 days	900,150
Due on demand	1,053,710
2018	1,909,139
2019	1,545,642
2020	1,895,875
2021	774,547
2022	1,020,373
Thereafter	526,205
Long-term debt	\$ 8,725,491

The notes payable at December 31, 2017 have interest rates ranging from 0.30% to 5.5%, are unsecured, and mature through 2028.

SHARED CAPITAL COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 8 - LEASE OBLIGATIONS

Shared Capital leases office space under an operating lease that expires in July 2022. Rent expense was \$20,490 and \$16,950 for 2017 and 2016. Future minimum lease payments are \$27,336, \$27,821, \$29,375, \$31,100, and \$18,550 for 2018, 2019, 2020, 2021, and 2022.

NOTE 9 - FUNDS HELD FOR OTHERS

Shared Capital has an agreement with NASCO Development Services (NDS) to provide loan servicing functions for its 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 Kagawa Fund. NDS 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, 2017 and 2016, Shared Capital was servicing \$245,862 and \$201,443 of loans for the Kagawa Fund, which was not recorded in Shared Capital's balance sheets.

At December 31, 2017 and 2016, Shared Capital also held \$274,949 and \$260,571 payable to NDS and available for lending. At December 31, 2016, Shared Capital held \$100,707 on behalf of another lender to be used to purchase a portion of a closed loan pending disbursement.

NOTE 10 - PREFERRED STOCK

At the discretion of the Board of Directors, Shared Capital may pay holders of preferred stock an annual dividend of up to 8% in the form of cash, additional shares of preferred stock, or equity credits. The preferred stock has no voting rights and shares may only be transferred upon the approval of the Board of Directors. The preferred stock has a liquidation preference over other equity. Preferred stock dividends of \$22,167 were declared and issued during 2016. No preferred stock dividends were declared during 2017.

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 beginning in April 2021.

NOTE 11 - 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 totaled \$8,754 and \$9,965 in 2017 and 2016.

SHARED CAPITAL COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 12 - INCOME TAXES

Shared Capital has Federal net operating loss carry forwards of approximately \$1,800,000 that begin to expire in 2027. Minnesota net operating loss carry forwards of approximately \$1,900,000 begin to expire in 2022.

The deferred income tax asset consists of the future tax effect of net operating loss carryforwards and timing differences between costs recorded as expenses for financial statement purposes and deductions for income tax purposes.

Shared Capital's total deferred tax asset, valuation allowance, and total deferred tax liability at December 31, 2017 and 2016 consisted of the following:

	2017	2016
Total deferred tax asset	531,000	524,518
Valuation allowance	(351,780)	(358,318)
Total deferred tax liability	(13,000)	-
Deferred tax asset	\$ 166,220	\$ 166,200

Realization of the deferred income tax asset is primarily 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 has been recognized.

NOTE 13 - CONCENTRATION OF CREDIT RISK

Shared Capital maintains cash balances at three financial institutions located throughout the United States. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$250,000. At December 31, 2017 and 2016, Shared Capital's uninsured cash balances totaled approximately \$135,000 and \$402,000.

NOTE 14 - RELATED PARTIES

Several directors of Shared Capital are employed by, or are 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 my 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, and a Shared Capital staff member is a director of one of those cooperatives.

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.

SHARED CAPITAL COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
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NOTE 14 - RELATED PARTIES (continued)

Significant related party activities for 2017 and 2016 are summarized as follows:

	<u>2017</u>	<u>2016</u>
Equity and deposits in related parties	\$ 154,560	\$ 148,160
Notes receivable from related parties	558,774	791,969
Long-term debt payable to related parties	452,429	671,284
Preferred stock held by related parties	263,433	382,428
Interest income earned from related parties	32,558	26,516
Interest expense incurred to related parties	7,128	18,089
Preferred stock dividends paid to related parties	-	3,794

Additionally, an employee of National Cooperative Bank, from which Shared Capital has a line of credit disclosed in Note 6, is a member of Shared Capital's Loan Committee.

NOTE 15 - COMMITMENTS

As of December 31, 2017, 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.