

**CALIFORNIA COMMUNITY  
REINVESTMENT CORPORATION**

**CONSOLIDATED  
FINANCIAL STATEMENTS**

**YEARS ENDED  
SEPTEMBER 30, 2017 AND 2016**



**KALLMAN+THOMPSON+LOGAN, LLP**

**CALIFORNIA COMMUNITY  
REINVESTMENT CORPORATION**

**CONSOLIDATED  
FINANCIAL STATEMENTS**

**YEARS ENDED SEPTEMBER 30, 2017 AND 2016**

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# KALLMAN+THOMPSON+LOGAN, LLP

## INDEPENDENT AUDITORS' REPORT

MICHAEL CARTER  
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 MICHAEL R. KALVIN  
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 MICHAEL G. THOMPSON  
 GREGG R. WIND  
 ADA M. WONG

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, 2017 and 2016, 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)

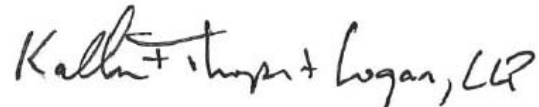
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### 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, 2017 and 2016, 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 7, 2017 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 7, 2017, 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 7, 2017

**CALIFORNIA COMMUNITY  
REINVESTMENT CORPORATION  
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION  
SEPTEMBER 30, 2017 AND 2016**

|                                 | <u>2017</u>               | <u>2016</u>               |
|---------------------------------|---------------------------|---------------------------|
| <b>Assets</b>                   |                           |                           |
| Cash and cash equivalents       | \$ 1,892,987              | \$ 1,764,724              |
| Real estate loans:              |                           |                           |
| Loans                           | 115,454,474               | 233,505,402               |
| Loans held for sale             | 151,313,246               | -                         |
| Allowance for loan losses       | ( 3,560,036)              | ( 5,228,325)              |
| Deferred loan fees              | ( 2,034,936)              | ( 1,870,327)              |
| Real estate loans, net          | 261,172,748               | 226,406,750               |
| Interest receivable             | 1,461,677                 | 1,306,894                 |
| Equipment and improvements, net | 197,711                   | 60,325                    |
| Other assets                    | <u>593,982</u>            | <u>212,221</u>            |
| <br>Total assets                | <br><u>\$ 265,319,105</u> | <br><u>\$ 229,750,914</u> |

**Liabilities and Net Assets**

|                                       |                           |                           |
|---------------------------------------|---------------------------|---------------------------|
| Accounts payable and accrued expenses | \$ 782,599                | \$ 652,202                |
| Interest payable, member banks        | 1,120,877                 | 991,495                   |
| Deferred revenue                      | 3,207,834                 | 2,395,216                 |
| Notes payable, member banks           | <u>234,941,448</u>        | <u>202,924,648</u>        |
| Total liabilities                     | 240,052,758               | 206,963,561               |
| Commitments and contingencies         |                           |                           |
| Net assets:                           |                           |                           |
| Unrestricted                          | 25,190,553                | 22,723,159                |
| Temporarily restricted                | <u>75,794</u>             | <u>64,194</u>             |
| Total net assets                      | <u>25,266,347</u>         | <u>22,787,353</u>         |
| <br>Total liabilities and net assets  | <br><u>\$ 265,319,105</u> | <br><u>\$ 229,750,914</u> |

**CALIFORNIA COMMUNITY  
REINVESTMENT CORPORATION  
CONSOLIDATED STATEMENTS OF ACTIVITIES  
YEARS ENDED SEPTEMBER 30, 2017 AND 2016**

|  | <u>2017</u>          | <u>2016</u>          |
|--|----------------------|----------------------|
| Changes in unrestricted net assets:                      |                      |                      |
| Revenues and gains:                                      |                      |                      |
| Interest income, loans                                   | \$ 14,940,186        | \$ 13,430,636        |
| Loan, commitment, rate lock and prepayment fees          | 812,608              | 407,607              |
| Loan sale premium, net                                   | -                    | 25,907               |
| Developer, broker fees and other income                  | 598,911              | 643,220              |
| Loan servicing income, net                               | <u>722,785</u>       | <u>653,808</u>       |
| Total revenues and gains                                 | 17,074,490           | 15,161,178           |
| Net assets released from restrictions:                   |                      |                      |
| Satisfaction of program restrictions                     | <u>33,600</u>        | <u>43,544</u>        |
| Total revenues, gains and other support                  | <u>17,108,090</u>    | <u>15,204,722</u>    |
| Expenses:  |                      |                      |
| Interest, member banks                                   | 12,249,858           | 10,958,033           |
| Salaries and employee benefits                           | 3,277,528            | 2,855,040            |
| Occupancy  | 145,868              | 194,242              |
| Professional services                                    | 235,112              | 285,784              |
| Provision for loan losses                                | ( 1,668,289)         | 575,253              |
| Marketing and business development                       | 10,396               | 20,272               |
| Utilities and maintenance                                | 89,347               | 85,726               |
| Professional conferences and meetings                    | 24,833               | 25,990               |
| Depreciation   | 52,472               | 46,751               |
| Insurance  | 73,994               | 105,426              |
| Miscellaneous  | <u>149,577</u>       | <u>174,900</u>       |
| Total expenses   | <u>14,640,696</u>    | <u>15,327,417</u>    |
| Increase (Decrease) in unrestricted net assets           | <u>2,467,394</u>     | <u>( 122,695)</u>    |
| Changes in temporarily restricted net assets:            |                      |                      |
| Contributions  | 45,200               | 34,000               |
| Net assets released from restrictions                    | <u>( 33,600)</u>     | <u>( 43,544)</u>     |
| Increase (Decrease) in temporarily restricted net assets | <u>11,600</u>        | <u>( 9,544)</u>      |
| Increase (Decrease) in net assets                        | 2,478,994            | ( 132,239)           |
| Net assets, beginning of year                            | <u>22,787,353</u>    | <u>22,919,592</u>    |
| Net assets, end of year                                  | <u>\$ 25,266,347</u> | <u>\$ 22,787,353</u> |

See notes to consolidated financial statements

**CALIFORNIA COMMUNITY  
REINVESTMENT CORPORATION  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
YEARS ENDED SEPTEMBER 30, 2017 AND 2016**

|   | <u>2017</u>          | <u>2016</u>          |
|---|----------------------|----------------------|
| <b>Cash flows from operating activities:</b>    |                      |                      |
| Cash received from:                             |                      |                      |
| Loan, commitment, rate lock and prepayment fees | \$ 1,928,835         | \$ 1,492,076         |
| Service fees and other income                   | 1,333,296            | 1,287,485            |
| Interest income                                 | 14,785,403           | 13,216,625           |
| Loan sale premium                               | <u>-</u>             | <u>25,907</u>        |
| Cash received from operations                   | <u>18,047,534</u>    | <u>16,022,093</u>    |
| Cash paid to:                                   |                      |                      |
| Employees                                       | ( 3,273,062)         | ( 3,043,660)         |
| Member banks for interest on notes payable      | ( 12,120,476)        | ( 10,756,987)        |
| Vendors   | <u>( 1,090,358)</u>  | <u>( 890,263)</u>    |
| Cash paid for operations                        | <u>( 16,483,896)</u> | <u>( 14,690,910)</u> |
| Net cash provided by operating activities       | <u>1,563,638</u>     | <u>1,331,183</u>     |
| <b>Cash flows from investing activities:</b>    |                      |                      |
| Loans originated                                | ( 39,483,911)        | ( 46,896,937)        |
| Loan repayments                                 | 6,221,593            | 5,161,940            |
| Purchases of property and equipment             | <u>( 189,858)</u>    | <u>( 27,520)</u>     |
| Net cash used in investing activities           | <u>( 33,452,176)</u> | <u>( 41,762,517)</u> |
| <b>Cash flows from financing activities:</b>    |                      |                      |
| Proceeds from notes payable - member banks      | 37,513,411           | 45,241,285           |
| Payments on notes payable - member banks        | <u>( 5,496,610)</u>  | <u>( 4,520,644)</u>  |
| Net cash provided by financing activities       | <u>32,016,801</u>    | <u>40,720,641</u>    |
| Net increase in cash and cash equivalents       | 128,263              | 289,307              |
| Cash and cash equivalents, beginning of year    | <u>1,764,724</u>     | <u>1,475,417</u>     |
| Cash and cash equivalents, end of year          | <u>\$ 1,892,987</u>  | <u>\$ 1,764,724</u>  |

Continued

**CALIFORNIA COMMUNITY  
REINVESTMENT CORPORATION  
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)  
YEARS ENDED SEPTEMBER 30, 2017 AND 2016**

|  | <u>2017</u>             | <u>2016</u>             |
|--|-------------------------|-------------------------|
| <b>Reconciliation of increase (decrease) in net assets<br/>to net cash provided by operating activities:</b> |                         |                         |
| Increase (Decrease) in net assets  | \$ 2,478,994            | (\$ 132,239)            |
| Adjustments to reconcile change in net assets<br>to net cash provided by operating activities:               |                         |                         |
| Depreciation   | 52,472                  | 46,751                  |
| Provision for loan losses  | ( 1,668,289)            | 575,253                 |
| Changes in operating assets and liabilities:   |                         |                         |
| Deferred loan fees   | 164,609                 | 302,302                 |
| Interest receivable  | ( 154,783)              | ( 214,011)              |
| Other assets   | ( 381,762)              | ( 42,919)               |
| Accounts payable and accrued expenses  | 130,397                 | 31,833                  |
| Interest payable, member banks   | 129,382                 | 201,046                 |
| Deferred revenue   | <u>812,618</u>          | <u>563,167</u>          |
| <br>Net cash provided by operating activities  | <br><u>\$ 1,563,638</u> | <br><u>\$ 1,331,183</u> |



**CALIFORNIA COMMUNITY  
REINVESTMENT CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
YEARS ENDED SEPTEMBER 30, 2017 AND 2016**

**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 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.

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, 2017 and 2016, CCRC was servicing loans totaling \$125,870,644 and \$63,201,002, respectively, under this program.

**CALIFORNIA COMMUNITY  
REINVESTMENT CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
YEARS ENDED SEPTEMBER 30, 2017 AND 2016**

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

**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, 2017 and 2016 was \$46,043,900 and \$39,061,880, respectively; such amounts are not reflected on the Company's consolidated statements of financial position at September 30, 2017 and 2016.

**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.

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.

**CALIFORNIA COMMUNITY  
REINVESTMENT CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
YEARS ENDED SEPTEMBER 30, 2017 AND 2016**

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

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

**Real estate loans (continued)**

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.

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.

**CALIFORNIA COMMUNITY  
REINVESTMENT CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
YEARS ENDED SEPTEMBER 30, 2017 AND 2016**

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

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

**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.

**Equipment and improvements**

Equipment is 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. Leasehold improvements are amortized on a straight-line basis over the term of the lease.

**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, 2017 and 2016, 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, 2017 and 2016, the credit enhancement fee income totaled \$568,336 and \$574,680, respectively.

**CALIFORNIA COMMUNITY  
REINVESTMENT CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
YEARS ENDED SEPTEMBER 30, 2017 AND 2016**

**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. 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, 2017 and 2016 is shown in the following table:

|                                | <u>2017</u>           | <u>2016</u>           |
|--------------------------------|-----------------------|-----------------------|
| Affordable Housing Multifamily | <u>\$ 115,454,474</u> | <u>\$ 233,505,402</u> |
| Loans held for sale            | <u>\$ 151,313,246</u> | <u>\$ -</u>           |

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

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.

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.

**CALIFORNIA COMMUNITY  
REINVESTMENT CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
YEARS ENDED SEPTEMBER 30, 2017 AND 2016**

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

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

|                  | <u>2017</u>           | <u>2016</u>           |
|------------------|-----------------------|-----------------------|
| Pass             | \$ 87,239,034         | \$ 197,059,076        |
| Special mention  | 23,169,301            | 29,974,919            |
| Substandard      | 5,046,139             | 6,471,407             |
| Specific reserve | <u>-</u>              | <u>-</u>              |
| Total            | <u>\$ 115,454,474</u> | <u>\$ 233,505,402</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, 2017 and 2016 is shown in the following table:

|                                       | <u>2017</u>         | <u>2016</u>         |
|---------------------------------------|---------------------|---------------------|
| Allowance for loan losses:            |                     |                     |
| Balance, beginning of year            | \$ 5,228,325        | \$ 4,653,072        |
| Charge-offs                           | -                   | -                   |
| Recoveries                            | -                   | -                   |
| Provision                             | ( 1,668,289)        | <u>575,253</u>      |
| Balance, end of year                  | <u>\$ 3,560,036</u> | <u>\$ 5,228,325</u> |
| Ending balance:                       |                     |                     |
| Individually evaluated for impairment | \$ -                | \$ -                |
| Collectively evaluated for impairment | \$ 3,560,036        | \$ 5,228,325        |
| Loans receivable:                     |                     |                     |
| Ending balance:                       |                     |                     |
| Individually evaluated for impairment | \$ -                | \$ -                |
| Collectively evaluated for impairment | \$ 115,454,474      | \$ 233,505,402      |

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, 2017 or 2016.

**CALIFORNIA COMMUNITY  
REINVESTMENT CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
YEARS ENDED SEPTEMBER 30, 2017 AND 2016**

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

An age analysis of loans receivable as of September 30, 2017 and 2016 is as follows:

|  | <u>2017</u>           | <u>2016</u>           |
|--|-----------------------|-----------------------|
| Past due:  |                       |                       |
| 30-59 days   | \$ -                  | \$ -                  |
| 60-89 days   | -                     | -                     |
| Greater than 90 days                                   | <u>-</u>              | <u>-</u>              |
| Total past due   | -                     | -                     |
| Current  | <u>115,454,474</u>    | <u>233,505,402</u>    |
| Total Loans receivable                                 | <u>\$ 115,454,474</u> | <u>\$ 233,505,402</u> |
| <br>   |                       |                       |
| Total loans past due greater than<br>90 days, accruing | <u>\$ -</u>           | <u>\$ -</u>           |

**3. EQUIPMENT AND IMPROVEMENTS**

A summary of the equipment and improvements at September 30, 2017 and 2016 are as follows:

|                                 | <u>2017</u>       | <u>2016</u>         |
|---------------------------------|-------------------|---------------------|
| Office equipment                | \$ 418,553        | \$ 867,882          |
| Leasehold improvements          | -                 | 250,148             |
| Accumulated depreciation        | <u>( 220,842)</u> | <u>( 1,057,705)</u> |
| Equipment and improvements, net | <u>\$ 197,711</u> | <u>\$ 60,325</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 bank which provides for a revolving credit facility of up to a maximum amount of \$50,000,000. The credit facility expires 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, 2017 and 2016, there were no borrowings under the credit facility.

The aggregate scheduled principal payments based on each loan's respective amortization schedule at September 30, 2017, are as follows:

| Years ending<br><u>September 30,</u> |                       |
|--------------------------------------|-----------------------|
| 2018                                 | \$ 6,309,627          |
| 2019                                 | 6,705,282             |
| 2020                                 | 7,930,992             |
| 2021                                 | 7,279,247             |
| 2022                                 | 7,700,059             |
| Thereafter                           | <u>199,016,241</u>    |
|                                      | <u>\$ 234,941,448</u> |



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**5. COMMITMENTS AND CONTINGENCIES**

**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, 2017 and 2016, the summary of deferred fees and commitments are as follows:

|  | <u>2017</u>           | <u>2016</u>          |
|--|-----------------------|----------------------|
| Loan commitments unfunded                      | <u>\$ 111,790,057</u> | <u>\$ 80,087,654</u> |
| Deferred revenue on loan commitments unfunded: |                       |                      |
| Nonrefundable loan application commitment fees | <u>\$ 3,207,834</u>   | <u>\$ 2,395,216</u>  |

For the years ended September 30, 2017 and 2016, loan, commitment and rate lock fees were as follows:

|                               | <u>2017</u>       | <u>2016</u>       |
|-------------------------------|-------------------|-------------------|
| Expiration of commitments     | \$ 2,000          | \$ 5,000          |
| Amortization of deferred fees | 152,232           | 132,825           |
| Fees earned - bond deals      | 614,315           | 227,999           |
| Other                         | <u>44,061</u>     | <u>41,783</u>     |
| Total                         | <u>\$ 812,608</u> | <u>\$ 407,607</u> |

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**5. COMMITMENTS AND CONTINGENCIES (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:

| <u>Years ending<br/>September 30,</u> |                     |
|---------------------------------------|---------------------|
| 2018                                  | \$ 223,243          |
| 2019                                  | 229,940             |
| 2020                                  | 236,839             |
| 2021                                  | 243,944             |
| 2022                                  | 251,262             |
| Thereafter                            | <u>547,601</u>      |
|                                       | <u>\$ 1,732,829</u> |

**6. TRANSACTIONS WITH MEMBER BANKS**

At September 30, 2017 and 2016, the Company had \$1,892,987 and \$1,764,724, 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.

Substantially all of the Company's loans are financed by member bank participation. Based on excess reserves and the low interest rate investment market, CCRC's board authorized the liquidation of the managed investment portfolio and CCRC-funding of loans up to a level whereby \$1,000,000 in reserves would be maintained in a liquid investment account. All CCRC-funded loans are approved by the loan committee in the same manner as all member bank-funded loans. If additional liquidity is required, CCRC would participate these loans to member banks.

As of September 30, 2017 and 2016, CCRC-funded loans totaled \$31,575,784 and \$30,321,542, respectively.

Interest expense related to the loans financed by member banks amounted to \$12,249,858 and \$10,958,033 for the years ended September 30, 2017 and 2016, respectively.

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**7. CONTINGENT LIABILITY**

CCRC began offering nonprofit affordable housing developers access to the Federal Home Loan Bank ("FHLB") Affordable Housing Program ("AHP") in 1997. These grants are subject to certain restrictions, and if the developers become noncompliant with the terms of the grants, they will be asked to pay the grants back on a pro rata share based on how long the developers have been in compliance with the terms of the projects. To offer this program, CCRC established a strategic relationship with one of the member banks, which is also an FHLB shareholder. This relationship allows CCRC to market AHP to developers, with the member bank accessing the funds through the FHLB. Since the developers are not direct customers of the member bank, CCRC has entered into a hold-harmless agreement with the member bank. Should the developer be unable to comply with the terms under which the grant was awarded and be unable to repay or come back into compliance, CCRC agreed to be responsible for any recapture of the grant called for by the FHLB. Effective September 30, 2007, CCRC and the member bank agreed to change the hold-harmless agreement. Under the new agreement, CCRC is responsible for one percent (1.00%) of any recapture of the grant called for by the FHLB. The FHLB can inform the member bank and CCRC of the developers' noncompliance. Outstanding grants totaling \$7,823,665 as of September 30, 2017 and 2016, are covered by the indemnification agreement.

**8. 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, 2017 and 2016, the Company matched contributions of \$143,043 and \$139,828, respectively, into the 401(k) plan.

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**9. 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>2017</u>          | <u>2016</u>          |
|--|----------------------|----------------------|
| Program services:                          |                      |                      |
| Affordable housing financing and servicing | \$ 14,158,479        | \$ 14,796,248        |
| Scholarships                               | <u>33,600</u>        | <u>43,544</u>        |
|  | 14,192,079           | 14,839,792           |
| Supporting activities:                     |                      |                      |
| Management and general                     | 448,617              | 487,625              |
| Fund-raising                               | <u>-</u>             | <u>-</u>             |
| Total expenses                             | <u>\$ 14,640,696</u> | <u>\$ 15,327,417</u> |

**10. 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, 2017, 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.

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**11. FAIR VALUES OF FINANCIAL INSTRUMENTS**

The estimated fair value amounts as of September 30, 2017 and 2016, 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.

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.

**12. SUBSEQUENT EVENTS**

The date to which events occurring after September 30, 2017, 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 7, 2017, which is the date on which the consolidated financial statements were available to be issued.

Subsequent to year-end, on November 20, 2017, the Company completed a securitized loan sale of mortgage loans totaling \$150.7 million (\$151.3 million at September 30, 2017). Under the securitization structure, Freddie Mac insured \$128.1 million of principal and related interest, including an interest-only certificate that was retained by the Company. In connection with the transaction, the Company retained certain loan servicing rights, as sub-servicer, which will be included in the proceeds of the sale. Management of the Company believes that the transaction will qualify for sale accounting in accordance with ASC Topic 860 "Transfers and Servicing" and is in the process of determining the fair value of the loan servicing rights retained as well as the interest-only certificates.