

SHARED CAPITAL COOPERATIVE

FINANCIAL STATEMENTS

December 31, 2019 and 2018

CONTENTS

Independent Auditor's Report	1
Balance Sheets	3
Statements of Income	4
Statements of Equity	5
Statements of Cash Flows	6
Notes to Financial Statements	7

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, 2019 and 2018, 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.

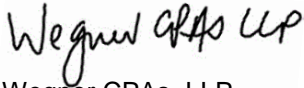
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2019 and 2018, 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.

Adoption of New Accounting Guidance

As discussed in Note 1 to the financial statements, Shared Capital Cooperative adopted the Financial Accounting Standards Board's Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, and all subsequently issued clarifying ASUs as of January 1, 2019. Our opinion is not modified with respect to this matter.



Wegner CPAs, LLP
Madison, Wisconsin
March 31, 2020

SHARED CAPITAL COOPERATIVE
BALANCE SHEETS
December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 1,823,949	\$ 1,351,396
Accounts receivable	307,097	582,886
Prepaid expenses	26,064	21,505
Accrued interest receivable	45,717	35,239
Current portion of notes receivable	<u>1,978,773</u>	<u>1,909,943</u>
Total current assets	4,181,600	3,900,969
Property and equipment - net	29,931	31,152
Intangible assets - net	18,506	19,995
OTHER ASSETS		
Security deposit	3,000	3,000
Equity in other cooperatives	159,560	154,560
Notes receivable less current portion - net of loan loss allowance	8,341,443	7,602,527
Deferred taxes	<u>616,000</u>	<u>595,000</u>
Total assets	<u><u>\$ 13,350,040</u></u>	<u><u>\$ 12,307,203</u></u>
LIABILITIES AND EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$ 27,511	\$ 10,795
Accrued expenses	16,094	22,273
Deferred revenue	8,000	152,903
Funds held for others	283,396	282,533
Income taxes payable	656	656
Current portion of accrued interest payable	276,609	186,223
Current portion of long-term debt	<u>4,176,292</u>	<u>3,774,982</u>
Total current liabilities	4,788,558	4,430,365
LONG-TERM LIABILITIES		
Accrued interest payable net of current portion	62,377	144,649
Long-term debt net of current portion and loan costs	<u>6,488,529</u>	<u>5,783,719</u>
Total liabilities	11,339,464	10,358,733
EQUITY		
Preferred stock, \$10 par value, 500,000 shares authorized, 216,447 and 211,977 shares issued and outstanding	2,164,467	2,119,769
Common stock - voting, \$10 par value, 1,000 shares authorized, 532 and 512 shares issued and outstanding	5,320	5,120
Common stock - nonvoting, \$10 par value, 500,000 shares authorized, 155,443 and 157,943 shares issued and outstanding	1,554,429	1,579,429
Additional paid-in capital	622,668	612,193
Retained patronage	12,532	12,532
Accumulated deficit	<u>(2,348,840)</u>	<u>(2,380,573)</u>
Total equity	<u>2,010,576</u>	<u>1,948,470</u>
Total liabilities and equity	<u><u>\$ 13,350,040</u></u>	<u><u>\$ 12,307,203</u></u>

See accompanying notes.

SHARED CAPITAL COOPERATIVE
STATEMENTS OF INCOME
Years Ended December 31, 2019 and 2018

	2019	2018
REVENUE		
Interest income - loans	\$ 700,621	\$ 659,350
Interest income - cash accounts	16,641	1,371
Grants and contributions	860,324	328,900
Loan fees	133,427	72,044
Loan recovery income	88,760	-
Consulting income	700	600
Other	15,000	9,441
Total revenue	1,815,473	1,071,706
EXPENSES		
Personnel	523,466	479,286
Provision for loan losses	497,033	607,758
Interest	225,798	210,516
Contributions	165,000	-
Legal	94,452	32,950
Outside services	86,549	98,281
Seminars, travel, and training	56,606	65,077
Advertising	50,359	25,013
Occupancy	47,607	47,485
Office supplies	22,969	11,538
Depreciation and amortization	13,730	18,273
Board expense	11,096	11,793
Dues	8,060	4,629
Fees	1,359	10,612
Miscellaneous	-	7,124
Total expenses	1,804,084	1,630,335
Net income (loss) before income taxes and patronage dividend	11,389	(558,629)
Provision for income taxes	20,344	428,144
Patronage dividend	-	-
Net income (loss)	\$ 31,733	\$ (130,485)

See accompanying notes.

SHARED CAPITAL COOPERATIVE
STATEMENTS OF EQUITY
Years Ended December 31, 2019 and 2018

	Preferred Stock	Common Stock - Voting	Common Stock - Nonvoting	Additional Paid-In Capital	Retained Patronage	Accumulated Deficit	Total Equity
Balance December 31, 2017	\$ 1,699,031	\$ 4,940	\$ 1,578,929	\$ 615,446	\$ 12,532	\$ (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	2,119,769	5,120	1,579,429	612,193	12,532	(2,380,573)	1,948,470
Purchases	73,000	220	-	16,455	-	-	89,675
Redemptions	(53,302)	(20)	-	(5,980)	-	-	(59,302)
Stock converted	25,000	-	(25,000)	-	-	-	-
Net income	-	-	-	-	-	31,733	31,733
Balance December 31, 2019	<u>\$ 2,164,467</u>	<u>\$ 5,320</u>	<u>\$ 1,554,429</u>	<u>\$ 622,668</u>	<u>\$ 12,532</u>	<u>\$ (2,348,840)</u>	<u>\$ 2,010,576</u>

See accompanying notes.

SHARED CAPITAL COOPERATIVE
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2019 and 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	\$ 31,733	\$ (130,485)
Adjustments to reconcile net income (loss) to net cash flows from operating activities		
Depreciation and amortization	13,729	18,273
Change in loan loss allowance	(297,002)	302,984
Deferred taxes	(21,000)	(428,800)
(Increase) decrease in assets		
Accounts receivable	275,789	(181,207)
Prepaid expenses	(4,559)	135
Accrued interest receivable	(10,478)	16,952
Equity in other cooperatives	(5,000)	-
Increase (decrease) in liabilities		
Accounts payable	16,716	849
Accrued expenses	(6,179)	(189,869)
Deferred revenue	(144,903)	149,447
Funds held for others	863	7,584
Income taxes payable	-	656
Accrued interest payable	8,114	59,237
Net cash flows from operating activities	(142,177)	(374,244)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from notes receivable	2,780,322	2,434,841
Purchases of property and equipment	(10,079)	(13,230)
Purchases of intangible assets	(940)	(2,645)
Issuance of notes receivable	(3,291,066)	(2,081,000)
Net cash flows from investing activities	(521,763)	337,966
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of long-term debt	2,536,645	2,160,500
Payments on long-term debt	(1,420,659)	(1,327,290)
Payment of loan costs	(10,318)	-
Amortization of loan costs	452	-
Purchases of common stock	16,675	14,535
Redemptions of common stock	(6,000)	(5,010)
Purchases of preferred stock	73,000	20,000
Redemptions of preferred stock	(53,302)	-
Payments of stock issuance costs	-	(12,098)
Net cash flows from financing activities	1,136,493	850,637
Net change in cash	472,553	814,359
Cash - beginning of year	1,351,396	537,037
Cash - end of year	\$ 1,823,949	\$ 1,351,396
SUPPLEMENTARY DISCLOSURES		
Cash paid for interest	\$ 217,232	\$ 151,279
Noncash financing transactions		
Preferred stock purchased through accounts receivable	-	400,738

See accompanying notes.

SHARED CAPITAL COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

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 is certified as a Community Development Financial Institution (CDFI) by the United States Department of Treasury and provides financing to consumer, worker, housing, and producer cooperatives and their members throughout the United States. Shared Capital's mission is to build a just, equitable, and democratic economy by investing in cooperative enterprises.

Formed in 1978, Shared Capital is organized as a cooperative association under Chapter 308A of Minnesota law and has 254 member cooperatives and 257 individual members. 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.

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, 2019 and 2018

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 costs

Loan costs of \$10,318 incurred in 2019 are being amortized over the lengths of the underlying notes payable. Amortization of loan costs, recorded as interest expense in the statements of income, was \$452 for 2019.

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, 2019 and 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue Recognition

Grants and contributions revenue is recognized when Shared Capital fulfills its performance obligations required by an award.

Loan fees revenue consist of non-refundable commitment fees, which are recognized as income when a loan is approved; 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.

Adoption of New Accounting Guidance

On May 28, 2014, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The ASU and all subsequently issued clarifying ASUs supersedes the revenue recognition requirements and most industry-specific guidance in U.S. generally accepted accounting principles. The core principle of the new guidance is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new guidance also includes a cohesive set of disclosure requirements that will provide users of the financial statements with comprehensive information about the nature, amount, timing, and uncertainty of revenue and cash flows arising from the entity's contracts with customers.

Shared Capital adopted the requirements of the new guidance as of January 1, 2019, using the modified retrospective method of transition. In applying the new guidance, Shared Capital elected to use the practical expedient that allows the guidance to be applied only to contracts that were not complete as of January 1, 2019.

The majority of Shared Capital's revenue is recognized at a point in time based on the transfer of control. Revenue recognized over time primarily consists of performance obligations that are satisfied within one year or less. In addition, the majority of Shared Capital's contracts do not contain variable consideration and contract modifications are generally minimal.

The adoption of the new guidance did not have a significant impact on Shared Capital's financial statements. The majority of Shared Capital's revenue arrangements generally consist of a single performance obligation to transfer promised goods or services. Based on Shared Capital's evaluation process and review of its contracts with customers, the timing and amount of revenue recognized previously is consistent with how revenue is recognized under the new guidance.

Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

SHARED CAPITAL COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Reclassifications

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

Date of Management's Review

Management has evaluated subsequent events through March 31, 2020, the date which the financial statements were available to be issued.

NOTE 2 - ACCOUNTS RECEIVABLE

Shared Capital's accounts receivable balance at December 31, 2019 and 2018 was \$307,097 and \$582,886. \$400,738 of the 2018 amount was for the purchase of 40,074 of shares of Shared Capital's preferred stock. The shares were transferred in 2018.

NOTE 3 - NOTES RECEIVABLE

Recorded investments in loans by portfolio segment at December 31, 2019 and 2018 consisted of the following:

	2019	2018
Cooperative housing mortgage loans	\$ 3,388,947	\$ 3,082,772
Cooperative business mortgage loans	615,896	597,858
Cooperative business loans	6,924,574	6,731,386
Loans to individuals to purchase cooperative housing (Share)	91,238	97,895
Total notes receivable	11,020,655	10,509,911
Less allowance for loan losses	700,439	997,441
Notes receivable - net	\$ 10,320,216	\$ 9,512,470

In addition to the loans summarized above, December 31, 2019 and 2018 Shared Capital serviced \$3,475,689 and \$3,680,752 in off-balance sheet loans, including \$3,223,013 and \$3,436,721 of loan participations, which have been sold to other lenders and loan funds administered for other organizations.

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, 2019 and 2018

NOTE 3 - NOTES RECEIVABLE (continued)

The change in the allowance for loans losses in 2019 and 2018 consisted of the following:

	2019	2018
Beginning allowance	\$ 997,441	\$ 694,457
Loans written off	(680,964)	(304,774)
Increase in provision for loan losses	383,962	607,758
Ending allowance	\$ 700,439	\$ 997,441

The allowance for loan losses by portfolio segment at December 31, 2019 and 2018 was as follows:

	Cooperative housing mortgage loans	Cooperative business mortgage loans	Cooperative business loans	Loans to individuals (Share)	Total
Beginning allowance	\$ 318,878	\$ 91,922	\$ 583,056	\$ 3,585	\$ 997,441
Loans written off	-	-	(680,964)	-	(680,964)
Increase	158,900	45,805	177,471	1,786	383,962
2019 Ending allowance	\$ 477,778	\$ 137,727	\$ 79,563	\$ 5,371	\$ 700,439
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

The aging of loans by portfolio segment at December 31, 2019 and 2018 was as follows:

	Cooperative housing mortgage loans	Cooperative business mortgage loans	Cooperative business loans	Loans to individuals (Share)	Total
Current	\$ 3,388,947	\$ 615,896	\$ 6,924,574	\$ 91,238	\$ 11,020,655
31 - 90	-	-	-	-	-
90 + days	-	-	-	-	-
2019 Total	\$ 3,388,947	\$ 615,896	\$ 6,924,574	\$ 91,238	\$ 11,020,655
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

SHARED CAPITAL COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018

NOTE 3 - NOTES RECEIVABLE (continued)

The credit quality of loans receivable at December 31, 2019 and 2018 was as follows:

	Cooperative housing mortgage loans	Cooperative business mortgage loans	Cooperative business loans	Loans to individuals (Share)	Total
A	\$ 1,391,165	\$ 33,292	\$ 180,962	\$ 91,238	\$ 1,696,657
B	1,474,959	582,604	1,194,652	-	3,252,215
C	431,800	-	3,140,042	-	3,571,842
D	91,023	-	1,601,462	-	1,692,485
E	-	-	510,986	-	510,986
F	-	-	89,342	-	89,342
G	-	-	207,128	-	207,128
2019 Total	<u>\$ 3,388,947</u>	<u>\$ 615,896</u>	<u>\$ 6,924,574</u>	<u>\$ 91,238</u>	<u>\$ 11,020,655</u>
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>

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%

SHARED CAPITAL COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018

NOTE 3 - NOTES RECEIVABLE (continued)

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 \$680,964 were written off as impaired in 2019. Two business loans totaling \$304,774 were written off as impaired in 2018.

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2019 and 2018 consisted of the following:

	2019	2018
Leasehold improvements	\$ 11,321	\$ 8,024
Office equipment and furniture	55,178	48,395
Property and equipment	66,499	56,419
Less accumulated depreciation	36,568	25,267
Property and equipment - net	\$ 29,931	\$ 31,152

Depreciation expense for 2019 and 2018 was \$11,300 and \$9,730.

NOTE 5 - INTANGIBLE ASSETS

Intangible assets at December 31, 2019 and 2018 consisted of the following:

	2019	2018
Intangible assets	\$ 44,656	\$ 43,716
Less accumulated amortization	26,150	23,721
Intangible assets - net	\$ 18,506	\$ 19,995

Amortization expense for 2019 and 2018 was \$2,430 and \$8,543.

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.

SHARED CAPITAL COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018

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 3.95% and expires in June 2021. There was no outstanding balance on the line of credit at December 31, 2019 and 2018.

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, 2019 and 2018 consisted of the following:

	2019	2018
Senior loans payable	\$ 4,475,567	\$ 3,535,501
Subordinate loans payable	5,699,120	5,523,200
Sub-subordinate loans payable	500,000	500,000
Long-term debt	10,674,687	9,558,701
Less loan costs	9,866	-
Long-term debt net of loan costs	<u>\$ 10,664,821</u>	<u>\$ 9,558,701</u>

Long-term debt at December 31, 2019 and 2018 consisted of the following:

Due on demand	\$ 448,505
Due in 2020	3,727,787
Long-term debt net of current portion and loan costs	6,488,529
Long-term debt net of loan costs	<u>\$ 10,664,821</u>

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

Due on demand	\$ 448,505
2020	3,727,787
2021	1,227,591
2022	1,292,502
2023	502,138
2024	268,476
Thereafter	3,207,688
Long-term debt	<u>\$ 10,674,687</u>

The notes payable at December 31, 2019 and 2018 have interest rates ranging from 0% to 5.5%, are unsecured, and mature through 2034.

SHARED CAPITAL COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018

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 \$36,706 and \$29,404 for 2019 and 2018. Future minimum lease payments are \$29,375, \$31,100, and \$18,550 for 2020, 2021, and 2022.

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, 2019 and 2018, Shared Capital held \$283,396 and \$282,533 in funds payable to NDS and available for lending. At December 31, 2019 and 2018, Shared Capital was servicing \$252,676 and \$244,031 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 2019 and 2018.

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 \$11,489 and \$10,434 for 2019 and 2018.

SHARED CAPITAL COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018

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, 2019 and 2018, Shared Capital's uninsured cash balances totaled approximately \$1,331,000 and \$866,000.

NOTE 14 - INCOME TAXES

The provision for income taxes for 2019 and 2018 was comprised of the following:

	<u>2019</u>	<u>2018</u>
Current federal income tax expense	\$ -	\$ -
Current state income tax expense	(656)	(656)
Deferred income tax benefit	<u>21,000</u>	<u>428,800</u>
Provision for income taxes	<u>\$ 20,344</u>	<u>\$ 428,144</u>

Shared Capital has federal net operating loss carry forwards of approximately \$2,200,000 that begin to expire in 2027. Additionally, Minnesota net operating loss carry forwards of approximately \$2,300,000 begin to expire in 2022, and Massachusetts net operating loss carry forwards of approximately \$18,000 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, 2019 and 2018 consisted of the following:

	<u>2019</u>	<u>2018</u>
Total deferred tax asset	\$ 640,000	\$ 620,000
Valuation allowance	-	-
Total deferred tax liability	<u>(24,000)</u>	<u>(25,000)</u>
Deferred taxes	<u>\$ 616,000</u>	<u>\$ 595,000</u>

Realization of the deferred tax asset is primarily dependent upon sufficient future taxable income during the net operating loss carry forward period.

SHARED CAPITAL COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018

NOTE 15 - COMMITMENTS

As of December 31, 2019, 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 2019 and 2018 are summarized as follows:

	<u>2019</u>	<u>2018</u>
Equity and deposits in related parties	\$ 154,560	\$ 154,560
Notes receivable from related parties	586,307	1,013,907
Long-term debt payable to related parties	524,519	901,445
Preferred stock held by related parties	167,159	382,447
Interest income earned from related parties	45,516	33,378
Interest expense incurred to related parties	15,647	31,483

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.

NOTE 17 - MULTI-YEAR AWARD

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. \$1,500,000 of this amount was received in 2019.

SHARED CAPITAL COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018

NOTE 17 - MULTI-YEAR AWARD (continued)

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. None of the loans were forgiven in 2019.

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. For 2019 and 2018, \$200,000 and \$75,000 of the award was recognized as grants and contributions revenue for Shared Capital, and \$165,000 and \$0 was contributed to Project Equity.

NOTE 18 - SUBSEQUENT EVENT

The COVID-19 outbreak in the United States in spring 2020 has resulted in possible economic hardships for Shared Capital's borrowers, investors, and funders. This development could potentially have an adverse effect on Shared Capital's future revenue. However, the financial impact and duration cannot be reasonably estimated at this time.