



Shared Capital Cooperative

BUILDING ECONOMIC DEMOCRACY

SHARED CAPITAL COOPERATIVE

FINANCIAL STATEMENTS

December 31, 2020 and 2019

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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, 2020 and 2019, 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, 2020 and 2019, 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
Madison, Wisconsin
April 15, 2021

SHARED CAPITAL COOPERATIVE
BALANCE SHEETS
December 31, 2020 and 2019

	2020	2019
ASSETS		
CURRENT ASSETS		
Cash	\$ 2,840,985	\$ 1,823,949
Accounts receivable	446,777	307,097
Prepaid expenses	26,787	26,064
Accrued interest receivable	61,355	45,717
Current portion of notes receivable	2,328,571	1,978,773
Total current assets	5,704,475	4,181,600
Property and equipment - net	19,937	29,931
Intangible assets - net	15,846	18,506
OTHER ASSETS		
Security deposit	3,000	3,000
Equity in other cooperatives	159,560	159,560
Notes receivable less current portion - net of loan loss allowance	9,996,331	8,341,443
Deferred taxes	456,000	616,000
Total assets	\$ 16,355,149	\$ 13,350,040
LIABILITIES AND EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$ 22,723	\$ 27,511
Accrued expenses	15,944	16,094
Deferred revenue	100,000	8,000
Funds held for others	324,749	283,396
Income taxes payable	17,998	656
Current portion of accrued interest payable	141,209	276,609
Current portion of long-term debt	3,509,525	4,176,292
Total current liabilities	4,132,148	4,788,558
LONG-TERM LIABILITIES		
Accrued interest payable net of current portion	124,234	62,377
Long-term debt net of current portion and loan costs	9,348,073	6,488,529
Total liabilities	13,604,455	11,339,464
EQUITY		
Preferred stock, \$10 par value, 500,000 shares authorized, 250,447 and 216,447 shares issued and outstanding	2,504,467	2,164,467
Common stock - voting, \$10 par value, 1,000 shares authorized, 392 and 532 shares issued and outstanding	3,920	5,320
Common stock - nonvoting, \$10 par value, 500,000 shares authorized, 155,792 and 155,443 shares issued and outstanding	1,557,921	1,554,429
Additional paid-in capital	642,893	622,668
Retained patronage	42,090	12,532
Accumulated deficit	(2,000,597)	(2,348,840)
Total equity	2,750,694	2,010,576
Total liabilities and equity	\$ 16,355,149	\$ 13,350,040

See accompanying notes.

SHARED CAPITAL COOPERATIVE
STATEMENTS OF INCOME
Years Ended December 31, 2020 and 2019

	2020	2019
REVENUE		
Interest income - loans	\$ 743,138	\$ 700,621
Interest income - cash accounts	7,919	16,641
Grants and contributions	1,178,054	860,324
Loan fees	122,273	133,427
Loan recovery income	53,299	88,760
Consulting income	3,900	700
Other	9,400	15,000
Total revenue	2,117,983	1,815,473
EXPENSES		
Personnel	555,009	523,466
Provision for loan losses	260,568	497,033
Interest	226,509	225,798
Contributions	210,000	165,000
Outside services	93,839	86,549
Professional services	66,473	94,452
Occupancy	50,896	47,607
Office supplies	32,332	22,969
Advertising	26,815	50,359
Depreciation and amortization	15,834	13,730
Seminars, travel, and training	13,497	56,606
Dues	8,621	8,060
Fees	1,577	1,359
Board expense	46	11,096
Total expenses	1,562,016	1,804,084
Net income before income taxes and patronage dividend	555,967	11,389
Provision for income taxes	(177,998)	20,344
Patronage dividend	(29,726)	-
Net income	\$ 348,243	\$ 31,733

See accompanying notes.

SHARED CAPITAL COOPERATIVE
STATEMENTS OF EQUITY
Years Ended December 31, 2020 and 2019

	Preferred Stock	Common Stock - Voting	Common Stock - Nonvoting	Additional Paid-In Capital	Retained Patronage	Accumulated Deficit	Total Equity
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	2,164,467	5,320	1,554,429	622,668	12,532	(2,348,840)	2,010,576
Purchases	340,000	360	2,020	23,365	-	-	365,745
Redemptions	-	(430)	(20)	(3,140)	(6)	-	(3,596)
Stock converted	-	(1,330)	1,492	-	(162)	-	-
Patronage dividend	-	-	-	-	29,726	-	29,726
Net income	-	-	-	-	-	348,243	348,243
Balance December 31, 2020	<u>\$ 2,504,467</u>	<u>\$ 3,920</u>	<u>\$ 1,557,921</u>	<u>\$ 642,893</u>	<u>\$ 42,090</u>	<u>\$ (2,000,597)</u>	<u>\$ 2,750,694</u>

See accompanying notes.

SHARED CAPITAL COOPERATIVE
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2020 and 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 348,243	\$ 31,733
Adjustments to reconcile net income to net cash flows from operating activities		
Depreciation and amortization	15,834	13,729
Change in loan loss allowance	131,461	(297,002)
Deferred taxes	160,000	(21,000)
(Increase) decrease in assets		
Accounts receivable	(139,680)	275,789
Prepaid expenses	(723)	(4,559)
Accrued interest receivable	(15,638)	(10,478)
Equity in other cooperatives	-	(5,000)
Increase (decrease) in liabilities		
Accounts payable	(4,788)	16,716
Accrued expenses	(150)	(6,179)
Deferred revenue	92,000	(144,903)
Funds held for others	41,353	863
Income taxes payable	17,342	-
Accrued interest payable	(73,543)	8,114
Net cash flows from operating activities	571,711	(142,177)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from notes receivable	2,069,704	2,780,322
Purchases of property and equipment	(3,180)	(10,079)
Purchases of intangible assets	-	(940)
Issuance of notes receivable	(4,205,851)	(3,291,066)
Net cash flows from investing activities	(2,139,327)	(521,763)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of long-term debt	2,914,641	2,536,645
Payments on long-term debt	(722,750)	(1,420,659)
Payment of loan costs	-	(10,318)
Amortization of loan costs	886	452
Purchases of common stock	25,745	16,675
Redemptions of common stock	(3,590)	(6,000)
Purchases of preferred stock	340,000	73,000
Redemptions of preferred stock	-	(53,302)
Patronage dividend retained	29,726	-
Redemptions of retained patronage	(6)	-
Net cash flows from financing activities	2,584,652	1,136,493
Net change in cash	1,017,036	472,553
Cash at beginning of year	1,823,949	1,351,396
Cash at end of year	\$ 2,840,985	\$ 1,823,949
SUPPLEMENTARY DISCLOSURES		
Cash paid for interest	\$ 299,166	\$ 217,232
Cash paid for income taxes	656	656

See accompanying notes.

SHARED CAPITAL COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
December 31, 2020 and 2019

NOTE 1 - 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 250 member cooperatives and 100 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 based on historical experience. 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, 2020 and 2019

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. In addition to the accrual-based allowance for loan losses, Shared Capital holds cash reserves for its loans made through the Accelerate Employee Ownership Program. At December 31, 2020, these cash reserves totaled \$200,000.

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 \$886 and \$452 for 2020 and 2019. Accumulated amortization was \$1,338 and \$452 at December 31, 2020 and 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. Distributions in the form of qualified patronage dividends 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, 2020 and 2019

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.

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.

Date of Management's Review

Management has evaluated subsequent events through April 15, 2021, the date which the financial statements were available to be issued.

The COVID-19 outbreak in the United States that escalated 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.

NOTE 2 - 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, 2020 and 2019, Shared Capital's uninsured cash balances totaled approximately \$2,321,570 and \$1,331,000.

NOTE 3 - 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 also hold \$5,000 of Class B membership shares in the National Consumer Cooperative Bank, the holding company for the National Cooperative Bank.

SHARED CAPITAL COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
December 31, 2020 and 2019

NOTE 4 - NOTES RECEIVABLE

Recorded investments in loans by portfolio segment at December 31, 2020 and 2019 consisted of the following:

	<u>2020</u>	<u>2019</u>
Cooperative housing mortgage loans	\$ 4,534,441	\$ 3,388,947
Cooperative business mortgage loans	834,180	615,896
Cooperative business loans	7,703,940	6,924,574
Loans to individuals to purchase cooperative housing (Share)	<u>84,241</u>	<u>91,238</u>
Total notes receivable	13,156,802	11,020,655
Less allowance for loan losses	<u>831,900</u>	<u>700,439</u>
Notes receivable - net	<u>\$ 12,324,902</u>	<u>\$ 10,320,216</u>

In addition to the loans summarized above, December 31, 2020 and 2019 Shared Capital serviced \$3,209,270 and \$3,475,689 in off-balance sheet loans, including \$3,006,733 and \$3,223,013 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.

The change in the allowance for loans losses in 2020 and 2019 consisted of the following:

	<u>2020</u>	<u>2019</u>
Beginning allowance	\$ 700,439	\$ 997,441
Loans written off	(121,638)	(680,964)
Increase in provision for loan losses	<u>253,099</u>	<u>383,962</u>
Ending allowance	<u>\$ 831,900</u>	<u>\$ 700,439</u>

SHARED CAPITAL COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
December 31, 2020 and 2019

NOTE 4 - NOTES RECEIVABLE (continued)

The allowance for loan losses by portfolio segment at December 31, 2020 and 2019 was as follows:

	Cooperative housing mortgage loans	Cooperative business mortgage loans	Cooperative business loans	Loans to individuals (Share)	Total
Beginning allowance	\$ 477,778	\$ 137,727	\$ 79,563	\$ 5,371	\$ 700,439
Loans written off	-	-	(121,638)	-	(121,638)
Increase (decrease)	(367,066)	(105,702)	730,817	(4,950)	253,099
2020 Ending allowance	<u>\$ 110,712</u>	<u>\$ 32,025</u>	<u>\$ 688,742</u>	<u>\$ 421</u>	<u>\$ 831,900</u>
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	<u>\$ 477,778</u>	<u>\$ 137,727</u>	<u>\$ 79,563</u>	<u>\$ 5,371</u>	<u>\$ 700,439</u>

The aging of loans by portfolio segment at December 31, 2020 and 2019 was as follows:

	Cooperative housing mortgage loans	Cooperative business mortgage loans	Cooperative business loans	Loans to individuals (Share)	Total
Current	\$ 4,534,442	\$ 834,180	\$ 7,703,939	\$ 84,241	\$ 13,156,802
31 - 90	-	-	-	-	-
90 + days	-	-	-	-	-
2020 Total	<u>\$ 4,534,442</u>	<u>\$ 834,180</u>	<u>\$ 7,703,939</u>	<u>\$ 84,241</u>	<u>\$ 13,156,802</u>
Current	\$ 3,388,947	\$ 615,896	\$ 6,924,574	\$ 91,238	\$ 11,020,655
31 - 90	-	-	-	-	-
90 + days	-	-	-	-	-
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>

SHARED CAPITAL COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
December 31, 2020 and 2019

NOTE 4 - NOTES RECEIVABLE (continued)

The credit quality of loans receivable at December 31, 2020 and 2019 was as follows:

	Cooperative housing mortgage loans	Cooperative business mortgage loans	Cooperative business loans	Loans to individuals (Share)	Total
A	\$ 2,087,154	\$ -	\$ 159,826	\$ 84,241	\$ 2,331,221
B	1,851,630	484,180	1,420,423	-	3,756,233
C	505,476	350,000	3,836,725	-	4,692,201
D	90,182	-	1,509,109	-	1,599,291
E	-	-	374,635	-	374,635
F	-	-	65,141	-	65,141
G	-	-	338,080	-	338,080
2020 Total	<u>\$ 4,534,442</u>	<u>\$ 834,180</u>	<u>\$ 7,703,939</u>	<u>\$ 84,241</u>	<u>\$ 13,156,802</u>
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>

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 totaling \$121,638 was written off as impaired in 2020. Two business loans totaling \$680,964 were written off as impaired in 2019.

SHARED CAPITAL COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
December 31, 2020 and 2019

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2020 and 2019 consisted of the following:

	2020	2019
Leasehold improvements	\$ 11,321	\$ 11,321
Office equipment and furniture	51,426	55,178
Property and equipment	62,747	66,499
Less accumulated depreciation	42,810	36,568
Property and equipment - net	\$ 19,937	\$ 29,931

Depreciation expense for 2020 and 2019 was \$13,174 and \$11,300.

NOTE 6 - INTANGIBLE ASSETS

Intangible assets at December 31, 2020 and 2019 consisted of the following:

	2020	2019
Intangible assets	\$ 44,656	\$ 44,656
Less accumulated amortization	28,810	26,150
Intangible assets - net	\$ 15,846	\$ 18,506

Amortization expense for 2020 and 2019 was \$2,660 and \$2,430.

NOTE 7 - LINE OF CREDIT

Shared Capital has a \$500,000 line of credit with National Cooperative Bank secured by cash deposits, which was established in 2017 and renewed in 2019. The line of credit expires in June 2021. It bears an interest rate of 30-day LIBOR Rate plus 225 basis points. There was no outstanding balance on the line of credit at December 31, 2020 and 2019.

NOTE 8 - 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 \$38,859 and \$36,706 for 2020 and 2019. Future minimum lease payments are \$31,100 and \$18,550 for 2021 and 2022.

SHARED CAPITAL COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
December 31, 2020 and 2019

NOTE 9 - LONG-TERM DEBT

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

Long-term debt at December 31, 2020 and 2019 consisted of the following:

	<u>2020</u>	<u>2019</u>
Senior loans payable	\$ 6,620,167	\$ 4,475,567
Subordinate loans payable	5,643,090	5,699,120
Sub-subordinate loans payable	500,000	500,000
Paycheck Protection Program loan	<u>103,321</u>	<u>-</u>
Long-term debt	12,866,578	10,674,687
Less loan costs	<u>8,980</u>	<u>9,866</u>
Long-term debt net of loan costs	<u><u>\$ 12,857,598</u></u>	<u><u>\$ 10,664,821</u></u>

Long-term debt at December 31, 2020 and 2019 consisted of the following:

	<u>2020</u>	<u>2019</u>
Due on demand	\$ 1,645,820	\$ 448,505
Due in 2021	1,863,705	-
Due in 2020	-	3,727,787
Long-term debt net of current portion and loan costs	<u>9,348,073</u>	<u>6,488,529</u>
Long-term debt net of loan costs	<u><u>\$ 12,857,598</u></u>	<u><u>\$ 10,664,821</u></u>

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

	<u>2020</u>
Due on demand	\$ 1,645,820
2021	1,863,705
2022	1,547,912
2023	1,776,813
2024	1,793,476
2025	840,662
Thereafter	<u>3,398,190</u>
Long-term debt	<u><u>\$ 12,866,578</u></u>

The notes payable at December 31, 2020 and 2019 have interest rates ranging from 0% to 5.5%, are unsecured, and mature through 2034.

SHARED CAPITAL COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
December 31, 2020 and 2019

NOTE 9 - LONG-TERM DEBT (continued)

In April 2020, the Cooperative applied for a Paycheck Protection Program (PPP) loan as part of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) implemented by the United States Small Business Administration (SBA) to help cover payroll costs, rent, and utilities during the COVID-19 outbreak. The Cooperative received a 1% interest loan from this program, repayable over 24 months, in the amount of \$103,321. If the Cooperative is able to meet certain criteria set forth by the CARES Act, the loan may qualify for partial or full forgiveness as long as the loan is used keep employees and pay eligible costs during the eligible period after receiving the loan. The Cooperative intends to apply for forgiveness in 2021.

The Cooperative must retain PPP documentation in its files for six years after the date the loan is forgiven or repaid in full and permit authorized representatives of SBA to access such files upon request. SBA may review any loan at any time at its discretion. Therefore, SBA may review the Cooperative's good-faith certification concerning the necessity of its loan request, whether the Cooperative calculated the loan amount correctly, whether the Cooperative used loan proceeds for the allowable uses specified in the CARES Act, and whether the Cooperative is entitled to loan forgiveness in the amount claimed on its application. If SBA determines the Cooperative was ineligible for the loan or for forgiveness in whole or in part, SBA will seek repayment of the outstanding loan balance.

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, 2020 and 2019, Shared Capital held \$324,749 and \$283,396 in funds payable to NDS and available for lending. At December 31, 2020 and 2019, Shared Capital was servicing \$202,537 and \$252,676 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 2020 and 2019.

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.

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NOTE 12 - PATRONAGE DIVIDEND

Shared Capital's Board of Directors declared a nonqualified patronage dividend on 2020 earnings in the amount of \$29,726. The dividend was recorded as a component of retained patronage on the balance sheets. The dividend will not be tax deductible to Shared Capital until the year the cash is disbursed to the cooperative's members.

NOTE 13 - 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 \$12,217 and \$11,489 for 2020 and 2019.

NOTE 14 - INCOME TAXES

The provision for income taxes for 2020 and 2019 was comprised of the following:

	2020	2019
Current federal income tax expense	\$ -	\$ -
Current state income tax expense	(17,998)	(656)
Deferred income tax (expense) benefit	(160,000)	21,000
Provision for income taxes	\$ (177,998)	\$ 20,344

Shared Capital has federal net operating loss carry forwards of approximately \$1,600,000 that begin to expire in 2031. Additionally, Minnesota net operating loss carry forwards of approximately \$1,900,000 begin to expire in 2028.

Deferred taxes 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, 2020 and 2019 consisted of the following:

	2020	2019
Total deferred tax asset	\$ 488,000	\$ 640,000
Valuation allowance	-	-
Total deferred tax liability	(32,000)	(24,000)
Deferred taxes	\$ 456,000	\$ 616,000

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

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NOTE 15 - 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.

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 2020 and 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 2020 and 2019, \$325,000 and \$325,000 of the award was recognized as grants and contributions revenue for Shared Capital, and \$210,000 and \$165,000 was contributed to Project Equity.

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 2020 and 2019 are summarized as follows:

	2020	2019
Equity and deposits in related parties	\$ 154,560	\$ 154,560
Notes receivable from related parties	329,862	586,307
Long-term debt payable to related parties	410,696	524,519
Preferred stock held by related parties	440,159	167,159
Interest income earned from related parties	31,052	45,516
Interest expense incurred to related parties	11,057	15,647

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 - COMMITMENTS

As of December 31, 2020, Shared Capital has made commitments of approximately \$846,000 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.