CRAFT3 AND SUBSIDIARIES

CONSOLIDATED FINANCIAL REPORT

DECEMBER 31, 2017

C O N T E N T S

Note: A schedule of prior year audit findings is not included as there were no findings in the prior year.

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Craft3 and Subsidiaries
Astoria, Oregon

We have audited the accompanying consolidated financial statements of Craft3 and Subsidiaries ("Craft3") which comprise the consolidated statements of financial position as of December 31, 2017 and 2016, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated 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 consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Craft3 as of December 31, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States.

Supplemental Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating statement of financial position as of December 31, 2017, and the consolidating statement of activities for the year then ended, are presented for the purposes of additional analysis and are not a required part of the consolidated financial statements. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards,* is also presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 18, 2018, on our consideration of Craft3's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Craft3's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Craft3's internal control over financial reporting and compliance.

Peterson Sullivan LLP

April 18, 2018

CRAFT3 AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

December 31, 2017 and 2016

ASSETS	2017	2016
Current Assets		
Cash and cash equivalents (Note 1)	$ 9,042,120	$ 14,271,640
Restricted cash, current (Note 1)	1,115,595	5,863,932
Investments (Note 2)	6,716,335	11,417,889
Restricted investments (Notes 1 and 2)	2,244,883	
Grants receivable (Note 3)	2,831,207	750,000
Accrued interest, other receivables, and prepaid expenses (Note 4)	1,386,123	2,370,819
Current portion of commercial loans receivable (Note 5)	14,480,621	17,083,269
Current portion of consumer loans receivable (Note 5)	1,371,024	1,199,559
Total current assets	39,187,908	52,957,108
Loans Receivable		
Commercial loans (Notes 5 - 7)	115,024,087	110,357,672
Consumer loans (Notes 5 - 7)	18,472,435	14,574,994
Total loans receivable	133,496,522	124,932,666
Less: current portion (Note 5)	(15,851,645)	(18,282,828)
Less: reserve for loan losses (Note 5)	(6,537,415)	(6,219,467)
Total loans receivable, net of current portion and reserve for loan losses	111,107,462	100,430,371
Other Assets		
Restricted cash, net of current portion (Note 1)	3,559,120	4,687,957
Furniture and equipment, net (Note 1)	672,860	224,304
Deferred tax asset (Note 12)	359,165	273,543
Other	745,630	797,235
Total other assets	5,336,775	5,983,039
Total assets	$ 155,632,145	$ 159,370,518

See Notes to Consolidated Financial Statements

CRAFT3 AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Continued)

December 31, 2017 and 2016

LIABILITIES AND NET ASSETS	2017	2016
Current Liabilities		
Accounts payable and accrued expenses	$ 1,052,308	$ 1,035,788
Deferred fee income, current (Note 1)	190,498	192,536
Funds held in escrow (Note 1)	50,353	1,606,333
Current portion of long-term debt (Note 8)	15,830,928	10,999,188
Total current liabilities	17,124,087	13,833,845
Deferred Fee Income, net of current portion (Note 1)	362,192	391,368
Long-Term Debt (Note 8)		
Notes payable	96,230,521	100,650,684
Equity equivalent investments	9,814,568	10,064,568
Total long-term debt	106,045,089	110,715,252
Less: current portion	(15,830,928)	(10,999,188)
Total long-term debt, net of current portion	90,214,161	99,716,064
Total liabilities	107,700,440	113,941,277
Net Assets		
Unrestricted	46,522,530	42,165,266
Temporarily restricted (Note 1)	1,409,175	3,263,975
Total net assets	47,931,705	45,429,241
Total liabilities and net assets	$ 155,632,145	$ 159,370,518

See Notes to Consolidated Financial Statements

CRAFT3 AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF ACTIVITIES

For the Years Ended December 31, 2017 and 2016

	2017 Unrestricted	2017 Temporarily Restricted	2017 Total	2016 Unrestricted	2016 Temporarily Restricted	2016 Total
Revenue and Other Support						
Interest income on outstanding loans	$ 9,553,256	$ -	$ 9,553,256	$ 8,333,460	$ -	$ 8,333,460
Grants and contributions (Note 10)	6,504,446	460,000	6,964,446	3,679,753	1,077,500	4,757,253
Loan origination and servicing fees	1,247,132		1,247,132	1,305,230		1,305,230
NMTC management and servicing fees (Note 13)	590,989		590,989	1,557,750		1,557,750
Interest income on investments	193,789		193,789	175,219		175,219
Net realized gains on sale of loans				93,027		93,027
Net realized gains (losses) on investments	(1,156)		(1,156)	11,926		11,926
Miscellaneous income	1,621		1,621	5,108		5,108
Net assets released from restrictions (Note 1)	2,314,800	(2,314,800)		750,544	(750,544)	
Total revenue and other support	20,404,877	(1,854,800)	18,550,077	15,912,017	326,956	16,238,973
Expenses						
Program services						
Commercial lending activities	11,674,483		11,674,483	7,972,236		7,972,236
Consumer lending activities	2,232,124		2,232,124	1,702,156		1,702,156
Consulting and management services	437,009		437,009	486,471		486,471
Total program services	14,343,616		14,343,616	10,160,863		10,160,863
Supporting services						
Management and administration	1,913,242		1,913,242	1,955,621		1,955,621
Development	252,235		252,235	161,872		161,872
Total supporting services	2,165,477		2,165,477	2,117,493		2,117,493
Total expenses	16,509,093		16,509,093	12,278,356		12,278,356
Change in net assets before gain on acquisition, unrealized losses, and federal income tax	3,895,784	(1,854,800)	2,040,984	3,633,661	326,956	3,960,617
Gain on Acquisition	378,890		378,890			
Net Unrealized Losses on Investments	(3,032)		(3,032)	(49,580)		(49,580)
Income Tax Benefit (Expense)	85,622		85,622	(548,404)		(548,404)
Change in net assets	**4,357,264**	**(1,854,800)**	**2,502,464**	**3,035,677**	**326,956**	**3,362,633**
Net Assets, beginning of year	42,165,266	3,263,975	45,429,241	39,129,589	2,937,019	42,066,608
Net Assets, end of year	$ 46,522,530	$ 1,409,175	$ 47,931,705	$ 42,165,266	$ 3,263,975	$ 45,429,241

See Notes to Consolidated Financial Statements

CRAFT3 AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2017

	Program Services				Supporting Services			
	Commercial Lending Activities	Consumer Lending Activities	Consulting and Management Services	Total Program Services	Management and Administration	Development	Total Supporting Services	Total
Expenses								
Salaries and wages	$ 3,098,820	$ 966,887	$ 189,445	$ 4,255,152	$ 697,076	$ 134,400	$ 831,476	$ 5,086,628
Payroll taxes and fringe benefits	744,715	294,081	42,157	1,080,953	181,003	42,087	223,090	1,304,043
Interest expense	3,434,960	148,396		3,583,356				3,583,356
Provision for loan losses	2,977,805	343,162		3,320,967				3,320,967
Occupancy expenses	254,517	109,079	10,908	374,504	154,528	16,362	170,890	545,394
Loan costs	382,333	150,674		533,007				533,007
Consultants	91,166	17,979	158,203	267,348	205,396		205,396	472,744
Technology expense	166,853	71,508	7,151	245,512	101,303	10,726	112,029	357,541
Travel	128,432	17,965	4,125	150,522	126,493	13,246	139,739	290,261
Taxes and licenses	98,621	42,266	4,227	145,114	59,877	6,340	66,217	211,331
Depreciation	65,897	28,242	2,824	96,963	40,009	4,236	44,245	141,208
Professional fees	30,756	375	9,870	41,001	72,804	17,015	89,819	130,820
Insurance	40,608	17,403	1,740	59,751	24,654	2,610	27,264	87,015
Office supplies	36,223	15,524	1,552	53,299	21,992	2,329	24,321	77,620
Other operating costs	122,777	8,583	4,807	136,167	228,107	2,884	230,991	367,158
Total expenses	$ 11,674,483	$ 2,232,124	$ 437,009	$ 14,343,616	$ 1,913,242	$ 252,235	$ 2,165,477	$ 16,509,093
Percent of Total Expenses	70%	14%	3%	87%	11%	2%	13%	100%

See Notes to Consolidated Financial Statements

CRAFT3 AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2016

	Program Services				Supporting Services			
	Commercial Lending Activities	Consumer Lending Activities	Consulting and Management Services	Total Program Services	Management and Administration	Development	Total Supporting Services	Total
Expenses								
Salaries and wages	$ 2,999,411	$ 839,618	$ 174,011	$ 4,013,040	$ 610,829	$ 105,115	$ 715,944	$ 4,728,984
Payroll taxes and fringe benefits	806,509	238,068	38,952	1,083,529	170,660	32,861	203,521	1,287,050
Interest expense	3,050,009	135,214		3,185,223				3,185,223
Provision for loan losses	90,596	82,000		172,596				172,596
Occupancy expenses	150,690	106,936		257,626	166,411		166,411	424,037
Loan costs	305,090	157,519		462,609				462,609
Consultants	111,487	23,538	104,210	239,235	157,399		157,399	396,634
Technology expense	127,892	63,549		191,441	127,099	133	127,232	318,673
Travel	108,297	12,321	2,788	123,406	112,283	16,013	128,296	251,702
Taxes and licenses	36,817	3,389		40,206	121,143		121,143	161,349
Depreciation					148,681		148,681	148,681
Professional fees	64,440	6,921	30,137	101,498	53,136	2,407	55,543	157,041
Insurance	7,670		2,791	10,461	73,465		73,465	83,926
Office supplies	21,619	15,648	1,270	38,537	21,459	271	21,730	60,267
Other operating costs	91,709	17,435	132,312	241,456	193,056	5,072	198,128	439,584
Total expenses	$ 7,972,236	$ 1,702,156	$ 486,471	$ 10,160,863	$ 1,955,621	$ 161,872	$ 2,117,493	$ 12,278,356
Percent of Total Expenses	65%	14%	4%	83%	16%	1%	17%	100%

See Notes to Consolidated Financial Statements

CRAFT3 AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2017 and 2016

	2017	2016
Cash Flows from Operating Activities		
Change in net assets	$ 2,502,464	$ 3,362,633
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation	141,208	148,681
Adjustment to loan loss reserve	3,320,967	172,596
Net realized and unrealized losses on investments	4,188	37,654
Deferred income tax expense (benefit)	(85,622)	551,327
Other	83,781	
Changes in operating assets and liabilities		
Grants receivable	(2,081,207)	1,630,000
Accrued interest, other receivables, and prepaid expenses	984,696	(988,047)
Loans receivable	(10,460,675)	(13,364,837)
Other assets	51,605	(117,846)
Accounts payable and accrued expenses	16,520	266,804
Funds held in escrow	(118,565)	107,628
Deferred fee income	(31,214)	(236,725)
Net cash flows from operating activities	(5,671,854)	(8,430,132)
Cash Flows from Investing Activities		
Purchases of furniture and equipment	(589,764)	(109,777)
Sales (purchases) of investments	2,452,483	(6,562,037)
Change in restricted cash	4,439,759	(230,758)
Net cash flows from investing activities	6,302,478	(6,902,572)
Cash Flows from Financing Activities		
Proceeds from issuance of long-term debt	16,166,953	22,902,737
Principal payments on long-term debt	(22,027,097)	(9,325,431)
Net cash flows from financing activities	(5,860,144)	13,577,306
Change in cash and cash equivalents	**(5,229,520)**	**(1,755,398)**
Cash and Cash Equivalents, beginning of year	14,271,640	16,027,038
Cash and Cash Equivalents, end of year	$ 9,042,120	$ 14,271,640

During the year ended December 31, 2017, Craft3 purchased a loan fund and assumed $1,106,200 in loans receivable and $1,189,981 in loans payable.

See Notes to Consolidated Financial Statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Organization and Summary of Significant Accounting Policies

Organization

Craft3 is a Washington nonprofit corporation with a mission to strengthen economic, ecological, and family resilience in Pacific Northwest communities. Craft3 provides loans and assistance to entrepreneurs, nonprofits, individuals, and others who may not have access to traditional financing.

Funding for Craft3's loans and other activities comes from grants and loans made to Craft3 by financial institutions, governmental entities, nonprofit organizations, and individuals.

Craft3 is certified as a Community Development Financial Institution by the Community Development Financial Institutions Fund, a division within the U.S. Department of the Treasury.

Craft3 Capital Corporation ("C3CC") is a wholly-owned, for-profit subsidiary of Craft3. C3CC was established to provide loans to small and mid-market businesses in the State of Washington that can create or retain large numbers of jobs.

Windfarm Investments, Inc. ("Windfarm") is a wholly-owned, for-profit subsidiary of Craft3. Windfarm was created to facilitate the funding of a New Markets Tax Credit ("NMTC") investment.

Craft3 Investment II, LLC ("Investment II") is 99.99% owned by Craft3 and 0.01% owned by Windfarm. Investment II was utilized to facilitate the funding of a NMTC-related investment.

Principles of Consolidation

These consolidated financial statements include the accounts of Craft3 and its wholly-owned subsidiaries, C3CC, Windfarm, and Investment II (collectively, "Craft3"). All intercompany transactions as of the date that Craft3 acquired controlling interest have been eliminated.

Related Entities

Craft3 is related to a series of limited liability companies ("LLCs") that were established to take advantage of the NMTC program, which is described in Note 13 to these consolidated financial statements. Craft3 manages the LLCs, but its ownership percentage is very small and control is limited. Accordingly, Craft3's investment in the LLCs is accounted for at cost, subject to possible impairment. Craft3 earns management and other fees for activities related to the LLCs.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the consolidated statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Financial Statement Presentation

Craft3 reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Craft3 has no permanently restricted net assets, so this class of net assets is not shown on the consolidated financial statements. Temporarily restricted net assets consist of unexpended grants and contributions restricted for particular purposes or time periods. Temporarily restricted net assets are transferred to unrestricted net assets as expenditures are incurred for the restricted purpose, or as time restrictions are met.

The equity associated with C3CC, Investment II, and Windfarm are included with unrestricted net assets in these consolidated financial statements. The equity and net assets included in the consolidated financial statements at December 31, 2017 and 2016, for these subsidiaries was:

	2017	2016
C3CC	$ 18,738,241	$ 8,635,332
Investment II	(21,798)	(20,605)
Windfarm	2,171	1,185
Total	$ 18,718,614	$ 8,615,912

Temporarily Restricted Net Assets

Temporarily restricted net assets are listed by funding source and consist of the following at December 31:

	2016	Grants and Contributions	Net Assets Released	2017
Operating				
Kaiser Permanente	$ 48,027	$ -	$ -	$ 48,027
Meyer Memorial Trust Land Conservation	196,528		(28,182)	168,346
Meyer Memorial Trust Expansion	193,819			193,819
Northwest Area Foundation - Strategy	296,583		(296,583)	
Murdock Foundation	72,343		(72,343)	
JPMorgan Chase Foundation - Opportunity Fund Collaboration	109,233		(70,667)	38,566
Wells Fargo Foundation	197,442		(14,878)	182,564
Northwest Area Foundation - Uplift America	50,000	50,000	(59,687)	40,313
Meyer Memorial Trust Clean Water		250,000		250,000
JPMorgan Chase Foundation - Small Business Forward		110,000	(35,292)	74,708
Meyer Memorial Trust Food & Farm		50,000		50,000
Total operating	1,163,975	460,000	(577,632)	1,046,343
Financing				
Gates Child Care	1,500,000		(1,500,000)	
JPMorgan Chase Foundation	600,000		(237,168)	362,832
Total temporarily restricted net assets	$ 3,263,975	$ 460,000	$(2,314,800)	$ 1,409,175

Operating grants are generally restricted for general operational and land conservation lending expenses. The financing grant is restricted for lending to child care providers.

Cash and Cash Equivalents/Restricted Cash/Funds Held in Escrow

All short-term deposits and investments with an original maturity of three months or less are considered to be unrestricted cash and cash equivalents unless the amounts are restricted. Craft3 has cash balances in excess of federally insured limits. Restricted cash is held for the following purposes at December 31:

	2017	2016
Self-Help Credit Union Reserve Accounts	$ 1,559,120	$ 2,687,957
Banner Bank	2,000,000	2,000,000
U.S. Department of Agriculture Intermediary Relending Program ("IRP")	675,375	4,159,406
U.S. Small Business Administration Intermediary Lending Program ("ILP")	440,220	267,111
Held in Escrow for Heron Foundation		1,437,415
Total	4,674,715	10,551,889
Less: current portion	(1,115,595)	(5,863,932)
Restricted cash, long-term	$ 3,559,120	$ 4,687,957

The Self-Help Credit Union Reserves represent loan loss reserves set up as a result of the Self-Help Energy Loan Sale discussed in Note 6. As these reserves are not anticipated to be used in the next year, they are considered long-term assets.

The funds held at Banner Bank are restricted as part of the $10 million syndication described in Note 8. As the funds are securing a long-term liability, they are considered long-term assets.

The U.S. Department of Agriculture Intermediary Relending Program requires cash used in this program to be segregated and deposited in a dedicated bank account.

The U.S. Small Business Administration Intermediary Lending Program requires cash used in this program to be segregated and deposited in a dedicated bank account.

The amount held in escrow represents funds received by Craft3 from a foundation that are to be held by Craft3 until fully drawn by C3CC on the Wells Fargo syndication note, as contractually stipulated. As C3CC made the final draw on the Wells Fargo syndication note in 2017, the funds no longer need to be held in escrow by Craft3.

Grants Receivable, Accrued Interest, and Other Receivables

Receivables consist of amounts owed to Craft3 from customers, related party LLCs, grantor agencies, and accrued interest on loans receivable.

Accounts and grants receivable are stated at their principal balances and are generally uncollateralized. Management has determined that no allowance for possible uncollectible accounts or grants receivable is required, but if an allowance were required, it would be established. If an amount was determined to be uncollectible, it would be written off against the allowance.

Fair Value Measurements

Fair value is a market-based measurement determined based on assumptions that market participants would use in pricing an asset or liability. These are three levels that prioritize the inputs used in measuring fair value as follows:

- Level 1: Observable market inputs such as quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: Observable market inputs, other than quoted prices in active markets, that are observable either directly or indirectly; and
- Level 3: Unobservable inputs where there is little or no market data, which require the reporting entity to develop its own assumptions.

Investments

Investments are carried at fair value. The fair value of the investments was determined using Level 2 observable market inputs within the above fair value hierarchy, except for direct obligations of the U.S. Treasury, where fair value was determined using Level 1. Craft3's non-U.S. Treasury investments may not have recent observable market transactions, and are therefore priced based on investments with similar income streams in a similar class. A portion of the investments are restricted for the Intermediary Relending Program. These funds were placed into investments during 2017 to earn income for these loans. See Note 2.

Furniture and Equipment

Furniture and equipment are recorded at cost. Depreciation is provided using the straight-line method over the estimated useful lives of the assets. Purchases of assets with a cost in excess of $2,500 are capitalized. Maintenance and repairs are charged to expense as incurred and major replacements and improvements are capitalized. Furniture and equipment balances are shown net of accumulated depreciation of $647,569 and $506,361 at December 31, 2017 and 2016, respectively.

Loans Receivable

Loans receivable are stated at the amount of unpaid principal, reduced by general and specific reserves for loan losses. Interest income on loans is recognized when earned. Loans are made to individuals, businesses, and nonprofit agencies located in the Pacific Northwest. Loans to businesses and nonprofits generally require collateral and personal guarantees from the principal owners or members of management.

A loan is placed on non-accrual status when it is specifically determined to be impaired and when, in the opinion of management, there is an indication that the borrower may be unable to make payments as they become due. Also, Craft3's policy requires that a loan be placed on non-accrual status when payments are 120 days or more past due and the value of the related collateral does not exceed the outstanding balance due. Interest income generally is not recognized on impaired loans. Payments received on such loans are applied as a reduction of the loan principal balance. Generally, a loan would not be converted back to accrual status unless the borrower has made 12 consecutive payments on time.

The reserves (general and specific) for loan losses are maintained at a level that, in management's judgment, is adequate to absorb credit losses inherent in the loan portfolio in consideration of the nature of the portfolio, credit concentrations, trends in historical loss experience, specific impaired loans, and economic conditions. Reserves for impaired loans are generally determined after considering collateral values. An increase to the reserve also increases the provision for loan losses, which is charged to expense. The reserve is reduced by loan charge-offs, net of recoveries.

In August 2017, Craft3 acquired substantially all of the assets and liabilities of North Central Washington Business Loan Fund. Assets consisted of approximately $1,100,000 of discounted loans receivable from various businesses and cash of $500,000. Liabilities consisted of approximately $1,200,000 in notes payable. Craft3 recognized a gain of $378,890 on the acquisition.

Credit Quality and Reserve for Credit Losses

The key to Craft3's credit risk management is its loan risk rating system. The originating loan officer assigns borrowers an initial risk rating, which is based primarily on a thorough analysis of each borrower's financial capacity in conjunction with economic trends. Approvals are made based upon the amount of inherent credit risk specific to the transaction and are reviewed for appropriateness by senior line and credit management personnel. Loans are monitored by line and credit management personnel for deterioration in a borrower's financial condition, which would impact the ability of the borrower to perform under the contract. Risk ratings are adjusted as necessary.

Loans are risk rated into the following categories (Credit Quality Indicators):

Pass (risk rating of 4 - 5) – These loans range from minimal credit risk to lower than average, but still acceptable, credit risk.

Pass Watch List (risk rating of 6) – Pass Watch List loans usually require more than normal management attention. Loans that qualify for the Pass Watch List may involve borrowers with adverse financial trends, higher debt/equity ratios, or weaker liquidity positions, but not to the degree of being considered a problem loan where risk of loss may be apparent. Additionally, loans are placed on the watch list if they are regularly on the 30+ day past due list or become more than 60 days past due (unless there is a realistic plan for the loan to become current before it becomes 120 days past due).

Problem (risk rating of 7) – Loans are classified as Problem loans when the borrower's primary source of repayment capacity is impaired to the point that the borrower's payments do not cover principal payments on a reasonable amortization rate; a voluntary liquidation plan has been negotiated; or the loan is more than 120 days past due (unless there is a realistic plan for the loan to become current before it becomes 180 days past due).

Loss – Whenever any portion of a loan is deemed uncollectible, in part or in whole, a partial or full charge-off will be made against the reserve for loan losses based on a conservative estimate of the realizable liquidation value. A loan that becomes 180 days past due must be charged off unless there are realistic expectations that the borrower can bring the account current or a realistic restructure can be negotiated.

Deferred Fee Income

Craft3 charges fees based on loan types and related funding requirements. Significant loan fees (less direct expenses) are recognized ratably over the term of the loan.

Federal Income Tax Status

Craft3 is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. C3CC files as a for-profit corporation. See Note 12 for further discussion. Craft3 and C3CC are subject to certain business and occupation taxes, which apply equally to for-profit and nonprofit businesses, imposed by state and local taxing authorities. The taxes are assessed on a percentage of a portion of Craft3's revenues.

Reclassification

Certain amounts in the prior year consolidated financial statements have been reclassified to conform to the current year presentation.

Subsequent Events

Craft3 has evaluated subsequent events through the date these consolidated financial statements were available to be issued, which was April 18, 2018.

Note 2. Investments

Investments consist of the following as of December 31:

	2017	2016
Unrestricted Investments		
Level 1 investments		
Debt instruments issued by the U.S. Treasury and by agencies sponsored by the U.S. Government	$ 2,852,663	$ 7,902,065
Level 2 investments		
State and local bonds	3,356,942	3,015,584
Corporate bonds	506,730	500,240
Restricted Investments		
Level 1 investments		
Debt instruments issued by the U.S. Treasury and by agencies sponsored by the U.S. Government	2,244,883	
Total	$ 8,961,218	$ 11,417,889

Debt instruments issued by agencies of the U.S. Government include debt issued by Fannie Mae and the Federal Home Loan Bank System.

Note 3. Grants Receivable

Grants receivable consist of the following at December 31:

	2017	2016
Washington State Department of Commerce	$ 1,400,000	$ -
U.S. Department of Treasury	686,500	750,000
Washington Department of Ecology	546,201	
Oregon Department of Environmental Quality	174,949	
Others	23,557	
Total grants receivable	$ 2,831,207	$ 750,000

Note 4. Accounts Receivable from Related Parties

Accounts receivable from related party LLCs are included in accrued interest, other receivables, and prepaid expenses in the consolidated statements of financial position and amounted to $127,971 and $230,645 at December 31, 2017 and 2016, respectively.

Note 5. Loans Receivable

Customers may access one or more types of loan products available from Craft3. However, no single customer (individual, business, or principal) shall access from Craft3 more than $3,000,000 ($10,000,000 if there is a government guarantee of at least 70%) or from C3CC more than $5,000,000 of total principal outstanding to a borrower, co-borrower, guarantor, or in situations where common collateral is used. The Board of Directors, as an exception to the policy, must specifically approve any loan or investment that will cause a violation of this policy. The borrower exposure limit excludes amounts loaned to borrowers from other entities that may be managed by Craft3, namely the related party LLCs discussed in Note 13.

At December 31, 2017, outstanding loans to individual borrowers were as large as $9,564,440 and loans yielded interest rates from 0% to 18.75% per annum. At December 31, 2016, outstanding loans to individual borrowers were as large as $9,571,200 and loans yielded interest rates from 0% to 18% per annum. Commercial loans are generally made to small and mid-size businesses and nonprofit organizations in a variety of industries located in the Pacific Northwest. Consumer loans generally consist of the clean water (that is, septic system repair and replacement) and energy retrofit loans.

The following table represents the approximate number of loans made and outstanding by specific industries at December 31:

	2017			2016		
	Number of Loans	Balance	Percentage of Total	Number of Loans	Balance	Percentage of Total
Manufacturing	43	$ 22,823,653	17%	51	$ 23,210,416	18%
Clean energy	32	19,879,919	15%	21	18,030,422	14%
Forestry and fishing	26	17,967,822	13%	32	16,648,267	13%
Real estate	15	12,023,069	9%	12	12,015,064	10%
Community development	112	11,862,210	9%	81	14,648,276	12%
Clean water	656	10,553,591	8%	470	7,349,349	6%
Retail	46	9,140,262	7%	35	7,276,228	6%
Services	58	8,992,228	7%	54	10,183,405	8%
Tourism	39	8,147,402	6%	36	6,008,823	5%
Energy retrofit	770	6,992,517	5%	605	6,665,079	5%
Agriculture	11	2,815,664	2%	10	1,889,699	2%
Professional services	22	2,298,185	2%	20	1,007,638	1%
Totals	1,830	133,496,522	100%	1,427	124,932,666	100%
Reserve for loan losses		(6,537,415)			(6,219,467)	
		$ 126,959,107			$ 118,713,199	

Loans receivable consist of the following at December 31:

	2017	2016
Commercial loans receivable	$ 115,024,087	$ 110,357,672
Consumer loans receivable	18,472,435	14,574,994
Total loans receivable	$ 133,496,522	$ 124,932,666

The current portion of loans receivable is summarized as:

	2017	2016
Current portion of commercial loans receivable	$ 14,480,621	$ 17,083,269
Current portion of consumer loans receivable	1,371,024	1,199,559
Total current portion	$ 15,851,645	$ 18,282,828

The long-term portion of loans receivable is summarized as:

	2017	2016
Total loans receivable	$ 133,496,522	$ 124,932,666
Less: current portion	(15,851,645)	(18,282,828)
Less: loan loss reserve	(6,537,415)	(6,219,467)
Total loans receivable, net of current portion and reserve for loan losses	$ 111,107,462	$ 100,430,371

Activity in the total loan loss reserve for 2017 and 2016 is as follows:

	2017	2016
Loan loss reserve, beginning of year	$ 6,219,467	$ 5,887,066
Provision for loan losses	3,320,967	172,596
Loan write-offs, net of recoveries	(3,003,019)	159,805
Loan loss reserve, end of year	$ 6,537,415	$ 6,219,467

The loan loss reserve is composed of a general reserve and a specific reserve as follows:

	2017	2016
General reserve	$ 4,269,707	$ 3,779,594
Specific reserve	2,267,708	2,439,873
Total reserve	$ 6,537,415	$ 6,219,467

The general loan loss reserve is based on risk management's general review of the current loan portfolio. The specific loan loss reserve is based on an analysis of individual loans.

In addition, through one of the energy loan programs, an off-balance sheet reserve is being held in fully insured bank accounts by the funder of the program. The balance of this reserve is not on Craft3's books at year-end, but is available to Craft3 for unrecovered losses on certain energy loans once payments are 180 days delinquent and best efforts to collect the outstanding payments have been exercised. The balance as of December 31, 2017 and 2016, was $180,890 and $180,781, respectively.

Management believes the reserve for loan losses is adequate to offset future loan losses in Craft3's current loan portfolio. When determining the reserve for loan losses, management considers factors that mitigate losses, including collateral associated with loans receivable. When a loan is determined to be uncollectible, it is charged against the loan loss reserve. Most loans offered by Craft3 are collateralized. Because of inherent uncertainties in estimating the reserve for loan losses, it is at least reasonably possible that the estimates used will change in the near term.

Management has assessed compliance with loan loss reserve requirements according to the Small Business Administration's Community Advantage Program. As of December 31, 2017, management believes it is in compliance with these requirements.

Future principal payments scheduled to be received on loans receivable are as follows for the years ending December 31:

2018	$ 15,851,645
2019	9,319,748
2020	20,597,470
2021	20,392,931
2022	11,947,174
Thereafter	55,387,554
	$ 133,496,522

Note 6. Energy Loan Sale

On December 1, 2013, and October 1, 2015, Craft3 sold 1,252 and 438 energy loans ("the Loans") respectively, to Self-Help Credit Union ("SHCU"). The Loans were sold at par and the total principal balance of the Loans was $15,700,426 for the sale that occurred on December 1, 2013, and $6,443,833 for the sale that occurred on October 1, 2015. At December 31, 2017, the outstanding balance of the sold loans was $7,674,203. As part of the sale agreement, Craft3 provided certain cash credit enhancements in support of the Loans (collectively known as "the Reserve Sources"). The Reserve Sources guarantee 30% of the Loans. Under the terms of the sale agreement, Craft3 funded and pledged two accounts ("the Reserve Accounts") to SHCU. At December 31, 2017, the Reserve Accounts are included in restricted cash on the consolidated statements of financial position, and balances were as follows:

- Craft3 SHCU Reserve Account balance of $212,549
- Craft3 Self-Help Federal Credit Union ("SHFCU") Reserve Account balance of $1,346,571

Enhabit (formerly known as Clean Energy Works, Inc.) is an unrelated organization that partnered with Craft3 in the loan program. Enhabit has established a loan loss reserve ("Enhabit Reserve") for eligible loans funded in 2011 and 2012. The reserve funds available in the Enhabit Reserve totaled $993,938 at the time of the sale in 2013. The Reserve Accounts and the Enhabit Reserve combine to be the Reserve Sources and provide the guarantee for 30% of the Loans mentioned above.

SHCU may withdraw the loss amount from the Reserve Sources in the event that payments on any of the Loans become 150 days or more delinquent. If the Loan is eligible, Enhabit Reserve funds will be used first. If the Loan is not eligible for Enhabit Reserve funds or if the Enhabit Reserve funds are depleted, funds from the SHCU Reserve will be withdrawn. If there are no remaining funds in the SHCU Reserve, funds may be withdrawn from the SHFCU Reserve. SHCU is responsible for the potential loss on the next 20% of Loans and Craft3 guarantees the remaining 50% of losses related to the Loans. Potential losses to Craft3 have been incorporated into the loan losses reserve discussed in Note 5.

Craft3 is continuing to service and administer the Loans.

Note 7. Credit Quality and Reserve for Credit Losses

The following tables show the loan portfolio allocation by Craft3's internal risk ratings:

	December 31, 2017			
	Pass	Pass - Watch List	Problem	Total Loans
Manufacturing	$ 22,803,888	$ -	$ 19,765	$ 22,823,653
Clean energy	16,908,357	2,392,743	578,819	19,879,919
Forestry and fishing	17,442,501	128,955	396,366	17,967,822
Real estate	11,933,654	89,415		12,023,069
Community development	8,927,596	21,949	2,912,665	11,862,210
Clean water	10,334,776	47,044	171,771	10,553,591
Retail	8,596,422	279,654	264,186	9,140,262
Services	7,325,707	67,868	1,598,653	8,992,228
Tourism	7,014,087		1,133,315	8,147,402
Energy retrofit	6,678,865	185,439	128,213	6,992,517
Agriculture	858,121	1,801,846	155,697	2,815,664
Professional services	2,295,429	2,756		2,298,185
Totals	$ 121,119,403	$ 5,017,669	$ 7,359,450	$ 133,496,522

	December 31, 2016			
	Pass	Pass - Watch List	Problem	Total Loans
Manufacturing	$ 20,847,398	$ 2,339,053	$ 23,965	$ 23,210,416
Clean energy	16,678,332	1,352,090		18,030,422
Forestry and fishing	14,640,813	1,525,016	482,438	16,648,267
Real estate	12,015,064			12,015,064
Community development	11,212,249	221,459	3,214,568	14,648,276
Clean water	7,129,908	41,848	177,593	7,349,349
Retail	7,176,220	75,408	24,600	7,276,228
Services	9,716,106	318,108	149,191	10,183,405
Tourism	5,285,562	411,276	311,985	6,008,823
Energy retrofit	6,326,630	173,480	164,969	6,665,079
Agriculture	344,779	1,334,872	210,048	1,889,699
Professional services	1,001,709	5,929		1,007,638
Totals	$ 112,374,770	$ 7,798,539	$ 4,759,357	$ 124,932,666

The following table shows an aging analysis of the loan portfolio by the time past due:

	December 31, 2017						
	Current	1 - 30 Days Past Due	31 - 60 Days Past Due	61 - 90 Days Past Due	91 - 120 Days Past Due	121+ Days Past Due	Total Loans
Manufacturing	$ 22,823,653	$ -	$ -	$ -	$ -	$ -	$ 22,823,653
Clean energy	19,776,217		103,702				19,879,919
Forestry and fishing	17,612,042	237,588	34,654			83,538	17,967,822
Real estate	11,933,654			89,415			12,023,069
Community development	8,949,545		2,912,665				11,862,210
Clean water	10,486,947	30,837	2,196		33,611		10,553,591
Retail	8,905,129	235,133					9,140,262
Services	8,912,474	79,754					8,992,228
Tourism	6,835,328	165,093		13,666	1,133,315		8,147,402
Energy retrofit	6,922,455			25,504	28,830	15,728	6,992,517
Agriculture	2,700,193	75,970	39,501				2,815,664
Professional services	2,298,185						2,298,185
Totals	$128,155,822	$ 824,375	$ 3,092,718	$ 128,585	$ 1,195,756	$ 99,266	$133,496,522

	December 31, 2016						
	Current	1 - 30 Days Past Due	31 - 60 Days Past Due	61 - 90 Days Past Due	91 - 120 Days Past Due	121+ Days Past Due	Total Loans
Manufacturing	$ 21,023,162	$ 2,187,254	$ -	$ -	$ -	$ -	$ 23,210,416
Clean energy	18,030,422						18,030,422
Forestry and fishing	16,268,382	47,746	143,421		188,718		16,648,267
Real estate	12,015,064						12,015,064
Community development	12,019,291	2,383,835				245,150	14,648,276
Clean water	7,290,878	33,572	24,899				7,349,349
Retail	7,208,012	38,751	9,637	19,828			7,276,228
Services	8,626,881	1,556,524					10,183,405
Tourism	6,008,823						6,008,823
Energy retrofit	6,527,252			99,653	23,387	14,787	6,665,079
Agriculture	703,032	1,186,667					1,889,699
Professional services	927,316	80,322					1,007,638
Totals	$116,648,515	$ 7,514,671	$ 177,957	$ 119,481	$ 212,105	$ 259,937	$124,932,666

The following tables present the recorded investment in loans by portfolio segment and based on impairment method:

	December 31, 2017		
	Commercial	Consumer	Total Loans
Loans individually evaluated for impairment	$ 12,377,118	$ 554,416	$ 12,931,534
Loans collectively evaluated for impairment	102,646,969	17,918,019	120,564,988
Totals	$ 115,024,087	$ 18,472,435	$ 133,496,522

	December 31, 2016		
	Commercial	Consumer	Total Loans
Loans individually evaluated for impairment	$ 12,557,896	$ 557,890	$ 13,115,786
Loans collectively evaluated for impairment	97,799,776	14,017,104	111,816,880
Totals	$ 110,357,672	$ 14,574,994	$ 124,932,666

The following tables present loans individually evaluated for impairment by class of loans:

	December 31, 2017				
	Unpaid Contractual Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Total Recorded Investment	Allowance
Commercial	$ 14,022,777	$ 5,279,473	$ 7,097,645	$ 12,377,118	$ 2,267,708
Consumer		554,516		554,516	
	$ 14,022,777	$ 5,833,989	$ 7,097,645	$ 12,931,634	$ 2,267,708

	December 31, 2016				
	Unpaid Contractual Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Total Recorded Investment	Related Allowance
Commercial	$ 13,993,774	$ 5,236,356	$ 7,321,540	$ 12,557,896	$ 2,439,873
Consumer		557,890		557,890	
	$ 13,993,774	$ 5,794,246	$ 7,321,540	$ 13,115,786	$ 2,439,873

Note 8. Long-Term Debt

Long-term debt consist of the following as of December 31:

Long-Term Notes Payable	2017	2016
Notes payable to financial institutions in varying amounts with interest rates ranging from 1% to 3.13%. Notes are unsecured and the final due date is May 15, 2027.	$ 37,850,000	$ 35,830,291
Note payable to leading bank of the C3CC syndication, Wells Fargo Bank, with a variable interest rate of LIBOR plus 3.5%. Note is secured by the assets at C3CC and the final due date is August 21, 2020.	15,866,667	22,500,000
Notes payable to government agencies in varying amounts with interest rates ranging from 0% to 2.4%. Notes are unsecured and the final due date is July 7, 2031.	3,176,928	2,242,060
Notes payable to U.S. Department of Agriculture with 1% interest rates. Notes are secured by the program receivables and a portion of restricted cash, and the final due date is October 20, 2044.	6,939,090	5,861,830
Notes payable to individuals, businesses, nonprofit organizations, and trusts in varying amounts with interest rates ranging from 0% to 8.75%. Notes are unsecured and have a variety of dues dates; the final due date is October 25, 2035.	32,397,836	34,216,503
Total long-term notes payable	96,230,521	100,650,684
Less: current portion	(15,653,009)	(10,571,269)
	$ 80,577,512	$ 90,079,415

Equity Equivalent Investments	2017	2016
Notes payable to financial institutions in varying amounts with interest rates ranging from 1% to 4%. Notes are unsecured with a variety of due dates; the final due date is November 30, 2022.	$ 6,447,568	$ 6,697,568
Notes payable to government agencies in varying amounts with interest rates ranging from 2.2% to 2.4%. Notes are unsecured with a variety of due dates; the final due date is March 1, 2022.	3,367,000	3,367,000
Total equity equivalent investments	9,814,568	10,064,568
Less: current portion	(177,919)	(427,919)
	$ 9,636,649	$ 9,636,649

The current portion of long-term debt is summarized at December 31:

	2017	2016
Long-term notes payable	$ 15,653,009	$ 10,571,269
Equity equivalent investments debt	177,919	427,919
	$ 15,830,928	$ 10,999,188

Equity equivalent investments (or "EQ2") is debt that is subordinated to all other Craft3 debt and may only be repaid when, and if, its repayment does not materially impair Craft3's operating or loan capital liquidity.

The following is a summary of scheduled principal maturities of all long-term debt for the years ending December 31:

2018	$ 15,830,928
2019	26,558,930
2020	25,292,133
2021	10,538,975
2022	7,175,022
Thereafter	20,649,101
	$ 106,045,089

A number of Craft3's notes payable contain restrictive covenants related to minimum capital requirements, the ratio of net assets to total assets, and liquidity. Craft3 was in compliance with its covenants at December 31, 2017.

Interest paid on a cash basis was approximately $3,515,546 in 2017 and $2,967,000 in 2016.

In December 2014, Craft3 entered into a $10 million revolving line of credit with a group of banks partially secured by $2 million on deposit at Banner Bank. At the borrower's option, the line of credit shall bear interest at a rate of either prime or 30-day LIBOR plus 3%, and will have a termination date of November 2019. As of December 31, 2017 and 2016, there was no outstanding balance on the line of credit.

In August 2014, C3CC entered into a $31.5 million line of credit with a group of banks and other lenders secured by all assets of C3CC. The line of credit shall bear interest at LIBOR plus 3.5%, and will have a termination date of August 2020. As of December 31, 2017, the outstanding balance of this loan was $15,866,667. As of December 31, 2016, the outstanding balance of this loan was $22,500,000.

Note 9. Leasing Agreements

Craft3 leases office space and other properties under non-cancelable operating leases that expire at various dates through 2031. Craft3 also leases property under month-to-month agreements. Expenditures under these leases are included on the consolidated statements of functional expenses as occupancy expenses. The following is a summary of future minimum lease payments for the years ending December 31:

2018	$ 385,506
2019	322,232
2020	294,933
2021	261,617
2022	252,408
Thereafter	1,702,066
	$ 3,218,762

Note 10. Grants and Contributions

Grants and contributions were provided by the following organizations:

	2017	2016
Washington State Department of Commerce	$ 2,800,000	$ 2,370,000
Washington Department of Ecology	1,486,793	
U.S. Department of the Treasury	686,500	775,000
Oregon Department of Environmental Quality	548,446	
Ford Family Foundation	500,000	
Meyer Memorial Trust	250,000	
JPMorgan Chase Foundation	110,000	777,500
Kitsap County Health		422,481
Wells Fargo DCC		250,000
Goldman Sachs		60,000
Others	582,707	102,272
Total grants and contributions	$ 6,964,446	$ 4,757,253

Note 11. Contingent Liabilities and Funds Subject to Recapture

Federal grants and loans are subject to audit and adjustment by grantor agencies. Any disallowed claims or findings of noncompliance with grant terms as a result of such an audit may constitute a liability to Craft3.

In prior years, Craft3 received grants totaling approximately $3,440,000 to fund energy efficiency loans in two underserved Portland neighborhoods. Craft3 is required to return 70% of the principal of these loans to Enhabit as the loans are repaid or sold. Craft3 returned to Enhabit $2,550 and $18,128 in 2017 and 2016, respectively. As of December 31, 2017, the remaining amount eligible for repayment was $65,975.

Note 12. Federal Income Taxes

As mentioned in Note 1, C3CC is a Craft3 subsidiary that files a tax return as a for-profit corporation. The tax provision associated with C3CC is composed of:

	2017	2016
Current benefit	$ -	$ 2,923
Deferred benefit (expense)	85,622	(551,327)
	$ 85,622	$ (548,404)

The net deferred tax asset is composed of:

	2017	2016
Net operating loss carryforward	$ 359,165	$ 273,543
Loan loss reserve	634,067	725,900
	993,232	999,443
Valuation allowance	(634,067)	(725,900)
Net deferred tax asset	$ 359,165	$ 273,543

There was a decrease in the valuation allowance of $91,833 for 2017 and an increase in the valuation allowance of $275,966 for 2016. The net operating loss carryforward expires beginning in 2035.

Investment II and the other subsidiaries are organized as limited liability corporations ("LLCs"). Net income from the LLCs is passed through to Craft3, which is a nonprofit corporation organized under Internal Revenue Code Section 501(c)(3). No liability has been recorded for uncertain tax positions as of December 31, 2017 or 2016, and management believes no material uncertain tax positions have been taken.

Note 13. New Markets Tax Credits

As discussed in Note 1, Craft3 is certified by the Community Development Financial Institutions Fund, a division within the U.S. Department of the Treasury. Craft3 has applied for and received allocations of the NMTC within the meaning of the Internal Revenue Code. These credits can be offered to certain investors for the purpose of stimulating increased investment and economic growth in low-income communities.

Craft3 is related to a series of LLCs that are used to take advantage of the NMTC. In some cases, NMTC program periods expired, and Craft3 obtained 100% control of the LLCs (so they are now consolidated or the entities were dissolved at the end of the NMTC period). In other cases, Craft3 owns 0.01% of each of these entities, and they are accounted for at cost.

For two LLCs, Craft3 Investment V, LLC ("Investment V") and Craft3 Development V, LLC ("Development V"), the NMTC period ended in December 2016. During 2017, all assets and liabilities of the LLCs were paid or settled, ownership was transferred to an unrelated entity, and then the entities were dissolved. In addition, in 2016, Craft3 sold its management rights for Investment V and was paid $1,099,000.

The LLCs where Craft3 owns 0.01% are summarized as follows:

- Craft3 Investment VII, LLC ("Investment VII") - Craft3 has invested $1,800 into Investment VII, and has advanced Investment VII $68,893 and $111,632 at December 31, 2017 and 2016, respectively. During 2017 and 2016, Craft3 earned fees of $225,771 and $225,976, respectively, from Investment VII.

- Craft3 Investment VIII, LLC ("Investment VIII") - Craft3 has invested $460 into Investment VIII, and has advanced Investment VIII $9,131 and $4,637 at December 31, 2017 and 2016, respectively. During 2017 and 2016, Craft3 earned fees of $59,785 and $55,037, respectively, from Investment VIII.

- Craft3 Investment IX, LLC ("Investment IX") - Craft3 has invested $1,628 into Investment IX, and has advanced Investment IX $49,947 and $100,158 at December 31, 2017 and 2016, respectively. During both 2017 and 2016, Craft3 earned fees of $194,865 from Investment IX.

These LLCs are not consolidated with Craft3 due to lack of control.

SUPPLEMENTAL INFORMATION

CRAFT3 AND SUBSIDIARIES

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

December 31, 2017

ASSETS	Craft3	Craft3 Capital Corporation	Craft3 Investment II, LLC	Windfarm Investments, Inc.	Eliminating Entries	Consolidated Total
Current Assets						
Cash and cash equivalents	$ 6,503,379	$ 2,493,937	$ 43,265	$ 1,539	$ -	$ 9,042,120
Restricted cash, current	1,115,595					1,115,595
Investments	6,716,335					6,716,335
Restricted investments	2,244,883					2,244,883
Grants receivable	2,831,207					2,831,207
Accrued interest, other receivables, and prepaid expenses	1,153,704	232,419				1,386,123
Current portion of commercial loans receivable	9,611,119	4,766,807	102,695			14,480,621
Current portion of consumer loans receivable	1,371,024					1,371,024
Total current assets	31,547,246	7,493,163	145,960	1,539		39,187,908
Loans Receivable						
Commercial loans	74,201,605	34,631,388	6,191,094			115,024,087
Consumer loans	18,472,435					18,472,435
Total loans receivable	92,674,040	34,631,388	6,191,094			133,496,522
Less: current portion	(10,982,143)	(4,766,807)	(102,695)			(15,851,645)
Less: reserve for loan losses	(4,640,936)	(1,864,903)	(31,576)			(6,537,415)
Total loans receivable, net of current portion and reserve for loan losses	77,050,961	27,999,678	6,056,823			111,107,462
Other Assets						
Restricted cash, net of current portion	3,559,120					3,559,120
Furniture and equipment, net	672,860					672,860
Investment in subsidiaries	18,717,982				(18,717,982)	
Deferred tax asset		359,165				359,165
Other	1,664,902			632	(919,904)	745,630
Total other assets	24,614,864	359,165		632	(19,637,886)	5,336,775
Total assets	$ 133,213,071	$ 35,852,006	$ 6,202,783	$ 2,171	$ (19,637,886)	$ 155,632,145

CRAFT3 AND SUBSIDIARIES

CONSOLIDATING STATEMENT OF FINANCIAL POSITION
(Continued)
December 31, 2017

LIABILITIES AND NET ASSETS	Craft3	Craft3 Capital Corporation	Craft3 Investment II, LLC	Windfarm Investments, Inc.	Eliminating Entries	Consolidated Total
Current Liabilities						
Accounts payable and accrued expenses	$ 926,261	$ 126,047	$ -	$ -	$ -	$ 1,052,308
Deferred fee income, current	120,973	69,525				190,498
Funds held in escrow	50,353					50,353
Current portion of long-term liabilities	10,883,843	4,900,000	47,085			15,830,928
Total current liabilities	11,981,430	5,095,572	47,085			17,124,087
Accounts and Interest Payable		919,272			(919,272)	
Deferred Fee Income, net of current portion	229,938	132,254				362,192
Long-Term Debt						
Notes payable	74,139,273	15,866,667	6,224,581			96,230,521
Equity equivalent investments	9,814,568					9,814,568
Total long-term debt	83,953,841	15,866,667	6,224,581			106,045,089
Less: current portion	(10,883,843)	(4,900,000)	(47,085)			(15,830,928)
Total long-term debt, net of current portion	73,069,998	10,966,667	6,177,496			90,214,161
Total liabilities	85,281,366	17,113,765	6,224,581		(919,272)	107,700,440
Net Assets						
Unrestricted	46,522,530					46,522,530
Temporarily restricted	1,409,175					1,409,175
Total net assets	47,931,705					47,931,705
Stockholders' Equity						
Common stock		5,000,000		1,200	(5,001,200)	
Additional paid-in capital		16,422,515	16,140		(16,438,655)	
Retained earnings (deficit)		(2,684,274)	(37,938)	971	2,721,241	
Net assets/stockholders' equity	47,931,705	18,738,241	(21,798)	2,171	(18,718,614)	47,931,705
Total liabilities and net assets	$ 133,213,071	$ 35,852,006	$ 6,202,783	$ 2,171	$ (19,637,886)	$ 155,632,145

CRAFT3 AND SUBSIDIARIES

CONSOLIDATING STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2017

	Craft3	Craft3 Capital Corporation	Craft3 Investment II, LLC	Windfarm Investments, Inc.	Eliminating Entries	Consolidated Total
Revenue and Other Support						
Interest income on outstanding loans	$ 5,992,627	$ 3,042,221	$ 518,408	$ -	$ -	$ 9,553,256
Grants and contributions	6,964,446					6,964,446
Loan closing and origination fees	1,080,040	167,092				1,247,132
NMTC management and service fees	1,502,217				(911,228)	590,989
Interest income on investments	193,789					193,789
Net realized gains (losses) on investments	(1,156)					(1,156)
Miscellaneous income	103,103			1,220	(102,702)	1,621
Total revenue and other support	15,835,066	3,209,313	518,408	1,220	(1,013,930)	18,550,077
Expenses						
Program services						
Commercial lending activities	8,873,850	3,192,026	519,601	234	(911,228)	11,674,483
Consumer lending activities	2,232,124					2,232,124
Consulting and management services	437,009					437,009
Total program services	11,542,983	3,192,026	519,601	234	(911,228)	14,343,616
Supporting services						
Management and administration	1,913,242					1,913,242
Development	252,235					252,235
Total supporting services	2,165,477					2,165,477
Total expenses	13,708,460	3,192,026	519,601	234	(911,228)	16,509,093
Change in net assets before gain on acquisition, unrealized losses, and federal income tax	2,126,606	17,287	(1,193)	986	(102,702)	2,040,984
Gain on Acquisition	378,890					378,890
Net Unrealized Losses on Investments	(3,032)					(3,032)
Income Tax Benefit		85,622				85,622
Change in net assets/net income (loss)	**$ 2,502,464**	**$ 102,909**	**$ (1,193)**	**$ 986**	**$ (102,702)**	**$ 2,502,464**

SUPPLEMENTARY REPORTS AND SCHEDULES IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS* AND THE UNIFORM GUIDANCE

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors
Craft3 and Subsidiaries
Astoria, Oregon

We have audited in accordance with the auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Craft3 and Subsidiaries ("Craft3"), which comprise the consolidated statements of financial position as of December 31, 2017 and 2016, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated April 18, 2018.

Internal Control over Financial Reporting

In planning and performing our 2017 audit of the consolidated financial statements, we considered Craft3's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of Craft3's internal control. Accordingly, we do not express an opinion on the effectiveness of Craft3's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's consolidated financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Craft3's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of consolidated financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Peterson Sullivan LLP

April 18, 2018

petersonsullivan LLP

Certified Public Accountants
& Advisors

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Directors
Craft3 and Subsidiaries
Astoria, Oregon

Report on Compliance for Each Major Federal Program

We have audited Craft3 and Subsidiaries' ("Craft3") compliance with the types of compliance requirements described in *OMB Compliance Supplement* that could have a direct and material effect on each of Craft3's major federal programs for the year ended December 31, 2017. Craft3's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Craft3's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Craft3's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of Craft3's compliance.

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Opinion on Each Major Federal Program

In our opinion, Craft3 complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2017.

Report on Internal Control over Compliance

Management of Craft3 is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Craft3's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Craft3's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Peterson Sullivan LLP

April 18, 2018

CRAFT3 AND SUBSIDIARIES

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended December 31, 2017

Federal Grantor	Award Number	Federal CFDA Number	Federal Expenditures
U.S. Department of Treasury			
CDFI Cluster			
Community Development Financial Institutions Program	171FA021264	21.020	$ 686,500
Loans payable with continuing requirements:			
Community Development Financial Institutions Program	991CD001371	21.020	1,500,000
Total CDFI Cluster (and total U.S. Department of Treasury)			2,186,500
U.S. Environmental Protection Agency			
Pass-through Tacoma-Pierce County Health Department			
Puget Sound Action Agenda: Technical Investigations and Implementation Assistance Program	2014-00000098	66.123	15,215
Clean Water State Revolving Fund Cluster			
Pass-through State of Washington Department of Ecology			
Capitalization Grants for Clean Water State Revolving Funds	C1700016	66.458	138,985
Loans payable with continuing requirements:			
Pass-through State of Washington Department of Ecology			
Capitalization Grants for Clean Water State Revolving Funds	C1700016	66.458	690,610
Pass-through Kitsap Public Health District, WA			
Capitalization Grants for Clean Water State Revolving Funds	1529	66.458	1,000,000
Total Clean Water State Revolving Fund Cluster			1,829,595
Total U.S. Environmental Protection Agency			1,844,810
U.S. Department of Agriculture			
Intermediary Relending Program*	D01	10.767	401,628
Intermediary Relending Program*	D02	10.767	397,319
Intermediary Relending Program*	D03	10.767	468,483
Intermediary Relending Program*	D04	10.767	570,765
Intermediary Relending Program*	D05	10.767	674,878
Intermediary Relending Program*	D06	10.767	948,903
Intermediary Relending Program*	D13	10.767	124,000
Intermediary Relending Program*	D14	10.767	152,180
Intermediary Relending Program*	D15	10.767	515,009
Intermediary Relending Program*	D16	10.767	333,946
Intermediary Relending Program*	D08	10.767	363,276
Intermediary Relending Program*	D09	10.767	361,269
Intermediary Relending Program*	D10	10.767	464,802
Intermediary Relending Program*	D11	10.767	602,358
Intermediary Relending Program*	D12	10.767	560,365
Total Department of Agriculture			6,939,181
U.S. Small Business Administration			
Intermediary Loan Program	48159850-02	59.062	822,870
Total expenditures of federal awards			$ 11,793,361

* Denotes a major program

See Notes to Schedule of Expenditures of Federal Awards

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards ("the Schedule") includes the federal grant activity of Craft3 under programs of the federal government for the year ended December 31, 2017. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Because the Schedule presents only a selected portion of the operations of Craft3, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Craft3.

Note 2. Summary of Significant Accounting Principles

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, or in OMB Circular A-122, *Cost Principles for Non-Profit Organizations* ("A-122") (based on the grant terms), wherein certain types of expenditures are not allowable or are limited as to reimbursement. The cost principles contained in A-122 do not differ significantly from the cost principles contained in the Uniform Guidance.

Pass-through entity identifying numbers are presented where available.

Note 3. Indirect Cost Rate

Craft3 has elected not to use the 10 percent de minimus indirect cost rate as allowed under the Uniform Guidance.

Note 4. Loans Outstanding

Federal loans outstanding with continuing compliance requirements are considered as expenditures on the Schedule. These outstanding loan balances total $10,952,661 at December 31, 2017.

CRAFT3 AND SUBSIDIARIES

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended December 31, 2017

A. Summary of Audit Results

Financial statements

Type of auditors' report issued:	Unmodified

Internal control over financial reporting

Material weaknesses identified:	None
Significant deficiencies identified not considered to be material weaknesses:	None
Noncompliance material to financial statements noted:	None

Federal awards

Material weaknesses identified:	None
Significant deficiencies identified not considered to be material weaknesses:	None
Type of auditors' report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported:	None

Identification of major programs:

CFDA Number	Name of Federal Program
10.767	Intermediary Relending Program

Dollar threshold used to distinguish between Type A and B Programs:	$ 750,000
Auditee qualified as low-risk auditee:	Yes

B. Findings - Financial Statement Audit: None

C. Findings and Questioned Costs - Major Federal Award Programs Audit: None