

**SHARED CAPITAL COOPERATIVE**

**FINANCIAL STATEMENTS**

December 31, 2018 and 2017

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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 sheets as of December 31, 2018 and 2017, and the related statements of income, equity, 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 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, 2018 and 2017, 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.

*Wegner CPAs LLP*

Wegner CPAs, LLP  
Madison, Wisconsin  
March 26, 2019

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**SHARED CAPITAL COOPERATIVE**  
BALANCE SHEETS  
December 31, 2018 and 2017

	2018	2017
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash	\$ 1,351,396	\$ 537,037
Accounts receivable	582,886	941
Prepaid expenses	21,505	21,640
Accrued interest receivable	35,239	52,191
Current portion of notes receivable	1,909,943	1,867,446
<b>Total current assets</b>	<b>3,900,969</b>	<b>2,479,255</b>
Property and equipment - net	31,152	27,652
Intangible assets - net	19,995	25,893
<b>OTHER ASSETS</b>		
Security deposit	3,000	3,000
Equity in other cooperatives	154,560	154,560
Notes receivable less current portion - net of loan loss allowance	7,602,527	8,301,849
Deferred taxes	595,000	166,200
<b>Total assets</b>	<b>\$ 12,307,203</b>	<b>\$ 11,158,409</b>
<b>LIABILITIES AND EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 10,795	\$ 9,946
Accrued expenses	22,273	212,142
Deferred revenue	152,903	3,456
Funds held for others	282,533	274,949
Income taxes payable	656	-
Current portion of accrued interest payable	186,223	204,065
Current portion of long-term debt	3,774,982	2,962,849
<b>Total current liabilities</b>	<b>4,430,365</b>	<b>3,667,407</b>
<b>LONG-TERM LIABILITIES</b>		
Long-term debt net of current portion	5,783,719	5,762,642
Accrued interest payable net of current portion	144,649	67,570
<b>Total liabilities</b>	<b>10,358,733</b>	<b>9,497,619</b>
<b>EQUITY</b>		
Preferred stock, \$10 par value, 500,000 shares authorized, 211,977 and 169,903 shares issued and outstanding	2,119,769	1,699,031
Common stock - voting, \$10 par value, 1,000 shares authorized, 512 and 494 shares issued and outstanding	5,120	4,940
Common stock - nonvoting, \$10 par value, 500,000 shares authorized, 157,943 and 157,893 shares issued and outstanding	1,579,429	1,578,929
Additional paid-in capital	624,725	627,978
Accumulated deficit	(2,380,573)	(2,250,088)
<b>Total equity</b>	<b>1,948,470</b>	<b>1,660,790</b>
<b>Total liabilities and equity</b>	<b>\$ 12,307,203</b>	<b>\$ 11,158,409</b>

See accompanying notes.

**SHARED CAPITAL COOPERATIVE**  
**STATEMENTS OF INCOME**  
Years ended December 31, 2018 and 2017

	2018	2017
	Amount	Amount
<b>REVENUE</b>		
Interest income - loans	\$ 659,350	\$ 704,967
Interest income - cash accounts	1,371	1,393
Grants and contributions	328,900	10,550
Loan fees	72,044	33,465
Loan recovery income	-	24,199
Consulting income	600	3,200
Other	9,441	103
<b>Total revenue</b>	<b>1,071,706</b>	<b>777,877</b>
<b>EXPENSES</b>		
Provision for loan losses	607,758	171,866
Personnel	479,286	479,718
Interest	210,516	191,556
Outside services	98,281	56,886
Seminars, travel, and training	65,077	50,913
Occupancy	47,485	37,797
Legal	32,950	20,212
Advertising	25,013	18,520
Depreciation and amortization	18,273	14,694
Board expense	11,793	8,940
Office supplies	11,538	10,261
Fees	10,612	1,130
Dues	4,629	5,051
Miscellaneous	7,124	497
<b>Total expenses</b>	<b>1,630,335</b>	<b>1,068,041</b>
<b>Net loss before income taxes and patronage dividend</b>	<b>(558,629)</b>	<b>(290,164)</b>
Provision for income taxes	428,144	-
Patronage dividend	-	-
<b>Net loss</b>	<b>\$ (130,485)</b>	<b>\$ (290,164)</b>

See accompanying notes.

**SHARED CAPITAL COOPERATIVE**  
**STATEMENTS OF EQUITY**  
Years ended December 31, 2018 and 2017

	Preferred Stock	Common Stock - Voting	Common Stock - Nonvoting	Additional Paid-In Capital	Accumulated Deficit	Total Equity
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
Purchases	420,738	210	500	13,825	-	435,273
Redemptions	-	(30)	-	(4,980)	-	(5,010)
Stock issuance costs	-	-	-	(12,098)	-	(12,098)
Net loss	-	-	-	-	(130,485)	(130,485)
Balance December 31, 2018	<u>\$ 2,119,769</u>	<u>\$ 5,120</u>	<u>\$ 1,579,429</u>	<u>\$ 624,725</u>	<u>\$ (2,380,573)</u>	<u>\$ 1,948,470</u>

See accompanying notes.

**SHARED CAPITAL COOPERATIVE**  
**STATEMENTS OF CASH FLOWS**  
Years ended December 31, 2018 and 2017

	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net loss	\$ (130,485)	\$ (290,164)
Adjustments to reconcile net loss to net cash flows from operating activities		
Depreciation and amortization	18,273	14,694
Change in loan loss allowance	302,984	158,644
Deferred taxes	(428,800)	-
(Increase) decrease in assets		
Accounts receivable	(181,207)	22,569
Prepaid expenses	135	(14,808)
Accrued interest receivable	16,952	(11,950)
Security deposit	-	(3,000)
Equity in other cooperatives	-	(6,400)
Increase (decrease) in liabilities		
Accounts payable	849	2,429
Accrued expenses	(189,869)	97,707
Deferred revenue	149,447	3,456
Funds held for others	7,584	(86,329)
Income taxes payable	656	-
Accrued interest payable	59,237	20,467
<b>Net cash flows from operating activities</b>	<b>(374,244)</b>	<b>(92,685)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from notes receivable	2,434,841	1,305,271
Purchases of property and equipment	(13,230)	(29,865)
Purchases of intangible assets	(2,645)	-
Issuance of notes receivable	(2,081,000)	(1,870,500)
<b>Net cash flows from investing activities</b>	<b>337,966</b>	<b>(595,094)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Issuance of long-term debt	2,160,500	1,327,606
Payments on long-term debt	(1,327,290)	(1,009,556)
Borrowings on line of credit	-	511,545
Payments on line of credit	-	(511,545)
Purchases of common stock	14,535	46,058
Redemptions of common stock	(5,010)	(2,361)
Purchases of preferred stock	20,000	-
Payments of stock issuance costs	(12,098)	-
<b>Net cash flows from financing activities</b>	<b>850,637</b>	<b>361,747</b>
Net change in cash	814,359	(326,032)
Cash - beginning of year	537,037	863,069
<b>Cash - end of year</b>	<b>\$ 1,351,396</b>	<b>\$ 537,037</b>
<b>SUPPLEMENTARY DISCLOSURES</b>		
Cash paid for interest	\$ 151,279	\$ 171,089
Noncash financing transactions		
Preferred stock purchased through accounts receivable	400,738	-

See accompanying notes.

**SHARED CAPITAL COOPERATIVE**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2018 and 2017

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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**

**Accounts Receivable**

Shared Capital considers all accounts receivables to be fully collectible. Accordingly, no allowance for doubtful accounts has been established. If amounts become uncollectible, they will be charged to operations when that determination is made.

**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 collateral, including real estate, equipment, and other business assets securing the loan.

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.



**SHARED CAPITAL COOPERATIVE**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2018 and 2017

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**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.

**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; loan origination fees, which are recognized as income when a loan is closed; and loan servicing fees received from participating lenders/investors and organizations for whom Shared Capital services loans, which are recognized as income when earned.

**Advertising**

Advertising costs are expensed as incurred.

**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.

**SHARED CAPITAL COOPERATIVE**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2018 and 2017

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**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.

**Date of Management's Review**

Management has evaluated subsequent events through March 26, 2019, the date which the financial statements were available to be issued.

NOTE 2 - ACCOUNTS RECEIVABLE

The Cooperative's accounts receivable balance at December 31, 2018 and 2017 was \$582,886 and \$941. \$400,738 of the 2018 amount was for the purchase of 40,074 of shares of the Cooperative's preferred stock. The shares were transferred in 2018.

NOTE 3 - NOTES RECEIVABLE

Recorded investments in loans by portfolio segment at December 31, 2018 and 2017 consisted of the following:

	<u>2018</u>	<u>2017</u>
Cooperative housing mortgage loans	\$ 3,082,772	\$ 3,444,900
Cooperative business mortgage loans	597,858	701,647
Cooperative business loans	6,731,386	6,608,464
Loans to individuals to purchase cooperative housing (Share)	<u>97,895</u>	<u>108,741</u>
Total notes receivable	10,509,911	10,863,752
Less allowance for loan losses	<u>997,441</u>	<u>694,457</u>
Notes receivable - net	<u><u>\$ 9,512,470</u></u>	<u><u>\$ 10,169,295</u></u>

In addition to the loans summarized above, December 31, 2018 and 2017 Shared Capital serviced \$3,436,721 and \$4,689,083 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.

**SHARED CAPITAL COOPERATIVE**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2018 and 2017

NOTE 3 - NOTES RECEIVABLE (continued)

The change in the allowance for loans losses in 2018 and 2017 consisted of the following:

	2018	2017
Beginning allowance	\$ 694,457	\$ 535,813
Loans written off	(304,774)	(13,221)
Increase in provision for loan losses	607,758	171,865
Ending allowance	\$ 997,441	\$ 694,457

The allowance for loan losses by portfolio segment at December 31, 2018 and 2017 was as follows:

	Cooperative housing mortgage loans	Cooperative business mortgage loans	Cooperative business loans	Loans to individuals (Share)	Total
Beginning allowance	\$ 170,054	\$ 49,021	\$ 473,470	\$ 1,912	\$ 694,457
Loans written off	-	-	(304,774)	-	(304,774)
Increase	148,824	42,901	414,360	1,673	607,758
2018 Ending allowance	\$ 318,878	\$ 91,922	\$ 583,056	\$ 3,585	\$ 997,441
Beginning allowance	\$ 128,755	\$ 37,116	\$ 368,494	\$ 1,448	\$ 535,813
Loans written off	-	-	(13,221)	-	(13,221)
Increase	41,299	11,905	118,197	464	171,865
2017 Ending allowance	\$ 170,054	\$ 49,021	\$ 473,470	\$ 1,912	\$ 694,457

The aging of loans by portfolio segment at December 31, 2018 and 2017 was as follows:

	Cooperative housing mortgage loans	Cooperative business mortgage loans	Cooperative business loans	Loans to individuals (Share)	Total
Current	\$ 3,082,772	\$ 597,858	\$ 6,682,035	\$ 97,895	\$ 10,460,560
31 - 90	-	-	33,638	-	33,638
90 + days	-	-	15,713	-	15,713
2018 Total	\$ 3,082,772	\$ 597,858	\$ 6,731,386	\$ 97,895	\$ 10,509,911
Current	\$ 3,444,900	\$ 701,648	\$ 6,608,463	\$ 108,741	\$ 10,863,752
31 - 90	-	-	-	-	-
90 + days	-	-	-	-	-
2017 Total	\$ 3,444,900	\$ 701,648	\$ 6,608,463	\$ 108,741	\$ 10,863,752

**SHARED CAPITAL COOPERATIVE**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2018 and 2017

NOTE 3 - NOTES RECEIVABLE (continued)

The credit quality of loans receivable at December 31, 2018 and 2017 was as follows:

	Cooperative housing mortgage loans	Cooperative business mortgage loans	Cooperative business loans	Loans to individuals (Share)	Total
A	\$ 1,582,170	\$ 80,699	\$ 198,158	\$ 97,895	\$ 1,958,922
B	1,274,092	517,159	1,335,577	-	3,126,828
C	226,510	-	2,342,412	-	2,568,922
D	-	-	1,430,564	-	1,430,564
E	-	-	400,000	-	400,000
F	-	-	1,020,847	-	1,020,847
G	-	-	3,828	-	3,828
2018 Total	<u>\$ 3,082,772</u>	<u>\$ 597,858</u>	<u>\$ 6,731,386</u>	<u>\$ 97,895</u>	<u>\$ 10,509,911</u>
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>

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. Two business loans totaling \$304,774 were written off as impaired in 2018. One business loan of \$13,221 was written off as impaired in 2017.

**SHARED CAPITAL COOPERATIVE**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2018 and 2017

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**NOTE 4 - PROPERTY AND EQUIPMENT**

Property and equipment at December 31, 2018 and 2017 consisted of the following:

	2018	2017
Leasehold improvements	\$ 8,024	\$ 5,634
Office equipment and furniture	48,395	40,962
Property and equipment	56,419	46,596
Less accumulated depreciation	25,267	18,944
Property and equipment - net	\$ 31,152	\$ 27,652

Depreciation expense for 2018 and 2017 was \$9,730 and \$6,154.

**NOTE 5 - INTANGIBLE ASSETS**

Intangible assets at December 31, 2018 and 2017 consisted of the following:

	2018	2017
Intangible assets	\$ 43,716	\$ 41,071
Less accumulated amortization	23,721	15,178
Intangible assets - net	\$ 19,995	\$ 25,893

Amortization expense for 2018 and 2017 was \$8,543 and \$8,540.

**NOTE 6 - 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 7 - 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 June 2019. There was no outstanding balance on the line of credit at December 31, 2018 and 2017.

**SHARED CAPITAL COOPERATIVE**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2018 and 2017

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**NOTE 8 - LONG-TERM DEBT**

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

Long-term debt at December 31, 2018 and 2017 consisted of the following:

	<u>2018</u>	<u>2017</u>
Senior loans payable	\$ 3,535,501	\$ 2,839,787
Subordinate loans payable	5,523,200	4,985,704
Sub-subordinate loans payable	<u>500,000</u>	<u>900,000</u>
Long-term debt	<u>\$ 9,558,701</u>	<u>\$ 8,725,491</u>

Long-term debt at December 31, 2018 consisted of the following:

Due on demand	\$ 1,800,371
Due in 2019	1,974,611
Long-term debt net of current portion	<u>5,783,719</u>
Long-term debt	<u>\$ 9,558,701</u>

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

Due on demand	\$ 1,800,371
2019	1,974,611
2020	1,988,742
2021	1,004,343
2022	985,373
2023	502,138
Thereafter	<u>1,303,123</u>
Long-term debt	<u>\$ 9,558,701</u>

The notes payable at December 31, 2018 have interest rates ranging from 0.30% to 5.5%, are unsecured, and mature through 2029.

**NOTE 9 - LEASE ARRANGEMENTS**

Shared Capital leases office space in St. Paul, Minnesota under an operating lease that expires in July 2022. Shared Capital also leases workspace in a shared office in Northampton, Massachusetts under a month-to-month arrangement.

Rent expense was \$29,404 and \$20,490 for 2018 and 2017. Future minimum lease payments are \$27,821, \$29,375, \$31,100, and \$18,550 for 2019, 2020, 2021, and 2022.

**SHARED CAPITAL COOPERATIVE**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2018 and 2017

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**NOTE 10 - 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, 2018 and 2017, Shared Capital held \$282,533 and \$274,949 in funds payable to NDS and available for lending. At December 31, 2018 and 2017, Shared Capital was servicing \$244,031 and \$245,862 of loans for the Kagawa Fund, which were not recorded on Shared Capital's balance sheets.

**NOTE 11 - 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. No preferred stock dividends were declared during 2018 and 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 12 - 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 \$10,434 and \$8,754 for 2018 and 2017.

**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, 2018 and 2017, Shared Capital's uninsured cash balances totaled approximately \$866,000 and \$135,000.

**SHARED CAPITAL COOPERATIVE**  
**NOTES TO FINANCIAL STATEMENTS**  
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NOTE 14 - INCOME TAXES

The provision for income taxes for 2018 and 2017 was comprised of the following:

	2018	2017
Current federal income tax expense	\$ -	\$ -
Current state income tax expense	(656)	-
Deferred income tax benefit	428,800	-
Provision for income taxes	\$ 428,144	\$ -

Shared Capital has federal net operating loss carry forwards of approximately \$2,100,000 that begin to expire in 2027. Minnesota net operating loss carry forwards of approximately \$2,200,000 begin to expire in 2022. Massachusetts net operating loss carry forwards of approximately \$14,000 begin to expire in 2038.

The deferred income tax asset consists of the future tax effects 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, 2018 and 2017 consisted of the following:

	2018	2017
Total deferred tax asset	620,000	531,000
Valuation allowance	-	(351,780)
Total deferred tax liability	(25,000)	(13,000)
Deferred taxes	\$ 595,000	\$ 166,220

Realization of the deferred tax asset is primarily dependent upon sufficient future taxable income during the net operating loss carry forward period. For the year ended December 31, 2017 management expected it was more likely than not that a portion of the deferred income tax assets might not be realized; accordingly, a deferred income tax valuation allowance was recognized. For the year ended December 31, 2018 management expects that all of the deferred income tax assets will likely be realized, primarily due to the subsequent events disclosed in Note 17; accordingly, no deferred income tax valuation allowance has been recognized.

In November 2015, the Financial Accounting Standards Board issued Accounting Standards Update 2015-17 (ASU 2015-17), Balance Sheet Classification of Deferred Taxes. The amendments in this update require that deferred tax liabilities and assets be classified as non-current in a classified balance sheet. ASU 2015-17 is effective for nonpublic business entities for financial statements issued for annual reports beginning after December 15, 2017. Shared Capital has applied amendments of the ASU to its 2018 financial statements and retrospectively to amounts in its 2017 financial statements for comparative purposes. There is no change to previously reported net loss or equity as a result of the change.



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**NOTE 15 - COMMITMENTS**

As of December 31, 2018, Shared Capital has made commitments of approximately \$759,000 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.

**NOTE 16 - 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 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. A director of Shared Capital is an employee of a cooperative that is a member of one of the two LLCs in which Shared Capital holds an equity investment. A non-director member of Shared Capital's finance committee is an employee of a cooperative that is a member of the other LLC.

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 activities for 2018 and 2017 are summarized as follows:

	<u>2018</u>	<u>2017</u>
Equity and deposits in related parties	\$ 154,560	\$ 154,560
Notes receivable from related parties	1,013,907	558,774
Long-term debt payable to related parties	901,445	452,429
Preferred stock held by related parties	382,447	263,433
Interest income earned from related parties	33,378	32,558
Interest expense incurred to related parties	31,843	7,128

Additionally, an employee of National Cooperative Bank, from which Shared Capital has a line of credit disclosed in Note 7, is a member of Shared Capital's loan committee.

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**NOTE 17 - SUBSEQUENT EVENTS**

In January 2019 Shared Capital finalized a financial arrangement with a funder, New World Foundation. New World Foundation will provide Shared Capital with a \$4,000,000 forgivable loan. The award will be used to provide loans to other borrowers meeting certain conditions. Upon meeting certain benchmarks, all or parts of Shared Capital's loan payable to New World Foundation will be forgiven in future years. Under the terms of its agreement with a subrecipient organization, Project Equity, Shared Capital will retain 40% of any funds that are forgiven, and the other 60% will be allocated to Project Equity.

New World Foundation is also providing a \$1,000,000 multi-year grant award to Shared Capital. 60% of the award will be allocated to a subrecipient organization, Project Equity. \$75,000 of the award was recognized as grants and contributions revenue for 2018.