PCI

THE PROPERTY AND CASUALTY INITIATIVE, LLC

176 FEDERAL STREET
BOSTON, MA 02110

PCI

CONTENTS

MISSION STATEMENT

The Property and Casualty Initiative, LLC (PCI), is a Limited Liability Corporation established by a consortium of Massachusetts-based property and casualty insurance companies.

The goal of PCI is to make sound and prudent investments in organizations and companies that promote economic development, create employment opportunities for low and moderate-income residents, increase or maintain the availability of affordable housing, and expand access to healthcare and social services.

AFFORDABLE HOUSING

G AFFORDABLE HOUSING THROUGHOUT MASSACHUSETTS

2018

PROJECT	COMMITTED DOLLARS	TOTAL UNITS	AFFORDABLE UNITS
24 Gould Street	$14,200,000	55	14
ARX Urban	$ 9,260,000	36	21
Father Bill's	$ 1,700,000	139	139
TOTAL	$25,160,000	230	174

Father Bill's

$1,700,000

Father Bill's & MainSpring Inc.'s mission is to help people obtain a home by giving temporary shelter and food, finding safe and affordable housing, and providing permanent housing with supportive services. Father Bill's & Mainspring is the largest provider of services to the homeless in its area and is a strong advocate for state and federal funding. Father Bill's goal is to bring about policy change that will provide more efficient and cost-effective ways to serve people in need. Eighty eight cents of every dollar it receives goes directly to services for individuals and families.

The organization has more than 240 units of supportive housing, owns the only emergency shelter for teens in Southeastern Massachusetts, and provides housing for victims of domestic violence. The agency assists approximately 2,600 people annually in their prevention, shelter, and housing programs.

The PCI loan is available for capital improvements to a scattered-site portfolio of 20 affordable housing properties across Southeastern Massachusetts.

Brockton

Project: Capital Improvements

Borrower: Father Bill's & Mainspring, Inc.

Address: 422 Washington Street

MOBD Region: Southeast

Type of Investment: Construction to permanent Loan

Investment Qualification: Low & Moderate-income Housing

Outstanding @ 12.31.18: $0

ARX Urban

233 Hancock

$9,260,000

ARX Urban describes itself as a progressive real estate company with a focus on developing workforce multifamily and mixed-use properties in the New England market. The development at 233 Hancock Street will replace an auto repair shop with a five-story mixed-income, mixed-use development containing 15 market rate units, 21 affordable units and ground-floor commercial space. The 21 rental units will be affordable to households earning between 80% and 100% of median area income.

Borrower: 233 Hancock LLC

Sponsor: ARX Urban

Address: 233 Hancock Street, Dorchester

MOBD Region: Northeast

Type of Investment: Construction/Permanent Loan

Investment Qualification: Moderate-income Housing

% Moderate: 58%

Income Resident: 80-100% of AMI

Outstanding @ 12.31.18: $0

DORCHESTER

24 Gould Street

Borrower: 24 Gould, LLC

Sponsor: Traggorth Companies

Address: 24 Gould Street, Reading

MOBD Region: Boston

Type of Investment: Construction/Permanent Loan

Investment Qualification: Moderate-income Housing

% Moderate: 25%

Income Resident: 80 - 100% of AMI

Outstanding @ 12.31.18: $0

$14,200,000

Traggorth Companies partnering with Civico Development, will construct a mixed-use building at 24 Gould Street, a transit-oriented site in Reading's 40R District. The housing component will include 55 residential units where 14 units will be affordable to households earning up to 80% of area median income.

The commercial component will be 3,000 square feet of first-floor retail space. The property is within a five-minute walk to Reading's commuter rail station.

READING

Economic Development 2018

93 Centre Street	$ 2,663,000
Charlestown Ropewalk LLC	$ 3,000,000
Community Servings	$11,350,000
Way Finders	$ 2,860,000
TOTAL	$19,873,000

93 Centre Street

Since its creation in 1995, Concord Square has carried out major historic renovation projects, provided development consulting on transit-oriented residential developments and mill conversions, consulted on zoning and public policy issues for dozens of communities in Massachusetts and Connecticut, and provided financial consulting for New Markets Tax Credit transactions. Their most recent work has included conception, design, analysis and lobbying for the Workforce Housing Trust Fund, which was signed into law on August 10, 2016. The firm has been recognized with multiple Outstanding Planning Awards for its work in developing 40R Smart Growth Districts throughout MA.

The City of Brockton's downtown urban renewal plan identified 93 Centre Street as a key catalytic project for revitalizing downtown Brockton. Concord Square plans to acquire the property from the Brockton Redevelopment Authority pursuant to their acquisition by means of eminent domain. After acquisition, the building will be redeveloped into 45 rental apartments and 1,700 SF of first floor and basement commercial space. Nine units (20%), will be affordable to people earning up to 80% of the local area median income, and 36 will be market-rate units.

The PCI loan funded the acquisition in conjunction with developer cash and equity from investors taking advantage of the newly created Opportunity Zones Program.

BROCKTON

$2,663,000

Borrower: 93 Centre Street LLC

Sponsor: Concord Square Planning & Development, Inc.

Address: 93 Centre Street, Brockton

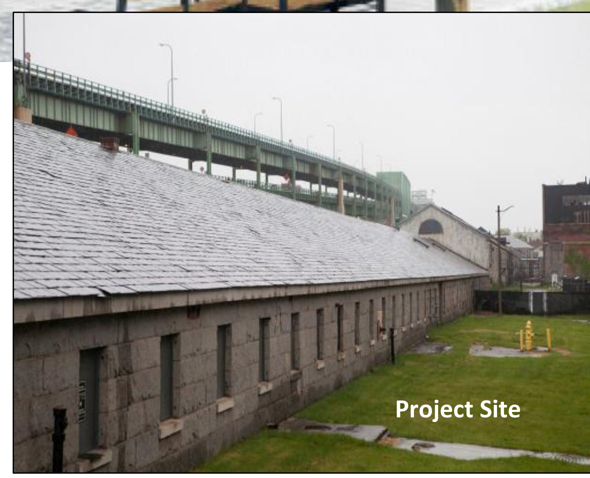
MOBD Region: Southeast

Type of Investment: Acquisition/Predevelopment Loan

Investment Qualification: Economic Development

Outstanding @ 12.31.18: $1,572,381

CHARLESTOWN ROPEWALK, LLC



$3,000,000

The Ropewalk complex is one of the last undeveloped sites in the Charlestown Navy Yard. The two buildings on the site, the Ropewalk and the Tar House, were the principal structures in the Navy Yard's rope manufacturing complex and have remained vacant since the US Navy shuttered operations in 1974.

In order to accommodate making rope, the building is ¼ mile long, and 40 feet wide, which facilitates the break-up into apartments. The project entails the redevelopment of the two buildings into 97 units of housing, with 20 units affordable to low income families.

PCI partnered with two other lenders to bridge the receipt of $9 million in State and Federal Historic Credits.

Borrower: Charlestown Ropewalk, LLC

Address: Chelsea and Fifth Streets, Charlestown

MOBD Region: Greater Boston

Type of Investment: Bridge Loan

Investment Qualification: Economic Development/ Low-income Housing

Outstanding @ 12.31.18: $1,780,745

Community Servings

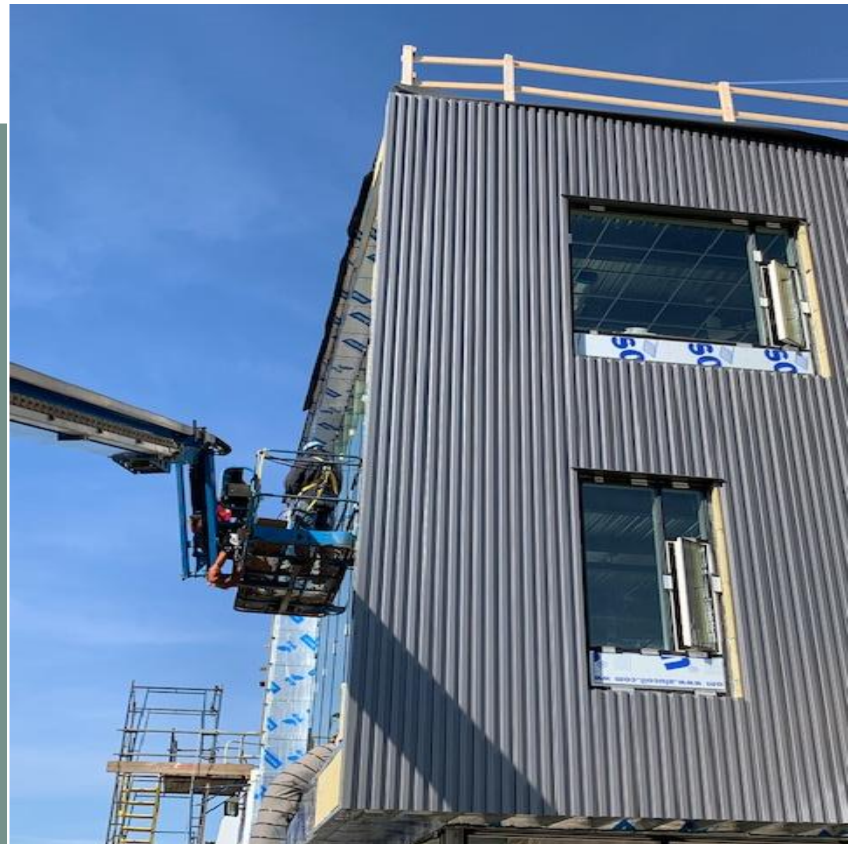
$11,350,000

Community Servings (CS) is a non-profit whose staff and volunteers prepare and deliver medically-tailored meals daily to low-income clients with acute, life-threatening illnesses and their dependents. It is the only program of its kind in New England. Community Servings was founded in 1989 as a small neighborhood program delivering dinners to 30 individuals living with HIV and AIDS in the Dorchester and Roxbury neighborhoods of Boston.

Today, CS is caring for clients battling 35 different life-threatening illnesses, such as cancer, HIV/AIDS, multiple sclerosis, liver and kidney disease, hepatitis, and diabetes, throughout 20 cities and towns in Massachusetts. Community Servings has been honored with the Congressional Hunger Award for outstanding success in addressing issues of hunger and nutrition and has received the Innovation Award from the Massachusetts Nonprofit Network.

Community Servings has purchased two properties adjacent to its facility at 18 Marbury Terrace to allow for expansion. The new 33,716 SF building will greatly increase the size of CS' kitchen as well as add training and community engagement space and more office space for additional staff.

PCI partnered with NFF, LIIF, and PNC in this important NMTC transaction.



JAMAICA PLAIN

Borrower: Community Servings

Address: 18 Marbury Terrace

MOBD Region: Greater Boston

Type of Investment: Construction, Bridge, Permanent Loan

Investment Qualification: Economic Development

Outstanding @ 12.31.18: $5,050,467

Rendering

Project Site

Way Finders, Inc.
Springfield

Way Finders, Inc. is a community development organization located in Springfield, Massachusetts. Since their creation in 1972, as an experimental program to provide housing assistance to lower-income households utilizing the private rental market, the organization has grown and developed innovative approaches in an effort to eliminate homelessness, increase the supply of safe, stable, affordable housing, encourage economic mobility, and help people purchase their first homes.

As the largest not-for-profit housing provider in western Massachusetts, Way Finders impacts more than 25,000 men, women, and children annually.

Having outgrown their existing facility Way Finders agreed to purchase the former Peter Pan Bus Station at 1780 Main Street in Springfield. The organization will demolish the existing station creating a new building of approximately 35,000 SF. The building will house a new integrated Housing Center which will consolidate and optimize services.

The PCI $2,280,000 loan enabled Way Finders to acquire the property and provided up to $400,000 for pre-development expenses. The loan was paid in full at yearend by proceeds of their construction financing.

Borrower: Way Finders, Inc.

Address: 322 Main Street, Springfield

MOBD Region: Western

Type of Investment: Acquisition Loan/Predevelopment

Investment Qualification: Economic Development

Outstanding @ 12.31.18: $0

$2,680,000

1.	Redline Hockey Trust	$1,000,000
2.	The Met LLC	$1,980,000 (participation with Salem Five) d/b/a Stephanie's on Newbury
	TOTAL	$2,980,000

The current owners have agreed to sell Unit B of the Canton Sportsplex facility and the existing Boston Jr. Terriers hockey organization, to Russell DeMariano and Edward Brooks. DeMariano has an extensive hockey background as a former college hockey player and the assistant coach of one of the Boston Jr. Terriers Elite Ul8 teams.

The Canton sportsplex, located at 5 Carver Circle sits on a 9.62-acre site. There are two condominium units within the complex, with Unit B being the subject property. Unit B includes a 51,100 SF facility, with two ice rinks, a pro shop, offices, a concession stand, restrooms, and locker rooms. Canton Sportsplex's Unit B is the primary home rink for the Boston Jr. Terriers hockey club.

The PCI loan supplements a bank loan, and owner equity, to make the business and real estate acquisition transaction possible.

Borrower: Redline Hockey Trust

Address: 5 Carver Circle, Canton

MOBD Region: Southeast

Type of Investment: Term Loan

Investment Qualification: Small Business

Outstanding @ 12.31.18: $993,470

REDLINE HOCKEY
$1,000,000

Founded in 1994, Stephanie's has established itself as a premier restaurant in Boston, earning an esteemed reputation among locals and tourists visiting the city. Stephanie's is located within Boston's upscale Back Bay district on Newbury Street. Stephanie's on Newbury spans over 5,858 SF and has a seat count of 295.

The current owner has been mostly absent from the business for ten years. Three years ago, she began to explore the possibility of a sale, and reached an agreement for the sale of the business.

PCI's loan is a participation in a Salem Five acquisition loan.

$1,980,000

THE MET, LLC

d/b/a STEPHANIE'S ON NEWBURY

Borrower: The MET LLC d/b/a
Stephanie's on Newbury

Address: 300 Boylston Street, Boston

MOBD Region: Greater Boston

Type of Investment: Restaurant

Investment Qualification: Woman-owned/Small Business

Outstanding @ 12.31.18: $0

REGIONAL DISTRIBUTION @12.31.2018

WEST

Amount of Investment	Number of Investments
$56,045,500	21

CENTRAL

Amount of Investment	Number of Investments
$37,857,667	16

NORTHEAST

Amount of Investment	Number of Investments
$53,578,874	29

SOUTHEAST

Amount of Investment	Number of Investments
$49,933,900	37

BOSTON

Amount of Investment	Number of Investments
$191,673,783	64

STATEWIDE

Amount of Investment	Number of Investments
$9,000,000	6

TOTAL

Amount of Investment	Number of Investments
$398,089,724	**173**

QUALIFIED INTERIM INVESTMENTS 2018

At December 31, 2018, the total interim investments of The Property and Casualty Initiative, LLC were as follows:

BANK DEPOSITS	$12,869,057
FIDELITY INSTITUTIONAL MONEY MARKET	$4,462,635
MORGAN STANLEY	$8,335,585
TOTAL INTERIM INVESTMENTS	$25,667,277

The Fidelity and Morgan Stanley investments qualify under item (2) of the qualified interim investments provisions of Chapter 259, Taxation of Insurance Companies – Community Investment, of the Acts of 1998, because of the fundamental mechanics of the Fund and the short maturity of the holdings.

At December 31, 2018, $30,532,220 was committed to projects that had not yet funded.

BOSTON

3/7/18 WALTHAM

WESTERN

3/16/18 SPRINGFIELD

CENTRAL

6/27/18 FRANKLIN

SOUTHEAST

9/20/18 CAPE COD

NORTHEAST

12/4/18 LAWRENCE PARTNERSHIP

PUBLIC MEETINGS

2018

MEMBER COMPANIES

Arbella Group

- Arbella Mutual Insurance Company
- Arbella Protection Insurance
- Arbella Indemnity Insurance Company

Arrow Mutual Liability Insurance Company

Associated Industries of MA Mutual Insurance Company

Barnstable County Group

- Barnstable County Mutual Insurance Company
- Barnstable County Insurance Company

Country Mutual Insurance Company (formerly Holyoke Mutual Insurance Company of Salem)

Coverys

- Medical Professional Mutual Insurance Company
- ProSelect Insurance Company

Electric Insurance Company

Liberty Mutual Group

- Liberty Mutual Insurance Company
- Liberty Mutual Fire Company

Nationwide Group

- Harleysville Worcester Insurance Company
- Berkshire Mutual Insurance Company

Norfolk & Dedham Group

- Norfolk & Dedham Mutual Fire Insurance Company
- Dorchester Mutual Insurance Company
- Fitchburg Mutual Insurance Company

OneBeacon Group

- Atlantic Specialty Insurance Company
- Homeland Insurance Company Of New York

Plymouth Rock Group

- Plymouth Rock Assurance Corp
- Pilgrim Insurance Company
- Bunker Hill Insurance Company

Quincy Mutual Fire Insurance Company

The Premier Insurance Company of Massachusetts

Tower Group

- Massachusetts Homeland Insurance Company

2018 CAPITAL CONTRIBUTIONS

		Cumulative Contribution	Cumulative "Proportionate Share" %**	Actual Proportionate Share
1	Arbella Indemnity Insurance Company	$92,100	0.0921%	0.11%
2	Arbella Mutual Insurance Company	$1,959,900	1.9599%	2.31%
3	Arbella Protection Insurance	$564,700	0.5647%	0.66%
4	Arrow Mutual Liability Insurance Company	$157,700	0.1577%	0.19%
5	Associated Industries of MA Mutual Ins. Co.	$500,200	0.5002%	0.59%
6	Atlantic Specialty Insurance Company	$4,095,800	4.0958%	5.029%
7	Barnstable County Insurance Company	$28,200	0.0282%	0.03%
8	Barnstable County Mutual Insurance Co.	$81,100	0.0811%	0.10%
9	Berkshire Mutual Insurance Company*	$74,120	0.0741%	0.09%
10	Bunker Hill Insurance Company	$54,500	0.0545%	0.06%
11	Country Mutual Insurance Company	$357,000	0.3570%	0.42%
12	Dorchester Mutual Insurance Company	$102,500	0.1025%	0.12%
13	Electric Insurance Company	$2,946,000	2.9460%	3.46%
14	Fitchburg Mutual Insurance Company	$151,100	0.1511%	0.18%
15	Harleysville Worcester Insurance Company	$941,200	0.9412%	1.11%
16	Homeland Insurance Company of New York	$10,000,000	10.000%	11.55%
17	Liberty Mutual Fire Company	$6,475,600	6.4756%	7.62%
18	Liberty Mutual Insurance Company	$49,021,000	49.0210%	57.65%
19	Massachusetts Homeland Insurance Company	$27,500	0.0275%	0.03%
20	Medical Professional Mutual Insurance Co.	$4,041,100	4.0411%	4.75%
21	Norfolk & Dedham Mutual Fire Insurance Co.	$483,400	0.4834%	0.57%
22	Pilgrim Insurance Company	$19,000	0.0190%	0.02%
23	Plymouth Rock Assurance Corp.	$496,700	0.4967%	0.58%
24	ProSelect Insurance Company	$91,400	0.0914%	0.11%
25	Quincy Mutual Fire Insurance Company	$1,092,500	1.0925%	1.28%
26	The Premier Insurance Company of MA	$1,171,700	1.1717%	1.38%
	Total Capital Contributions	$85,026,020	85.0260%	100.00%

**Based on $100,000,000

AUDITED FINANCIAL
2018
STATEMENTS

THE PROPERTY AND CASUALTY INITIATIVE, LLC AND AFFILIATE

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

THE PROPERTY AND CASUALTY INITIATIVE, LLC AND AFFILIATE

Contents
December 31, 2018 and 2017

AAFCPAs
great minds | great hearts

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Independent Auditor's Report

To the Audit Committee, Board of Managers and Members of
The Property and Casualty Initiative, LLC and Affiliate:

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of The Property and Casualty Initiative, LLC and Affiliate (Massachusetts limited liability companies) which comprise the consolidated balance sheets as of December 31, 2018 and 2017, and the related consolidated statements of operations, changes in members' equity and cash flows for the years then ended, and the related notes to 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. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Property and Casualty Initiative, LLC and Affiliate as of December 31, 2018 and 2017, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Alexander, Aronson, Finning & Co., P.C.

Boston, Massachusetts
April 3, 2019

THE PROPERTY AND CASUALTY INITIATIVE, LLC AND AFFILIATE

Consolidated Balance Sheets
For the Years Ended December 31, 2018 and 2017

Assets	**2018**	**2017**
Current Assets:		
Cash and cash equivalents	$24,745,895	$ 23,658,328
Investments in marketable securities	2,948,600	8,405,980
Current portion of loans receivable, net of allowance for loan losses of $195,780 and $99,455 as of December 31, 2018 and 2017, respectively	18,747,397	13,947,338
Accrued interest receivable on loans	228,462	201,912
Prepaid expenses and other	81,378	88,443
Total current assets	46,751,732	46,302,001
Loans Receivable, net of current portion and allowance for loan losses of $487,257 and $292,078 as of December 31, 2018 and 2017, respectively	41,607,058	40,738,375
Investments in Venture Funds, net of allowance for impairment	263,596	274,071
Property and Equipment, net	11,966	12,704
Total assets	$88,634,352	$ 87,327,151
Liabilities and Members' Equity		
Current Liabilities:		
Accounts payable and accrued expenses	$ 8,169	$1,297
Deposits and escrows	2,061,962	236,708
Total current liabilities	2,070,131	238,005
Members' Equity:		
Members' capital contributions	85,026,020	85,026,020
Retained earnings	1,538,201	2,063,126
Total members' equity	86,564,221	87,089,146
Total liabilities and members' equity	$88,634,352	$ 87,327,151

The accompanying notes are an integral part of these consolidated statements.

THE PROPERTY AND CASUALTY INITIATIVE, LLC AND AFFILIATE

Consolidated Statements of Operations
For the Years Ended December 31, 2018 and 2017

	2018	2017
Operating Revenues:		
Interest on loans	$ 2,549,166	$ 2,459,085
Net investment income	339,500	418,842
Loan origination fees and other	198,912	153,900
Total operating revenues	3,087,578	3,031,827
Net recovery of (provision for) loan losses	(291,504)	355,988
Provision for impairment of investments in venture funds	-	(150,000)
Net operating revenues	2,796,074	3,237,815
Operating Expenses:		
Salaries, payroll taxes and fringe benefits	954,597	912,506
Occupancy costs	174,395	137,830
Professional fees and contract services	74,660	73,885
Insurance	16,669	18,839
Supplies and other	14,420	8,603
Travel	12,753	12,307
Telephone and utilities	8,000	7,882
Depreciation	1,338	669
Printing and postage	1,041	2,168
Total operating expenses	1,257,873	1,174,689
Net income	$ 1,538,201	$ 2,063,126

The accompanying notes are an integral part of these consolidated statements.

THE PROPERTY AND CASUALTY INITIATIVE, LLC AND AFFILIATE

Consolidated Statements of Changes in Members' Equity
For the Years Ended December 31, 2018 and 2017

	Members' Capital Contributions	Retained Earnings	Total
Balance, December 31, 2016	$ 85,026,020	$ 1,777,432	$ 86,803,452
Net income	-	2,063,126	2,063,126
Distributions to members	-	(1,777,432)	(1,777,432)
Balance, December 31, 2017	85,026,020	2,063,126	87,089,146
Net income	-	1,538,201	1,538,201
Distributions to members	-	(2,063,126)	(2,063,126)
Balance, December 31, 2018	$ 85,026,020	$ 1,538,201	$ 86,564,221

The accompanying notes are an integral part of these consolidated statements.

THE PROPERTY AND CASUALTY INITIATIVE, LLC AND AFFILIATE

Consolidated Statements of Cash Flows
For the Years Ended December 31, 2018 and 2017

	2018	2017
Cash Flows from Operating Activities:		
Net income	$ 1,538,201	$ 2,063,126
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	1,338	669
Net (recovery of) provision for loan losses	291,504	(355,988)
Amortization of loan origination fees	(169,912)	(152,546)
Capitalized interest	(191,341)	(125,107)
Loan origination fees	167,341	219,867
Changes in operating assets and liabilities:		
Accrued interest receivable on loans	(26,550)	(7,077)
Prepaid expenses and other	7,065	(24,914)
Accounts payable and accrued expenses	6,872	(1,352)
Deposits and escrows	24,889	(21,464)
Net cash provided by operating activities	1,649,407	1,595,214
Cash Flows from Investing Activities:		
Issuance of loans receivable	(19,882,184)	(31,789,720)
Purchase of property and equipment	(600)	(13,373)
Principal payments on loans receivable	14,115,850	42,154,094
Purchase of investments in marketable securities	(12,640,095)	(13,857,450)
Redemption of investments in marketable securities	18,097,475	11,517,726
Return of capital distributions from venture funds	10,475	142,751
Net cash provided by (used in) investing activities	(299,079)	8,154,028
Cash Flows from Financing Activities:		
Escrow deposits, net	1,800,365	-
Distributions to members	(2,063,126)	(1,777,432)
Net cash used in financing activities	(262,761)	(1,777,432)
Net Change in Cash and Cash Equivalents	1,087,567	7,971,810
Cash and Cash Equivalents:		
Beginning of year	23,658,328	15,686,518
End of year	$ 24,745,895	$ 23,658,328

The accompanying notes are an integral part of these consolidated statements.

1. OPERATIONS AND TAX STATUS

Operations

The Property and Casualty Initiative, LLC (PCI) is a Massachusetts limited liability company that was formed on May 18, 1999. PCI's business activities consist of making investments in accordance with Chapter 259 of the Massachusetts Acts of 1998. Chapter 259 was enacted to promote community investment by insurance companies and the equitable taxation of domestic insurance companies. As a result, PCI is required to operate under the guidelines created by this act. Qualified Chapter 259 investments are those investments in minority or women-owned businesses, small businesses, rental housing and home-ownership development projects, job creation activities, and community health centers, in low and moderate-income environments and the Community Development Finance Corporation and the Massachusetts Capital Access Program.

PCI's operating agreement originally authorized PCI to operate for a period of twenty-four years ending in May 2023. However, the members amended the operating agreement in 2015 to allow PCI to operate for an additional ten years through May 2033 (see Note 9).

In August 2007, PCI formed PCI Property Holdings, LLC (the Affiliate), a Massachusetts limited liability company, to acquire and hold real property. PCI is the only member of the Affiliate.

Tax Status

PCI is a Massachusetts limited liability company and has elected to be treated as a partnership for income tax purposes. Items of income, loss, credits, or deductions arising from PCI are reported by the members on their respective income tax returns as allocated in accordance with the operating agreement. Accordingly, the accompanying consolidated financial statements do not reflect any provisions or credits for income taxes. The Affiliate has elected to be disregarded as a separate entity from PCI for tax purposes.

2. SIGNIFICANT ACCOUNTING POLICIES

PCI and the Affiliate prepare their consolidated financial statements in accordance with generally accepted accounting standards and principles (U.S. GAAP) established by the Financial Accounting Standards Board (FASB). References to U.S. GAAP in these notes are to the FASB Accounting Standards Codification (ASC).

Principles of Consolidation

The consolidated financial statements include the activities of PCI and the Affiliate. All significant intercompany balances and transactions have been eliminated.

Cash and Cash Equivalents

For the purpose of the consolidated statements of cash flows, cash and cash equivalents consist of checking, money market and savings accounts.

Investments in Marketable Securities

Investments in marketable securities (see Note 5) are debt securities carried by PCI on a held-to-maturity basis and reported at amortized cost. Gains or losses are recognized only as realized upon sale. These securities are reported in the accompanying consolidated balance sheets as current assets based on the maturities of the underlying securities.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments in Marketable Securities (Continued)

Management monitors the fair value of all held-to-maturity securities to determine whether any impairments considered other than temporary exist. No such impairments were recorded in 2018 or 2017.

Loans Receivable and Allowance for Loan Losses

Loans receivable are stated net of unamortized deferred loan origination fees and an allowance for loan losses (see Notes 3 and 4). Interest on loans is calculated by using the simple interest method on monthly balances of the principal amount outstanding. The allowance for loan losses is established through a provision for loan losses charged to operations. The allowance is an amount that management believes will be adequate to absorb expected losses on existing loans that may become uncollectible. Management evaluates loan collectability through consideration of factors such as previous loss experience, performance of individual loans in accordance with contract terms, financial strength and cash flows of the borrower, realizable values of collateral, and current economic conditions that may affect the borrower's ability to repay in accordance with the requirements of *Accounting by Creditors for Impairment of a Loan - Income Recognition and Disclosures* standard under U.S. GAAP.

Investments in Venture Funds

Investments in venture funds consist of PCI's non-marketable interests in local investment funds. Because PCI does not exercise significant influence over its investments in venture funds, it records such investments using the cost method of accounting (see Note 6). Under this method of accounting, PCI records its investments at initial cost and periodically assesses the possibility of the impairment of cost.

Dividends from these investments, which represent distributions of company earnings, if any, are recorded as investment income. Other distributions are recorded as return of capital and reduce investment cost. In the event of impairment, the investments are written down through an allowance for impairment to estimated net realizable value and the loss is charged to operations.

Property and Equipment and Depreciation

Purchased property and equipment are recorded at cost. Renewals and betterments are capitalized, while repairs and maintenance are expensed as they are incurred. Property and equipment are depreciated using the straight-line method over the following estimated useful lives and consist of the following at December 31:

	Estimated Useful Lives	2018	2017
Furniture and equipment	3 - 7 years	$ 60,947	$ 60,347
Leasehold improvements	Term of lease	13,372	13,372
		74,319	73,719
Less - accumulated depreciation		62,353	61,015
Net property and equipment		$ 11,966	$ 12,704

Depreciation expense for the years ended December 31, 2018 and 2017, was $1,338 and $669, respectively.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deposits and Escrows

PCI holds funds on behalf of outside parties in escrow accounts as collateral against PCI's loans receivable.

Estimates

The preparation of consolidated financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that may affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Fair Value Measurements

PCI and the Affiliate follow the accounting and disclosure standards pertaining to ASC Topic, *Fair Value Measurements*, for qualifying assets and liabilities. Fair value is defined as the price that PCI and the Affiliate would receive upon selling an asset or pay to settle a liability in an orderly transaction between market participants.

PCI and the Affiliate use a framework for measuring fair value that includes a hierarchy that categorizes and prioritizes the sources used to measure and disclose fair value. This hierarchy is broken down into three levels based on inputs that market participants would use in valuing the financial instruments based on market data obtained from sources independent of PCI and the Affiliate. Inputs refer broadly to the assumptions that market participants would use in pricing the financial instrument, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the financial instrument developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset developed based on the best information available. The three-tier hierarchy of inputs is summarized in the three broad levels as follows:

Level 1 - Inputs that reflect unadjusted quoted prices in active markets for identical assets at the measurement date.

Level 2 - Inputs other than quoted prices that are observable for the asset either directly or indirectly, including inputs in markets that are not considered to be active.

Level 3 - Inputs that are unobservable and which require significant judgment or estimation.

An asset or liability's level within the framework is based upon the lowest level of any input that is significant to the fair value measurement.

The only assets held by PCI that are carried at fair value are cash equivalents in the form of money market accounts. Cash equivalents are considered Level 1 in the fair value hierarchy. PCI held $19,553,261 and $23,172,244 in money markets as of December 31, 2018 and 2017, respectively. Management also assesses the possible impairment of investments in limited partnerships using fair value assumptions based on Level 3 inputs (see Note 6)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition

Revenues from interest on loans, cash, investments, and other sources are recorded as earned on the accrual basis of accounting. Loan loss recoveries are recorded in the year of recovery when cash has been received or collection is assured.

Loan origination fees, net of certain direct loan origination costs, are deferred and amortized as an adjustment to the related loan yield on a straight-line basis over the term of the loan.

Several of PCI's loans are subject to prepayment penalty clauses in the loan agreements. Prepayment penalties are recognized as revenue when prepayment occurs. In 2018 and 2017, there were no prepayments of loans that were subject to such a penalty.

Income Taxes

No income tax provision has been included in the accompanying consolidated financial statements as the income, loss and credits of PCI are reported by the members on their respective income tax returns.

PCI accounts for uncertainty in income taxes in accordance with ASC Topic, *Income Taxes*. This standard clarifies the accounting for uncertainty in tax positions and prescribes a recognition threshold and measurement attribute for the consolidated financial statements regarding a tax position taken or expected to be taken in a tax return. PCI has determined that there are no uncertain tax positions which qualify for either recognition or disclosure in the consolidated financial statements at December 31, 2018 and 2017. However, PCI's income tax returns are subject to examination by the appropriate taxing jurisdictions.

Advertising Costs

PCI expenses advertising costs as they are incurred. Advertising expense for 2018 was $175 and is included in professional fees in the accompanying consolidated statements of operations. There were no advertising expenses in 2017.

Subsequent Events

Subsequent events have been evaluated through April 3, 2019, which is the date the consolidated financial statements were available to be issued. There were no events that met the criteria for recognition or disclosure in the consolidated financial statements.

LOANS RECEIVABLE

PCI offers the following loan products (also see Note 10):

Affordable Housing - Made to organizations that increase the availability of affordable housing to low and moderate-income households. These funds are generally used to acquire or develop residential real properties. Affordable housing loans receivable bear interest at rates ranging from 3.0% to 7.5% and mature at various dates through 2024. Principal balances range from $61,917 to $6,500,000. These loans are generally secured by mortgages on the properties and borrowers are required to adhere to certain affordability restrictions. PCI's five largest outstanding affordable housing loans receivable were approximately 61% and 60% of the affordable housing portfolio as of December 31, 2018 and 2017, respectively.

3. LOANS RECEIVABLE (Continued)

Commercial and Economic Development - Made to support the development and/or expansion of minority or women-owned businesses, small businesses, job creation activities, and community health centers, within low and moderate-income areas that result in job creation or retainage in Massachusetts. PCI also provides financing to small and mid-sized companies with an emphasis on companies relocating to Massachusetts and creating jobs for residents in economic target areas. Commercial and economic development loans receivable bear interest at rates ranging from 3% to 6.5% and mature at various dates through 2030. Principal balances range from $81,389 to $6,500,000. These loans are generally secured by the borrowers' business assets and real estate. PCI's five largest outstanding commercial and economic development loans receivable were approximately 58% and 67% of the commercial and economic development portfolio as of December 31, 2018 and 2017, respectively.

Loans receivable consist of the following at December 31:

	2018		2017	
	Number of loans		Number of loans	
Commercial and economic development	21	$ 33,457,556	15	$ 28,772,638
Affordable housing	25	27,799,298	26	26,526,541
	46	61,256,854	41	55,299,179
Less - net unamortized loan origination fees		(219,362)		(221,933)
Total loans receivable		61,037,492		55,077,246
Less - allowance for loan losses (see Note 4)		(683,037)		(391,533)
Loans receivable, net		$ 60,354,455		$ 54,685,713

As of December 31, 2018 and 2017, total participations outstanding were $4,832,118 and $3,101,690, respectively. Given the lack of repurchase rights reserved by PCI with respect to the third-party's interest in the underlying loans receivable, the participations meet the requirements for treatment as loan sales in accordance with the U.S. GAAP criteria for ASC Topic, *Accounting for Transfers and Servicing of Assets and Liabilities*. Accordingly, loans receivable are presented net of participations in the accompanying consolidated balance sheets as of December 31, 2018 and 2017.

Future payments of principal of loans receivable for the next five years are due as follows:

2019	$ 18,943,177
2020	$ 16,728,227
2021	$ 13,022,779
2022	$ 6,311,896
2023	$ 3,242,675

4. ALLOWANCE FOR LOAN LOSSES

PCI provides an allowance for expected loan losses (see Note 3). The allowance is based on PCI's loan rating policy, which is updated periodically for changes related to individual loans receivable. Loans are rated on a scale of 1 to 6. Loans rated 1 to 4 are considered performing loans and an initial loan loss allocation is assigned to them. This allocation is adjusted each year, as necessary, on each loan based on analysis of each borrower's operating performance.

Loans rated 5 and 6 have a specific reserve percentage. These loans have a higher probability of loss of interest income and principal. For these loans, the major risk factors that drive the loan loss allocation decision are:

- Borrower has a weak balance sheet and has shown consistent losses
- Cash flow may be inadequate to service the debt
- Collateral may be less than 100% of outstanding loan
- Weak management
- Credit history shows sporadic delinquencies
- Guarantor has minimal and illiquid net worth

The loan loss allowance according to PCI's risk rating policy is as follows as of December 31:

		2018		2017	
Category	Risk Rating	Loan Balance	Loan Loss Allowance	Loan Balance	Loan Loss Allowance
Exceptional	1 - 2	$ -	$ -	$ -	$ -
Performing	3 - 4	57,291,032	-	54,213,737	-
Substandard	5 - 6	3,965,822	396,582	1,085,442	108,544
General Reserve		-	286,455	-	282,989
		$ 61,256,854	$ 683,037	$ 55,299,179	$ 391,533

The loan loss allowance, which has been allocated proportionally to the long-term and current portions of the loan portfolio in the accompanying consolidated balance sheets, consists of the following:

	Commercial and Economic Development	Affordable Housing	General Reserve	Total
Balance, December 31, 2016	$ -	$ 466,213	$ 281,308	$ 747,521
Provision for (recovery of) loan losses	-	(357,669)	1,681	(355,988)
Balance, December 31, 2017	-	108,544	282,989	391,533
Provision for loan losses	-	288,038	3,466	291,504
Balance, December 31, 2018	$ -	$ 396,582	$ 286,455	$ 683,037

PCI reports recoveries of loans previously written off in prior years as income when the amount is collected or collection is assured. There were no recoveries of loans previously written off during 2018 or 2017.

5. INVESTMENTS IN MARKETABLE SECURITIES

The amortized cost of securities (see Note 2) and their approximate fair values are as follows as of December 31:

	2018		
	Amortized Cost	**Unrealized Loss**	**Fair Value**
Corporate bonds:			
Other	$ 2,448,146	$ (1,741)	$ 2,446,405
Financial services	500,454	(979)	499,475
	$ 2,948,600	$ (2,720)	$ 2,945,880

	2017		
	Amortized Cost	**Unrealized Loss**	**Fair Value**
Corporate bonds:			
Other	$ 4,002,235	$ (5,397)	$ 3,996,838
Financial services	4,403,745	(5,230)	4,398,515
	$ 8,405,980	$ (10,627)	$ 8,395,353

All securities held as of December 31, 2018, will mature in one year. Investments are not insured and are subject to ongoing market fluctuations.

6. INVESTMENTS IN VENTURE FUNDS

Investments in limited partnerships (see Note 2) include non-controlling interests in two venture funds as of December 31, 2018 and 2017, respectively, which meet the requirements of qualified investments in accordance with Chapter 259 of the Massachusetts Acts of 1988 (see Note 1). All partnership investments represent less than 20% limited partner interests and PCI does not exercise control or significant influence over these partnerships.

The balance of investments in venture funds was as follows as of December 31:

	2018	**2017**
Carried cost, beginning of year	$ 1,586,927	$ 1,741,822
Realized loss	-	(12,144)
Return of capital distributions	(10,475)	(142,751)
Carried cost, end of year	1,576,452	1,586,927
Less - allowance for impairment	(1,312,856)	(1,312,856)
Net	$ 263,596	$ 274,071

As of December 31, 2018 and 2017, management has recorded an allowance for impairment totaling $1,312,856 for both of these investments. PCI's management estimated impairment using unobservable, or Level 3, inputs under the fair value framework (see Note 2). These inputs are estimated future net cash flows based upon internal financial statements and other information received from investment fund managers.

PCI received distributions of $10,475 and $260,754 for 2018 and 2017, respectively, including $118,003 for 2017, which represents PCI's share of distributed earnings and is included in investment income in the accompanying consolidated statement of operations.

7. RETIREMENT PLAN

PCI maintains a salary reduction plan (the Plan) under Section 401(k) of the Internal Revenue Code (IRC). The Plan covers substantially all employees who have reached the age of twenty-one and have completed 1,000 hours of service. Participants are able to defer a portion of their salary up to limits established by the IRC. Annually, PCI makes a contribution of 4% of participating employees' salaries and may make additional discretionary contributions, as determined by the Board of Managers. These contributions vest in accordance with a schedule defined in the Plan documents. PCI's contributions to the Plan, including discretionary contributions, were $85,692 and $83,207 for 2018 and 2017, respectively, and are included in salaries, payroll taxes and fringe benefits in the accompanying consolidated statements of operations.

8. LEASES

Facility

During 2017, PCI entered into an operating lease agreement for office space at a new location in Boston, Massachusetts beginning on June 1, 2017. This is a seven-year lease which will expire on May 31, 2024. Monthly payments on this lease are approximately $14,000 and escalate annually based on the terms of the lease agreement.

PCI leased office space at a prior location in Boston, Massachusetts under an operating lease agreement that expired on May 31, 2017. Monthly payments on the lease were approximately $8,400 in 2017, and required PCI to pay its proportionate share of real estate taxes and operating expense.

Rent under these leases was $171,407 and $137,416 for 2018 and 2017, respectively, and is included in occupancy costs in the accompanying consolidated statements of operations.

Equipment

PCI had an equipment lease which expired in April 2017, and was renewed under the same terms through 2020. Equipment lease expense was $2,499 and $2,629 for 2018 and 2017, respectively, which is included in supplies and other in the accompanying consolidated statements of operations.

Minimum Lease Payments

Future minimum lease payments are as follows:

	Facility	Equipment
2019	$ 168,408	$ 2,352
2020	$ 170,774	$ 784
2021	$ 172,464	$ -
2022	$ 174,830	$ -
2023	$ 176,520	$ -
Thereafter	$ 73,550	$ -

9. MEMBERS' CAPITAL ACCOUNTS

Members receive "common units" in PCI in exchange for capital contributed on the basis of one unit for $1.00. Membership is limited to $100 million from property and casualty companies in the Commonwealth of Massachusetts.

Members may receive distributions from earnings generated by PCI upon approval of the Board of Managers. It is the Board's practice to distribute all of PCI's earnings to members annually based on prior year earnings. PCI distributed $2,063,126 and $1,777,432 to members during 2018 and 2017, respectively. Members are prohibited from receiving distributions that would constitute return of capital for the first twenty years of PCI's existence.

In connection with the amendment to extend the term of PCI's operations for ten years through May 2033 (see Note 1), four members with initial capital totaling $15,138,400 opted not to participate in the extension period and will be redeemed over five payment dates. PCI will make return of capital distributions to the retiring members at a rate of 5% of original capital for each of four annual payment dates from May 2019 to May 2022. During May 2023, PCI will distribute the remaining 80% of the retiring members' original capital in accordance with Chapter 259 of the Massachusetts Acts of 1998. During this redemption period, no member can request complete distribution of their remaining principal balance. The retiring members will continue to receive distributions of earnings based on their pro-rata share of ownership in PCI. Return of capital distributions are expected to be made as follows:

2019	$ 756,920
2020	$ 756,920
2021	$ 756,920
2022	$ 756,920
2023	$ 12,110,720

10. COMMITMENTS AND OFF-BALANCE SHEET RISK

Commitments to originate loans or subscribe to equity investments are agreements to lend money to or invest in an entity, provided that there are no violations of any conditions established in the agreements. PCI evaluates each request for financing on a case-by-case basis, including, but not limited to, eligibility as established by Chapter 259 of the Massachusetts Acts of 1998, credit worthiness, collateral obtained, and any other prevailing economic factors. Once these commitments are made, PCI is also subject to a degree of off-balance sheet risk, as PCI has committed funds to an entity and such commitment is not recorded on the consolidated balance sheets as a liability. The performance of these entities could adversely affect the ability of PCI to recover the committed investment. At December 31, 2018 and 2017, PCI had commitments to lend of approximately $30,410,000 and $10,177,000, respectively (see Note 3). Among the tools available to manage liquidity are anticipated loan pay-offs, utilizing the line of credit (see Note 12) as well as the potential to initiate loan sales and loan participation agreements with lending partners.

11. CONCENTRATION OF CREDIT RISK

PCI maintains its cash balances in two banks in Massachusetts and is insured within limits of the Federal Deposit Insurance Corporation (FDIC). At certain times during the year, cash balances exceeded the insured amounts. PCI has not experienced any losses in such accounts and management believes the credit risk related to PCI's cash and cash equivalents is not significant. As of December 31, 2018, PCI's exposure for uninsured cash was $4,942,634. As of December 31, 2018, PCI's exposure of uninsured cash equivalents was $18,826,678. In order to minimize the credit risk for cash equivalents, management has invested the cash equivalents in highly-liquid money market and other pooled investment accounts designed to maximize FDIC coverage for the pooled investment fund.

12. LINE OF CREDIT

During 2017, PCI entered into a $10,000,000 revolving line of credit agreement with a bank. Borrowings are due on demand and interest is payable monthly with the option of a fixed rate based on Federal Home Loan Bank (FHLB) plus 190 basis points or floating rate based on the London Interbank Offered Rate (LIBOR) plus 190 basis points. All borrowings are secured by PCI's business assets with a specific assignment of the loan portfolio. The agreement has a two-year term through November 2019, with the option for annual one-year extension terms. There are no amounts outstanding as of December 31, 2018 or 2017. As specified in the agreement, PCI must meet certain covenants. PCI was in compliance with these covenants at December 31, 2018 and 2017.

13. RECLASSIFICATION

Certain amounts in the 2017 consolidated financial statements have been reclassified to conform with the 2018 presentation.

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