

**CALIFORNIA COMMUNITY  
REINVESTMENT CORPORATION**

**CONSOLIDATED  
FINANCIAL STATEMENTS**

**YEARS ENDED  
SEPTEMBER 30, 2018 AND 2017**



**KALLMAN+THOMPSON+LOGAN, LLP**

**CALIFORNIA COMMUNITY  
REINVESTMENT CORPORATION**

**CONSOLIDATED  
FINANCIAL STATEMENTS**

**YEARS ENDED SEPTEMBER 30, 2018 AND 2017**

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# KALLMAN+THOMPSON+LOGAN, LLP

## INDEPENDENT AUDITORS' REPORT

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Board of Directors  
California Community Reinvestment Corporation  
Glendale, California

We have audited the accompanying consolidated financial statements of California Community Reinvestment Corporation and subsidiaries (the "Company") which comprise the consolidated statements of financial position as of September 30, 2018 and 2017, and the related consolidated statements of activities and cash flows for the two 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 of America; 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 of America 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.

(Continued)

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## INDEPENDENT AUDITORS' REPORT (CONTINUED)

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 California Community Reinvestment Corporation and subsidiaries as of September 30, 2018 and 2017, and the changes in its net assets and its cash flows for the two years then ended in accordance with accounting principles generally accepted in the United States of America.

### Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated December 12, 2018 on our consideration of California Community Reinvestment Corporation's internal control over financial reporting and 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 California Community Reinvestment Corporation's internal control over financial reporting or on compliance. Also, in accordance with Government Auditing Standards and the Consolidated Guide for Audits of HUD Programs, issued by the U.S. Department of Housing and Urban Development, Office of Inspector General (the Guide), we have also issued an opinion dated December 12, 2018, on California Community Reinvestment Corporation's compliance with certain provisions of laws, regulations, contracts, and grant agreement, and other matters that could have a direct and material effect on a major HUD program. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards in considering California Community Reinvestment Corporation's internal control over financial reporting and compliance.



KALLMAN+THOMPSON+LOGAN, LLP

Los Angeles, CA  
December 12, 2018

**CALIFORNIA COMMUNITY  
REINVESTMENT CORPORATION  
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION  
SEPTEMBER 30, 2018 AND 2017**

|                                       | <u>2018</u>               | <u>2017</u>               |
|---------------------------------------|---------------------------|---------------------------|
| <b>Assets</b>                         |                           |                           |
| Cash and cash equivalents             | \$ 2,825,290              | \$ 1,892,987              |
| Investment securities                 | 16,173,992                | -                         |
| Real estate loans:                    |                           |                           |
| Loans                                 | 142,323,289               | 115,454,474               |
| Loans held for sale                   | -                         | 151,313,246               |
| Allowance for loan losses             | ( 3,545,251)              | ( 3,560,036)              |
| Deferred loan fees                    | ( 1,200,681)              | ( 2,034,936)              |
| Real estate loans, net                | 137,577,357               | 261,172,748               |
| Interest receivable                   | 842,954                   | 1,461,677                 |
| Furniture and equipment, net          | 192,462                   | 197,711                   |
| Other assets                          | <u>488,460</u>            | <u>593,982</u>            |
| <br>Total assets                      | <br><u>\$ 158,100,515</u> | <br><u>\$ 265,319,105</u> |
| <b>Liabilities and Net Assets</b>     |                           |                           |
| Accounts payable and accrued expenses | \$ 887,275                | \$ 782,599                |
| Interest payable, member banks        | 540,485                   | 1,120,877                 |
| Deferred revenue                      | 3,323,150                 | 3,207,834                 |
| Notes payable, member banks           | <u>123,557,136</u>        | <u>234,941,448</u>        |
| Total liabilities                     | 128,308,046               | 240,052,758               |
| Commitments and contingencies         |                           |                           |
| Net assets:                           |                           |                           |
| Unrestricted                          | 29,711,075                | 25,190,553                |
| Temporarily restricted                | <u>81,394</u>             | <u>75,794</u>             |
| Total net assets                      | <u>29,792,469</u>         | <u>25,266,347</u>         |
| <br>Total liabilities and net assets  | <br><u>\$ 158,100,515</u> | <br><u>\$ 265,319,105</u> |

**CALIFORNIA COMMUNITY  
REINVESTMENT CORPORATION  
CONSOLIDATED STATEMENTS OF ACTIVITIES  
YEARS ENDED SEPTEMBER 30, 2018 AND 2017**

|   | <u>2018</u>          | <u>2017</u>          |
|---|----------------------|----------------------|
| Changes in unrestricted net assets:             |                      |                      |
| Revenues and gains:                             |                      |                      |
| Interest income, loans                          | \$ 8,832,555         | \$ 14,940,186        |
| Investment income, net                          | 91,946               | -                    |
| Loan, commitment, rate lock and prepayment fees | 1,993,399            | 812,608              |
| Loan sale premium, net                          | 3,627,284            | -                    |
| Credit enhancement fees and other income        | 549,203              | 598,911              |
| Loan servicing income, net                      | <u>1,329,422</u>     | <u>722,785</u>       |
| Total revenues and gains                        | 16,423,809           | 17,074,490           |
| Net assets released from restrictions:          |                      |                      |
| Satisfaction of program restrictions            | <u>50,000</u>        | <u>33,600</u>        |
| Total revenues, gains and other support         | <u>16,473,809</u>    | <u>17,108,090</u>    |
| Expenses:                                       |                      |                      |
| Interest, member banks                          | 7,334,818            | 12,249,858           |
| Salaries and employee benefits                  | 3,606,299            | 3,277,528            |
| Occupancy                                       | 225,241              | 145,868              |
| Professional services                           | 295,501              | 235,112              |
| Provision for loan losses                       | ( 14,785)            | ( 1,668,289)         |
| Marketing and business development              | 23,616               | 10,396               |
| Utilities and maintenance                       | 91,882               | 89,347               |
| Professional conferences and meetings           | 54,590               | 24,833               |
| Depreciation                                    | 64,897               | 52,472               |
| Insurance                                       | 98,512               | 73,994               |
| Miscellaneous                                   | <u>172,716</u>       | <u>149,577</u>       |
| Total expenses                                  | <u>11,953,287</u>    | <u>14,640,696</u>    |
| Increase in unrestricted net assets             | <u>4,520,522</u>     | <u>2,467,394</u>     |
| Changes in temporarily restricted net assets:   |                      |                      |
| Contributions                                   | 55,600               | 45,200               |
| Net assets released from restrictions           | <u>( 50,000)</u>     | <u>( 33,600)</u>     |
| Increase in temporarily restricted net assets   | <u>5,600</u>         | <u>11,600</u>        |
| Increase in net assets                          | 4,526,122            | 2,478,994            |
| Net assets, beginning of year                   | <u>25,266,347</u>    | <u>22,787,353</u>    |
| Net assets, end of year                         | <u>\$ 29,792,469</u> | <u>\$ 25,266,347</u> |

See notes to consolidated financial statements

**CALIFORNIA COMMUNITY  
REINVESTMENT CORPORATION  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
YEARS ENDED SEPTEMBER 30, 2018 AND 2017**

|   | <u>2018</u>           | <u>2017</u>          |
|---|-----------------------|----------------------|
| <b>Cash flows from operating activities:</b>        |                       |                      |
| Cash received from:                                 |                       |                      |
| Loan, commitment, rate lock and prepayment fees     | \$ 1,383,460          | \$ 1,928,835         |
| Service fees and other income                       | 1,884,224             | 1,333,296            |
| Interest income                                     | <u>9,451,278</u>      | <u>14,785,403</u>    |
| Cash received from operations                       | <u>12,718,962</u>     | <u>18,047,534</u>    |
| Cash paid to:                                       |                       |                      |
| Employees   | ( 3,641,997)          | ( 3,273,062)         |
| Member banks for interest on notes payable          | ( 7,915,210)          | ( 12,120,476)        |
| Vendors   | <u>( 775,161)</u>     | <u>( 1,090,358)</u>  |
| Cash paid for operations                            | <u>( 12,332,368)</u>  | <u>( 16,483,896)</u> |
| Net cash provided by operating activities           | <u>386,594</u>        | <u>1,563,638</u>     |
| <b>Cash flows from investing activities:</b>        |                       |                      |
| Loans originated                                    | ( 30,775,341)         | ( 39,483,911)        |
| Loan repayments                                     | 4,508,185             | 6,221,593            |
| Proceeds from sale of loans                         | 135,648,480           | -                    |
| Distributions from investment in securities         | 2,608,345             | -                    |
| Purchases of furniture and equipment                | <u>( 59,648)</u>      | <u>( 189,858)</u>    |
| Net cash provided by (used in) investing activities | <u>111,930,021</u>    | <u>( 33,452,176)</u> |
| <b>Cash flows from financing activities:</b>        |                       |                      |
| Proceeds from notes payable - member banks          | 29,630,429            | 37,513,411           |
| Payments on notes payable - member banks            | <u>( 141,014,741)</u> | <u>( 5,496,610)</u>  |
| Net cash provided by (used in) financing activities | <u>( 111,384,312)</u> | <u>32,016,801</u>    |
| Net increase in cash and cash equivalents           | 932,303               | 128,263              |
| Cash and cash equivalents, beginning of year        | <u>1,892,987</u>      | <u>1,764,724</u>     |
| Cash and cash equivalents, end of year              | <u>\$ 2,825,290</u>   | <u>\$ 1,892,987</u>  |

**CALIFORNIA COMMUNITY  
REINVESTMENT CORPORATION  
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)  
YEARS ENDED SEPTEMBER 30, 2018 AND 2017**

|   | <u>2018</u>          | <u>2017</u>         |
|---|----------------------|---------------------|
| <b>Reconciliation of increase in net assets<br/>to net cash provided by operating activities:</b> |                      |                     |
| Increase in net assets  | \$ 4,526,122         | \$ 2,478,994        |
| Adjustments to reconcile change in net assets<br>to net cash provided by operating activities:    |                      |                     |
| Depreciation  | 64,897               | 52,472              |
| Provision for loan losses   | ( 14,785)            | ( 1,668,289)        |
| Investment income, net  | ( 91,946)            | -                   |
| Loan sale premium   | ( 3,627,284)         | -                   |
| Changes in operating assets and liabilities:  |                      |                     |
| Deferred loan fees  | ( 834,255)           | 164,609             |
| Interest receivable   | 618,723              | ( 154,783)          |
| Other assets  | 105,522              | ( 381,762)          |
| Accounts payable and accrued expenses   | 104,676              | 130,397             |
| Interest payable, member banks  | ( 580,392)           | 129,382             |
| Deferred revenue  | <u>115,316</u>       | <u>812,618</u>      |
| Net cash provided by operating activities   | <u>\$ 386,594</u>    | <u>\$ 1,563,638</u> |
| Supplemental disclosure of non-cash investing activities:   |                      |                     |
| Investment securities received from sale of loans   | <u>\$ 18,690,391</u> | <u>\$ -</u>         |



**CALIFORNIA COMMUNITY  
REINVESTMENT CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
YEARS ENDED SEPTEMBER 30, 2018 AND 2017**

**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organization and nature of business**

California Community Reinvestment Corporation ("CCRC") is a private, not-for-profit organization established for the purpose of providing financing and technical assistance to facilitate the development of affordable housing in the State of California. Loan funding is primarily provided by a consortium of member banks that contribute funding through a credit and security agreement or participation agreement (the "Agreement"). CCRC is also approved as a HUD Title II FHA multifamily lender.

CCRC/PSP, LLC ("CCRC/PSP") was formed in February 2012 for the purpose of designing and implementing other financial or economic models, plans, programs or strategies which would facilitate the development of, and/or enhance the availability of affordable housing in the state of California. CCRC is the sole member of CCRC/PSP. The accounts of CCRC/PSP have been consolidated with CCRC.

CCRC Affordable Housing Partners, LLC ("Housing Partners") was formed in March 2000 to provide financing and technical assistance, at any stage of affordable housing in the State of California, to facilitate the development of affordable housing in the State of California, to acquire, rehabilitate and dispose of financially troubled and/or dilapidated housing in order to enhance the availability of affordable housing in the State of California, and to engage in such other lawful business as may be determined by CCRC, the sole member of Housing Partners. The accounts of Housing Partners have been consolidated with CCRC.

CCRC Depositor, LLC ("Depositor") was formed in September 2017 to serve as the depositor in connection with the sale and securitization of mortgage loans with Freddie Mac. The accounts of Depositor have been consolidated with CCRC.

CCRC also acts in the capacity of a fiscal agent and bondholders' agent for the tax-exempt bond program, the objective of which is to provide financing to developers for the development and/or rehabilitation of multifamily housing to low-income households. The program provides access to 4% tax credit equity and permanent financing at competitive tax-exempt rates. This program results in additional Community Reinvestment Act investment/lending opportunities for the member banks. Under this program, the member banks purchase revenue bonds from a bond issuer. Using the proceeds from the issuance of the bonds, the bond issuer then provides permanent financing to the borrower. The fiscal agent originates the loan to the borrower on behalf of the bond issuer and services the loan on behalf of the bond issuer and the bondholders. CCRC, as the bondholders' agent, also performs bond registrar and paying agent functions.

**CALIFORNIA COMMUNITY  
REINVESTMENT CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
YEARS ENDED SEPTEMBER 30, 2018 AND 2017**

**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)**

**Organization and nature of business (continued)**

Bond program loans and related borrowings have not been reflected in the accompanying consolidated financial statements as CCRC is acting in the capacity of agent for the member banks and provides only paying agent functions. CCRC retains a servicing fee for its services, which is recorded in the consolidated statements of activities. At September 30, 2018 and 2017, CCRC was servicing loans totaling \$203,466,917 and \$125,870,644, respectively, under this program.

**Summary of significant accounting policies**

**Principles of consolidation**

The consolidated financial statements include the accounts of CCRC and its wholly owned subsidiaries (the "Company"). All significant inter-company transactions and accounts have been eliminated.

**Cash and cash equivalents**

For purposes of the consolidated statements of cash flows, the Company considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

**Reserve accounts**

The Company holds certain borrower reserve balances to be remitted to third parties on behalf of the borrowers or returned to the borrowers. The balance in the accounts at September 30, 2018 and 2017 was \$51,092,127 and \$46,043,900, respectively; such amounts are not reflected on the Company's consolidated statements of financial position at September 30, 2018 and 2017.

**Mortgage Servicing Rights**

Upon the sale or securitization of mortgage loans, the Company may retain the servicing rights which are initially measured at fair value. The Company determines fair value at quoted market prices, if available. However, quotes are generally not available for servicing rights retained, so management estimates fair value using the present value of future expected cash flows based on management's best estimates of the key assumptions including credit losses, prepayment speeds, forward yield curves, and discount rates commensurate with the risks involved.

**Real estate loans**

Real estate loans are reported at the principal amount outstanding, net of an allowance for loan losses and deferred loan fees. Interest income is recognized on the accrual basis according to the contractual terms of the loans. Interest income is not recognized on loans past due 90 days or if collection of interest is deemed by management to be unlikely.

**CALIFORNIA COMMUNITY  
REINVESTMENT CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
YEARS ENDED SEPTEMBER 30, 2018 AND 2017**

**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)**

**Summary of significant accounting policies (continued)**

**Real estate loans (continued)**

Loans for which the accrual of interest has been discontinued are designated nonaccrual loans. All interest previously accrued but uncollected is reversed against current-period interest income. Income on such loans is then recognized only to the extent that cash is received and when the ultimate collection of the carrying amount of the loan is probable. If and when borrowers demonstrate the ability to repay a loan in accordance with the terms of a loan classified as nonaccrual, the loan may be returned to accrual status.

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the amortization plan established in the contractual terms of the loan. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Impairment is measured by reference to the present value of expected future cash flows, discounted at the loan's original interest rate or to the estimated fair value of the collateral. If the valuation of the impaired loan is less than the recorded investment in the loan, the Company recognizes the impairment by creating a specific allowance for loan losses with a corresponding charge to the provision for loan losses or by adjusting an existing allowance for the impaired loan with a corresponding charge or credit to the provision.

Loans for which the borrower is experiencing financial difficulty and the Company has granted an economic concession to the borrower are referred to as troubled debt restructurings. Prior to modifying a borrower's loan terms, the Company performs an evaluation of the borrower's financial condition and ability to service the modified loan terms. The types of concessions granted may include interest rate reductions and/or term extensions.

Nonrefundable fees and direct costs associated with the origination of loans are deferred and netted against the outstanding loan balances. Net deferred loan origination fees are recognized in income over the remaining loan terms using the level yield method. Commitment fees are deferred and recognized as revenue over the life of the loans, if the commitments are exercised, or upon the expiration of the commitments.

The Company also received fees from potential borrowers to lock in the interest rates on the loans. These fees were deferred and amortized over the rate lock periods. Fees received from the prepayment of loans are recorded as revenue when received.

**Loans held for sale**

Loans are initially classified as held for sale when they are identified as being available for immediate sale and a formal plan exists to sell them.

**CALIFORNIA COMMUNITY  
REINVESTMENT CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
YEARS ENDED SEPTEMBER 30, 2018 AND 2017**

**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)**

**Summary of significant accounting policies (continued)**

**Loans held for sale (continued)**

Gains or losses resulting from loan sales are recognized at the time of sale based on the difference between net sale proceeds and the book value of loans sold. Loans held for sale are valued at the lower of cost or fair market value determined on an aggregate basis for all loans in inventory. Market value is based on commitments from purchasers.

**Allowance for loan losses**

The determination of the balance in the allowance for loan losses is based on an analysis of the loan portfolio and reflects an amount that, in management's judgment, is adequate to provide for probable incurred losses that are inherent in the portfolio after giving consideration to the character of the loan portfolio, current economic conditions, past credit loss experience, and such other factors that deserve current recognition in estimating credit losses. Unanticipated changes in the economy of the Company's primary lending area may affect the balance of the allowance. Because the allowance is based on estimates, ultimate losses may vary from management's estimates. The allowance is increased by provisions charged to expense and reduced by net recoveries.

**Furniture and equipment**

Furniture and equipment are recorded at cost and depreciated on a straight-line basis over the estimated useful lives of the respective assets, which range from three to five years.

**Restricted net assets**

The Company reports gifts of cash as restricted support if it is received with donor stipulations that limit its use. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities as net assets released from restrictions. At September 30, 2018 and 2017, temporarily restricted net assets represented amounts restricted for scholarships.

**Credit enhancement fee**

The Company reports credit enhancement fee income in developer, broker fees, and other income. Credit enhancement fee income on participation interests sold consists of the Company's subordinated participation interest which is provided to reduce the risk to the buyer of a borrower's default. For the fiscal years ended September 30, 2018 and 2017, the credit enhancement fee income totaled \$549,203 and \$568,336, respectively.

**CALIFORNIA COMMUNITY  
REINVESTMENT CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
YEARS ENDED SEPTEMBER 30, 2018 AND 2017**

**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)**

**Summary of significant accounting policies (continued)**

**Use of estimates in the preparation of the consolidated financial statements**

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates reflected in the consolidated financial statements relate to the allowance for loan losses and the estimated fair value of investment securities. Actual results could differ from those estimates.

**2. REAL ESTATE LOANS**

The Company primarily originates real estate loans for affordable housing in California. Loans originated by the Company are primarily funded by advances from member banks and are secured by a first deed of trust on the subject property of each respective loan.

The Company's loan portfolio at September 30, 2018 and 2017 is shown in the following table:

|                                | <u>2018</u>           | <u>2017</u>           |
|--------------------------------|-----------------------|-----------------------|
| Affordable Housing Multifamily | <u>\$ 142,323,289</u> | <u>\$ 115,454,474</u> |
| Loans held for sale            | <u>\$ -</u>           | <u>\$ 151,313,246</u> |

During the year ended September 30, 2017, the Company transferred \$151,313,246 of loans held for investment to loans held for sale.

On November 20, 2017, the Company completed a securitized loan sale of mortgage loans totaling \$150.7 million. Under the securitization structure, Freddie Mac insured \$128.1 million of principal and related interest, including an interest-only certificate that was purchased by the Company. In connection with the transaction, the Company retained certain loan servicing rights, as sub-servicer. In accordance with FASB ASC Topic 860 "Transfers and Servicing", the Company recorded the securitization as a sale and recognized a gain of \$3,627,284.

The Company, to the extent that it is financially able, will maintain loan loss reserves and has the responsibility for any loan losses suffered. Only after the Company is not able to absorb potential losses will the losses become the financial responsibility of the member banks. In addition, the Company will continue to make monthly payments to its member banks even if it has not received payments from its borrowers.

**CALIFORNIA COMMUNITY  
REINVESTMENT CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
YEARS ENDED SEPTEMBER 30, 2018 AND 2017**

**2. REAL ESTATE LOANS (CONTINUED)**

The Company evaluates the credit quality of its loan portfolio based on internal credit risk ratings using numerous factors, including debt coverage and loan to value ratios, collateral, collection experience, and other internal factors. Internal credit risk ratings include pass, special mention, substandard, and specific reserve.

Loans held for investment by credit quality category are as follows:

|                  | <u>2018</u>           | <u>2017</u>           |
|------------------|-----------------------|-----------------------|
| Pass             | \$ 119,418,352        | \$ 87,239,034         |
| Special mention  | 17,996,314            | 23,169,301            |
| Substandard      | 4,908,623             | 5,046,139             |
| Specific reserve | <u>-</u>              | <u>-</u>              |
| Total            | <u>\$ 142,323,289</u> | <u>\$ 115,454,474</u> |

The allowance for loan losses is composed of specific allowances for certain loans and general allowances grouped into loan pools based upon similar credit quality characteristics.

Activity in the allowance for loan losses for the years ended September 30, 2018 and 2017 is shown in the following table:

|                                       | <u>2018</u>         | <u>2017</u>         |
|---------------------------------------|---------------------|---------------------|
| Allowance for loan losses:            |                     |                     |
| Balance, beginning of year            | \$ 3,560,036        | \$ 5,228,325        |
| Charge-offs                           | -                   | -                   |
| Recoveries                            | -                   | -                   |
| Provision                             | <u>(14,785)</u>     | <u>(1,668,289)</u>  |
| Balance, end of year                  | <u>\$ 3,545,251</u> | <u>\$ 3,560,036</u> |
| Ending balance:                       |                     |                     |
| Individually evaluated for impairment | \$ -                | \$ -                |
| Collectively evaluated for impairment | \$ 3,545,251        | \$ 3,560,036        |
| Loans receivable:                     |                     |                     |
| Ending balance:                       |                     |                     |
| Individually evaluated for impairment | \$ -                | \$ -                |
| Collectively evaluated for impairment | \$ 142,323,289      | \$ 115,454,474      |

**CALIFORNIA COMMUNITY  
REINVESTMENT CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
YEARS ENDED SEPTEMBER 30, 2018 AND 2017**

**2. REAL ESTATE LOANS (CONTINUED)**

A loan is considered impaired when it is probable that the Company will be unable to collect all amounts due, including principal and interest, according to the contractual terms of the related agreement. No loans were considered to be impaired at September 30, 2018 or 2017.

An age analysis of loans receivable as of September 30, 2018 and 2017 is as follows:

|  | <u>2018</u>           | <u>2017</u>           |
|--|-----------------------|-----------------------|
| Past due:  |                       |                       |
| 30-59 days   | \$ -                  | \$ -                  |
| 60-89 days   | -                     | -                     |
| Greater than 90 days                                   | -                     | -                     |
| Total past due   | -                     | -                     |
| Current  | <u>142,323,289</u>    | <u>115,454,474</u>    |
| Total loans receivable                                 | <u>\$ 142,323,289</u> | <u>\$ 115,454,474</u> |
| <br>   |                       |                       |
| Total loans past due greater than<br>90 days, accruing | <u>\$ -</u>           | <u>\$ -</u>           |

**3. FURNITURE AND EQUIPMENT**

A summary of furniture and equipment at September 30, 2018 and 2017 are as follows:

|                              | <u>2018</u>       | <u>2017</u>       |
|------------------------------|-------------------|-------------------|
| Furniture and equipment      | \$ 478,200        | \$ 418,553        |
| Accumulated depreciation     | <u>( 285,738)</u> | <u>( 220,842)</u> |
| Furniture and equipment, net | <u>\$ 192,462</u> | <u>\$ 197,711</u> |

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**4. NOTES PAYABLE**

Funding for loans originated by the Company is primarily provided by borrowings from member banks under the Agreement. As stated in the Agreement, the terms of the Company's borrowings from member banks are substantially the same as the terms of the loans the Company originates. The member banks receive an assignment of the collateral for the loans originated equal to their respective equity percentage interest in the loans. A nominal interest rate spread is retained by the Company.

Based on the terms of the Agreement, such participations by member banks are accounted for as secured borrowings with a pledge of collateral, and accordingly, the real estate loans and notes payable are included in the Company's consolidated statements of financial position.

In March 2015, the Company entered into a loan and security agreement with a member bank which provides for a revolving credit facility of up to a maximum amount of \$50,000,000. The credit facility expires on March 31, 2019. Borrowings under the facility are to be used for the funding of real estate loans and bear interest at a fixed interest rate, determined by the lender at the time of borrowing plus 1.00%. Borrowings are collateralized by the related real estate loan including the real estate loan collateral. At September 30, 2018, there were borrowings of \$5.6 million under the credit facility. At September 30, 2017, there were no borrowings outstanding.

The aggregate scheduled principal payments based on each loan's respective amortization schedule at September 30, 2018, are as follows:

| Years ending<br><u>September 30,</u> |                       |
|--------------------------------------|-----------------------|
| 2019                                 | \$ 4,440,521          |
| 2020                                 | 3,477,404             |
| 2021                                 | 3,592,489             |
| 2022                                 | 10,209,779            |
| 2023                                 | 4,069,594             |
| Thereafter                           | <u>97,767,349</u>     |
|                                      | <u>\$ 123,557,136</u> |



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**5. COMMITMENTS AND CONTINGENCY**

**Loan commitments**

The Company is a party to loan commitments with off-balance-sheet risk in the normal course of business to meet the financing needs of its borrowers. Commitments to extend credit are agreements to lend as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The Company evaluates each borrower's creditworthiness on a case-by-case basis. The value of collateral obtained upon extension of credit is based upon management's real estate evaluation and only includes income-producing property.

As of and for the years ended September 30, 2018 and 2017, the summary of deferred fees and commitments are as follows:

|  | <u>2018</u>           | <u>2017</u>           |
|--|-----------------------|-----------------------|
| Loan commitments unfunded                      | <u>\$ 123,766,177</u> | <u>\$ 111,790,057</u> |
| Deferred revenue on loan commitments unfunded: |                       |                       |
| Nonrefundable loan application commitment fees | <u>\$ 3,323,150</u>   | <u>\$ 3,207,834</u>   |

For the years ended September 30, 2018 and 2017, loan, commitment and rate lock fees were as follows:

|  | <u>2018</u>         | <u>2017</u>       |
|--|---------------------|-------------------|
| Expiration of commitments  | \$ -                | \$ 2,000          |
| Amortization of deferred fees, including<br>\$983,673 in 2018 upon sale of loans | 1,093,665           | 152,232           |
| Fees earned, bond deals  | 846,008             | 614,315           |
| Other  | <u>53,726</u>       | <u>44,061</u>     |
| Total  | <u>\$ 1,993,399</u> | <u>\$ 812,608</u> |

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**5. COMMITMENTS AND CONTINGENCY (CONTINUED)**

**Lease commitment**

The Company has a seven year and eight month operating lease agreement which commenced in April 2017. Under the terms of this lease, the Company pays monthly rental commencing August 2017 through October 2024. A summary of the future minimum lease payments follows:

| Years ending<br>September 30, |                     |
|-------------------------------|---------------------|
| 2019                          | \$ 229,940          |
| 2020                          | 236,839             |
| 2021                          | 243,944             |
| 2022                          | 251,262             |
| 2023                          | 258,800             |
| Thereafter                    | <u>288,801</u>      |
|                               | <u>\$ 1,509,586</u> |

**Contingency**

During the year ended September 30, 2018, the Company sold loans in the form of a securitization guaranteed, in part, by Freddie Mac. In connection with the sale, the Company provided various representations and warranties related to the loans sold. Those representations and warranties generally relate to, among other things, the ownership of the loans, the validity of the lien securing the loan, the loans' compliance with criteria for inclusion in the transaction, ability to deliver required documentation and compliance with applicable laws. Generally, these representations and warranties may be enforced at any time over the life of the loan.

**6. TRANSACTIONS WITH MEMBER BANKS**

At September 30, 2018 and 2017, the Company had \$2,825,290 and \$1,892,987, respectively, on deposit with a member bank. In lieu of interest, CCRC received an earnings credit against fees at 0.5%. Such amounts were in excess of the amount insured by the Federal Deposit Insurance Corporation.

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**6. TRANSACTIONS WITH MEMBER BANKS (CONTINUED)**

As of September 30, 2018 and 2017, CCRC-funded loans totaled \$18,633,195 and \$31,575,784, respectively.

Interest expense related to the loans financed by member banks amounted to \$7,334,818 and \$12,249,858 for the years ended September 30, 2018 and 2017, respectively.

**7. DEFERRED COMPENSATION PLAN**

The Company has established a 403(b) deferred compensation plan (the "Plan") for its employees. The Plan is offered to all full-time employees who are 21 years or older and have been with the Company for more than one year. Effective January 1, 2000, the Plan was converted to a 401(k) deferred compensation plan, which allows for employer matching. Eligibility requirements and vesting did not change from the conversion. For the years ended September 30, 2018 and 2017, the Company matched contributions of \$155,706 and \$143,043, respectively, into the 401(k) plan.

**8. FUNCTIONAL ALLOCATION OF EXPENSES**

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

Expenses for the year are classified as follows:

|  | <u>2018</u>          | <u>2017</u>          |
|--|----------------------|----------------------|
| Program services:                          |                      |                      |
| Affordable housing financing and servicing | \$ 11,420,294        | \$ 14,158,479        |
| Scholarships                               | 50,000               | 33,600               |
|  | <u>11,470,294</u>    | <u>14,192,079</u>    |
| Supporting activities:                     |                      |                      |
| Management and general                     | 482,993              | 448,617              |
| Fund-raising                               | -                    | -                    |
| Total expenses                             | <u>\$ 11,953,287</u> | <u>\$ 14,640,696</u> |

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**9. TAX STATUS**

CCRC is a qualified charitable organization under Section 501(c)(3) of the Internal Revenue Code and under the State of California tax regulations and therefore, is not subject to federal or state income taxes in connection with its exempt activities.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by CCRC and to recognize a tax liability (or asset) if CCRC has taken an uncertain position that more likely than not would not be sustained upon examination by the IRS. Management has analyzed the tax positions, and has concluded that as of September 30, 2018, there are no uncertain positions taken or expected to be taken that would require recognition of the liability (or asset) or disclosure in the consolidated financial statements. CCRC is subject to routine audits by taxing jurisdictions and could be subject to income tax if certain issues were found by the IRS that could result in the disqualification of CCRC's tax exempt status.

**10. FAIR VALUES OF FINANCIAL INSTRUMENTS**

The estimated fair value amounts as of September 30, 2018 and 2017, have been determined using available market information and appropriate valuation methodologies. However, considerable judgment is required to interpret market data to develop estimates of fair value. Accordingly, the estimates described below are not necessarily indicative of the amounts the Company could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

FASB ASC 820 establishes a framework for using fair value to measure assets and liabilities and defines fair value as the price that would be received to sell an asset or paid to transfer a liability as opposed to the price that would be paid to acquire the asset or received to assume the liability. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market. A fair value measure should reflect the assumptions that market participants would use in pricing the asset or liability, including the assumptions about the risk inherent in a particular valuation technique, the effect of a restriction on the sale or use of an asset and the value based on inputs the Company uses to derive fair value measurements. The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

Level 1 inputs: Are quoted market prices (unadjusted) for identical assets or liabilities traded in active markets.

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**10. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)**

Level 2 inputs: Are quoted market prices for similar instruments traded in active markets, quoted prices for identical or similar instruments in markets that are not active and model-based valuation techniques for which all significant assumptions are observable in the market.

Level 3 inputs: Are significant unobservable inputs for the asset or liability and rely on management's own estimates for assumptions that market participants would use in pricing the asset or liability that include option pricing models, discounted cash flow models and similar techniques, but may also include the use of market prices of assets or liabilities that are not directly comparable to the subject asset or liability.

Investment securities consist of interest only strips which are guaranteed by Freddie Mac.

Interest only strips are valued at fair value based upon an income approach using a valuation model. The valuation model includes assumptions regarding projections of future cash flows, prepayment rates, default rates and interest only strip terms. These securities bear the risk of loan prepayment or default that may result in the Company not recovering all or a portion of its recorded investment. When appropriate, valuations are adjusted for various factors including default or prepayment status of the underlying mortgage loans. Because of the inherent uncertainty of valuation, those estimated values may be materially higher or lower than the values that would have been used had a ready market for the securities existed, and may change materially in the near term. Such securities are classified in Level 3 of the fair value hierarchy.

There were no transfers between Level 1 and Level 2 securities for the year ended September 30, 2018.

Management additionally considers whether loans underlying the related interest only strips are delinquent, in default or prepaying, and adjusts the fair value down depending on the length of time in default.

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**10. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)**

The following table illustrates the changes in the fair value of all financial assets measured on a recurring basis using significant unobservable inputs (Level 3) for the year ended September 30, 2018:

|                            |                      |
|----------------------------|----------------------|
| Balance, beginning of year | \$ -                 |
| Purchases                  | 18,690,391           |
| Amortization of discount   | 534,834              |
| Payments received          | ( 2,608,345)         |
| Adjustment to fair value   | ( <u>442,888</u> )   |
| Balance, end of year       | <u>\$ 16,173,992</u> |

During the year, income from investments consisted of:

|                          |                    |
|--------------------------|--------------------|
| Amortization of discount | \$ 534,834         |
| Adjustment to fair value | ( <u>442,888</u> ) |
| Investment income, net   | <u>\$ 91,946</u>   |

The change in unrealized gains or losses related to Level 3 investments is included in investment income, net in the accompanying statement of activities.

**Other financial instruments not required to be reported at fair value**

The methods and assumptions used to estimate the fair value of each class of financial instrument for which it is practicable to estimate that value are explained below:

Cash and Cash Equivalents - The carrying amounts approximate fair values due to the short-term nature of these instruments.

Real Estate Loans - Based on sales to third parties, current interest rates offered by the Company and the interest rates related to the loan portfolio, the carrying amounts of loans are estimated to approximate fair value. It is the Company's opinion that the allowance for estimated loan losses results in a fair valuation of such loans.

Notes Payable Member Banks - Based on the current interest rates on notes payable to member banks and the interest rates related to the existing borrowings, the carrying amounts of such borrowings are estimated to approximate fair values.

Interest Receivable and Interest Payable - The carrying amounts of these items are a reasonable estimate of their fair values due to their short-term nature.

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**11. SUBSEQUENT EVENTS**

The date to which events occurring after September 30, 2018, the date of the most recent consolidated statement of financial position, have been evaluated for possible adjustment or disclosure to the financial statements is December 12, 2018, which is the date on which the consolidated financial statements were available to be issued.

Subsequent to year-end, on November 15, 2018, the Company entered into an interest rate swap agreement, with a bank. The agreement is effective on March 1, 2019 and provides that the Company will pay a fixed rate of 3.28% in exchange for a variable rate equal to the three months USD-LIBOR-BBA rate on a notional amount of \$64,900,000. The agreement terminates on September 1, 2033. However, the agreement can be terminated on May 19, 2019 at the option of either party.