ANNUAL REPORT

2020

THE PROPERTY AND CASUALTY INITIATIVE, LLC

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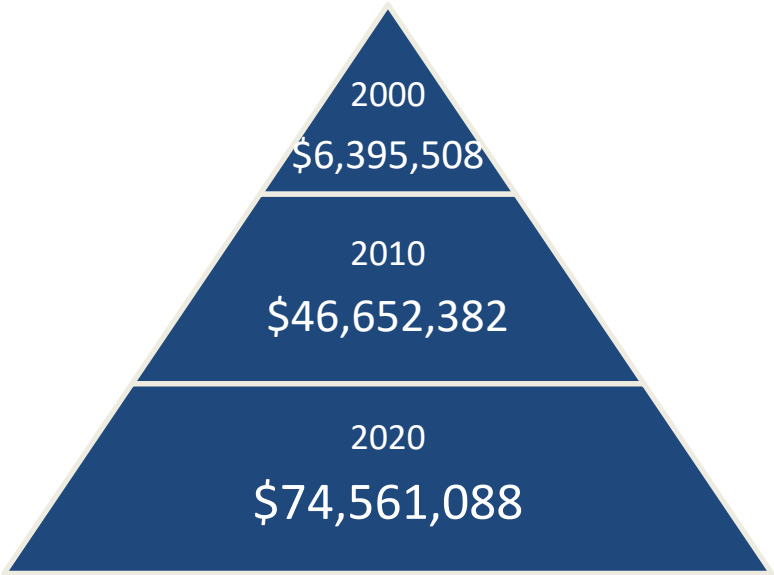
THE YEAR IN REVIEW

In January 2020 we prepared the budget expecting the year would result in full deployment of our loan capital and a portfolio full of projects in development. With $48 million in new commitments in both 2018 and 2019 we were focusing on closing and managing a portfolio that we expected to grow to a record high.

The appearance of the corona virus in March drastically altered the world and our expectations. Although we remained focused on closing the 2019 commitments, we became equally focused on assisting our customers as they managed through the economic uncertainties caused by the virus.

We were successful in approving four new loans totaling $4 million and closing ten loans totaling $28.8 million. We ended the year with active commitments of $115 million with $74.7 million outstanding and $31 million available to be drawn.



Although the year was challenging, we worked closely with our customers and lending partners to position us for growth and continued success in 2021. Many thanks to everyone who made it possible to for us to continue to provide innovative financing for affordable housing and community development throughout the Commonwealth.

MISSION

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.

STATEMENT

AFFORDABLE HOUSING 2020

PROJECT	COMMITTED DOLLARS	TOTAL UNITS	AFFORDABLE UNITS
Residences at Kelly's Corner Common Ground Development Corporation	$660,000	31	31
Berkshire Housing Development Corp - Cole Apartments	$3,012,000	41	41
TOTAL	**$3,672,000**	**72**	**72**

PROJECT: Residences at Kelly's Corner

BORROWER/SPONSOR: Common Ground Development Corp

TYPE OF INVESTMENT: Acquisition and Predevelopment Loan

REGION: Greater Boston

QUALIFICATION: Low & Moderate-Income Housing

OUTSTANDING @12.31.20: $610,000

COMMON GROUND DEVELOPMENT CORPORATION

RESIDENCES AT KELLY'S CORNER

$610,000

Common Ground Development Corporation is developing the Residences at Kelley's Corner which will create 31 units of affordable rental housing for seniors and persons with disabilities. The new 3-story building which is located at 446 Massachusetts Avenue in Acton is located one tenth of a mile from Kelley's Corner in Acton, the Property offers walkable access to a wide range of goods and services including a supermarket, banks, retail stores and other services.

The proposed building will consist of 31 1-bedroom units over three floors. The average unit size will be 700 square feet. The ground floor which is at the back of the building will have tenant storage space in addition to a common laundry and residential units. Each floor will have a common sitting room and the third floor will also have a common laundry. The building also includes a three-season porch and outside seating.

PCI's acquisition and predevelopment funds will allow the project to move forward towards construction.

446 Massachusetts Avenue • Acton, MA

BORROWER/PROJECT:
Cole Ave Apartments

SPONSOR: Berkshire Housing Development Corporation

TYPE OF INVESTMENT:
Construction Loan

REGION: Western MA

QUALIFICATION:
Affordable Housing

OUTSTANDING @12.31.20:
$0

BERKSHIRE HOUSING DEVELOPMENT CORP COLE AVE APARTMENTS

$3,012,000

Berkshire Housing Development Corporation (BHDC) was established in 1971 as a non-profit corporation by a group of community and business leaders who were concerned about the shortage of affordable housing in Berkshire County, Massachusetts. Since then, the organization has produced more than 2,000 new and rehabilitated housing units in Berkshire County and carried out a wide variety of community and economic development projects. Projects have included the development of 22 rental apartment complexes, construction of 5 low-income elderly projects, a multitude of affordable multifamily projects, and a 150-unit life care retirement community. BHDC administers the Section 8 Housing Choice Voucher rental assistance program in Berkshire County under contract with DHCD.

The PCI loan of $3,012,000, together with other funding sources, will enable the construction of 41 units of affordable, rental housing in Williamstown on an approximately 4.9-acre former industrial parcel, awarded to BHDC by the Town of Williamstown. The Project will provide 11 units targeted to families and individuals at or below 30% of the Area Median Income (AMI) and the other 30 units will be targeted to families and individuals at or below 60% of the AMI.

330 Cole Avenue • Williamstown, MA

2020

Father Bill's & Mainspring	$250,000
Total	$250,000

BORROWER/PROJECT:
Father Bill's & Mainspring

SPONSOR:
Father Bill's & Mainspring

TYPE OF INVESTMENT:
Pre-development Loan

REGION: Southeast MA

QUALIFICATION:
Economic Development/
Affordable Housing

OUTSTANDING @12.31.20:
$0

FATHER BILL'S & MAINSPRING

$250,000

For more than three decades, Father Bill's & MainSpring (FBMS), has been a leading innovator of ending homelessness. Their mission is to end and prevent homelessness in Southern Massachusetts with programs that provide emergency and permanent housing and help people obtain skills, jobs, housing, and services. They help people who are struggling with homelessness, or are at risk of homelessness, achieve self-sufficiency. The organization is the lead administrator of the South Shore Continuum of Care (CoC), which is a regional planning body that provides a coordinated response to homelessness.

FBMS has designed a new model of shelter, housing, and services for homeless individuals in Quincy, MA. The model will require a new multi-use facility located in proximity to its existing shelter facility on a parcel owned by the City of Quincy

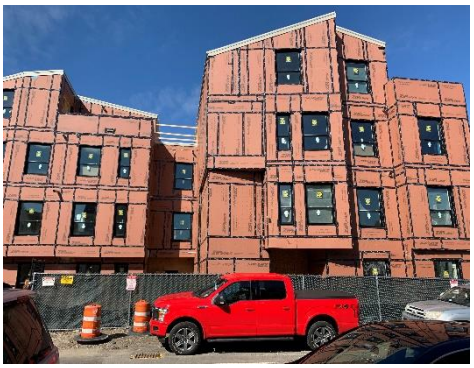
The PCI loan of $250,000 will be used for pre-development expenses leading to the construction of the building at 39 Broad Street/40 Field Street, Quincy, to house FBMS's program spaces, shelter beds, services for the homeless, administrative offices, and a clinic.

39 Broad Street/40 Field Street • Quincy, MA

WORK IN PROGRESS…

Downing Broadway, Arlington

90 ANTWERP STREET (Urbanica), Brighton



REGIONAL DISTRIBUTIONS 2020

REGION	AMOUNT OF INVESTMENT	NUMBER OF INVESTMENTS
BOSTON	$225,025,698	70
CENTRAL	$41,310,167	18
NORTHEAST	$54,238,874	30
SOUTHEAST	$51,873,900	41
WEST	$69,057,500	23
STATEWIDE	$9,000,000	6
TOTAL	**$450,506,139**	**188**

QUALIFIED INTERIM INVESTMENTS 2020

At December 31, 2020, the total interim investments of The Property and Casualty Initiative, LLC were as follows:

BANK DEPOSITS	$13,435,147
MORGAN STANLEY	$3,532,453
TOTAL INTERIM INVESTMENTS	**$16,967,600**

The 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 investments and the short maturity of the holdings.

At December 31, 2020, $34,992,986 was committed to projects that had not yet funded.

PUBLIC MEETINGS
2020

DUE TO THE CORONA VIRUS PANDEMIC, PUBLIC MEETINGS WERE NOT CONDUCTED

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

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

Plymouth Rock Group
- Plymouth Rock Assurance Corp
- Plymouth Rock Home Assurance Corporation
- Pilgrim Insurance Company

Quincy Mutual Fire Insurance Company

The Premier Insurance Company of Massachusetts

Tower Group
- Massachusetts Homeland Insurance Company

2020 CAPITAL CONTRIBUTIONS

	Cumulative Contributed Capital	Cumulative Proportionate Share %*	Actual Proportionate Share %
Arbella Indemnity Insurance Company	$92,100.00	0.092%	0.109%
Arbella Mutual Insurance Company	$1,959,900.00	1.960%	2.324%
Arbella Protection Insurance	$564,700.00	0.565%	0.670%
Arrow Mutual Liability Insurance Company	$157,700.00	0.158%	0.186%
Associated Industries of MA Mutual Ins. Co.	$500,200.00	0.500%	0.593%
Atlantic Specialty Insurance Company	$12,686,220.00	11.649%	15.880%
Barnstable County Insurance Company	$28,200.00	0.028%	0.033%
Barnstable County Mutual Insurance Company	$81,100.00	0.081%	0.096%
Berkshire Mutual Insurance Company	$74,120.00	0.074%	0.087%
Country Mutual Insurance Company	$357,000.00	0.357%	0.423%
Dorchester Mutual Insurance Company	$102,500.00	0.103%	0.122%
Electric Insurance Company	$2,946,000.00	2.946%	3.494%
Fitchburg Mutual Insurance Company	$151,100.00	0.151%	0.179%
Harleysville Worcester Insurance Company	$941,200.00	0.941%	1.116%
Liberty Mutual Fire Company	$6,475,600.00	0.065%	7.680%
Liberty Mutual Insurance Company	$49,021,000.00	6.476%	58.137%
MA Homeland Insurance Co	$27,500.00	0.275%	0.033%
Medical Professional Mutual Insurance Co	$4,041,100.00	4.041%	4.793%
Norfolk & Dedham Mutual Fire Insurance Co	$483,400.00	0.483	0.573%
Pilgrim Insurance Company	$19,000.00	1.900%	0.023%
Plymouth Rock Assurance Corp	$496,700.00	0.050%	0.589%
Plymouth Rock Home Assurance Corporation	$54,500.00	0.550%	0.065%
ProSelect Insurance Company	$91,400.00	0.091%	0.108%
Quincy Mutual Fire Insurance Company	$1,092,500.00	1.093%	1.296%
The Premier Insurance Company of MA	$1,171,700.00	1.172%	1.390%
	$83,616,440.00	83.617%	100.00%

*Based on $100,000,000

2020

Audited Financial Statements

THE PROPERTY AND CASUALTY INITIATIVE, LLC AND AFFILIATE

AND AFFILIATE

CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

THE PROPERTY AND CASUALTY INITIATIVE, LLC AND AFFILIATE

Contents
December 31, 2020 and 2019

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, 2020 and 2019, 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, 2020 and 2019, 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.

AAFCPAs, Inc.

Westborough, Massachusetts
April 14, 2021

THE PROPERTY AND CASUALTY INITIATIVE, LLC AND AFFILIATE

Consolidated Balance Sheets
December 31, 2020 and 2019

Assets	**2020**	**2019**
Current Assets:		
Cash and cash equivalents	$ 16,967,600	$ 24,226,722
Current portion of loans receivable, net of allowance for loan losses of $623,195 and $237,194 as of December 31, 2020 and 2019, respectively	41,828,078	21,288,282
Accrued interest receivable on loans	266,153	243,770
Prepaid expenses and other	47,445	58,646
Total current assets	59,109,276	45,817,420
Loans Receivable, net of current portion and allowance for loan losses of $406,274 and $464,558 as of December 31, 2020 and 2019, respectively	27,057,524	41,457,396
Investments in Venture Funds, net of allowance for impairment	263,596	263,596
Property and Equipment, net	9,292	10,629
Total assets	$ 86,439,688	$ 87,549,041
Liabilities and Members' Equity		
Current Liabilities:		
Accounts payable and accrued expenses	$ 14,241	$ 6,937
Deposits and Escrows	1,209,149	1,220,272
Total liabilities	1,223,390	1,227,209
Members' Equity:		
Members' capital contributions	83,616,440	84,321,230
Retained earnings	1,599,858	2,000,602
Total members' equity	85,216,298	86,321,832
Total liabilities and members' equity	$ 86,439,688	$ 87,549,041

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, 2020 and 2019

	2020	2019
Operating Revenues:		
Interest on loans	$ 2,999,932	$ 2,734,627
Loan origination fees and other	174,336	149,589
Net investment income	135,294	455,438
Total operating revenues	3,309,562	3,339,654
Net provision for loan losses	(327,717)	(18,715)
Net operating revenues	2,981,845	3,320,939
Operating Expenses:		
Salaries, payroll taxes and fringe benefits	1,086,149	1,022,997
Occupancy costs	180,166	179,325
Professional fees and contract services	56,274	66,113
Insurance	22,302	13,366
Supplies and other	14,861	15,086
Travel	10,685	11,908
Telephone and utilities	9,680	9,181
Depreciation	1,337	1,337
Printing and postage	533	1,024
Total operating expenses	1,381,987	1,320,337
Net income	$ 1,599,858	$ 2,000,602

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, 2020 and 2019

	Members' Capital Contributions	Retained Earnings	Total
Balance, December 31, 2018	$ 85,026,020	$ 1,538,201	$ 86,564,221
Net income	-	2,000,602	2,000,602
Distributions of earnings to members	-	(1,538,201)	(1,538,201)
Return of capital distributions	(704,790)	-	(704,790)
Balance, December 31, 2019	84,321,230	2,000,602	86,321,832
Net income	-	1,599,858	1,599,858
Distributions of earnings to members	-	(2,000,602)	(2,000,602)
Return of capital distributions	(704,790)	-	(704,790)
Balance, December 31, 2020	$ 83,616,440	$ 1,599,858	$ 85,216,298

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, 2020 and 2019

	2020	2019
Cash Flows from Operating Activities:		
Net income	$ 1,599,858	$ 2,000,602
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	1,337	1,337
Net provision for loan losses	327,717	18,715
Amortization of loan origination fees	(159,336)	(139,589)
Capitalized interest	(126,716)	(119,460)
Loan origination fees collected	133,594	157,083
Changes in operating assets and liabilities:		
Accrued interest receivable on loans	(22,383)	(15,308)
Prepaid expenses and other	11,201	22,732
Accounts payable and accrued expenses	7,304	(1,232)
Deposits and escrows	(13,262)	8,435
Net cash provided by operating activities	1,759,314	1,933,315
Cash Flows from Investing Activities:		
Issuance of loans receivable	(25,409,417)	(23,528,814)
Principal payments on loans receivable	19,094,234	21,220,842
Purchase of investments in marketable securities	-	(51,400)
Redemption of investments in marketable securities	-	3,000,000
Net cash provided by (used in) investing activities	(6,315,183)	640,628
Cash Flows from Financing Activities:		
Escrow deposits, net	2,139	(850,125)
Return of capital distributions	(704,790)	(704,790)
Distributions of earnings to members	(2,000,602)	(1,538,201)
Net cash used in financing activities	(2,703,253)	(3,093,116)
Net Change in Cash and Cash Equivalents	(7,259,122)	(519,173)
Cash and Cash Equivalents:		
Beginning of year	24,226,722	24,745,895
End of year	$ 16,967,600	$ 24,226,722

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 8).

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.

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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loans Receivable and Allowance for Loan Losses

Loans receivable are stated net of loan participations qualifying as loan sales, 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 ASC Topic 326, *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 5). 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	2020	2019
Furniture and equipment	3 - 7 years	$ 60,947	$ 60,947
Leasehold improvements	Term of lease	13,372	13,372
		74,319	74,319
Less - accumulated depreciation		65,027	63,690
Net property and equipment		$ 9,292	$ 10,629

Depreciation expense for the years ended December 31, 2020 and 2019, was $1,337.

Deposits and Escrows

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 $12,616,032 and $19,066,663 in money market accounts as of December 31, 2020 and 2019, respectively. Management also assesses the possible impairment of investments in limited partnerships using fair value assumptions based on Level 3 inputs (see Note 5).

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.

Some of PCI's loans are subject to prepayment penalty clauses in the loan agreements. Prepayment penalties are recognized as revenue when prepayment occurs. In 2020 and 2019, there were no prepayments of loans that were subject to such a penalty.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2020 and 2019. 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.

Subsequent Events

Subsequent events have been evaluated through April 14, 2021, 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.

3. LOANS RECEIVABLE

PCI offers the following loan products (also see Note 9):

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 2.6% to 9% and mature at various dates through 2029. Principal balances range from $66,514 to $9,857,080. 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 67% and 62% of the affordable housing portfolio as of December 31, 2020 and 2019, respectively.

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 7% and mature at various dates through 2031. Principal balances range from $73,470 to $8,274,823. 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 67% and 64% of the commercial and economic development portfolio as of December 31, 2020 and 2019, respectively.

3. LOANS RECEIVABLE (Continued)

Loans receivable consist of the following at December 31:

	2020		2019	
	Number of loans		Number of loans	
Affordable housing	30	$ 42,626,311	28	$ 32,619,861
Commercial and economic development	16	27,499,874	19	31,064,425
	46	70,126,185	47	63,684,286
Less - net unamortized loan origination fees		(211,114)		(236,856)
Total loans receivable		69,915,071		63,447,430
Less - allowance for loan losses (see Note 4)		(1,029,469)		(701,752)
Loans receivable, net		68,885,602		62,745,678
Less - current portion		(41,828,078)		(21,288,282)
Loans receivable, less current portion		$ 27,057,524		$ 41,457,396

As of December 31, 2020 and 2019, total participations outstanding were $3,669,624 and $105,391, 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, 2020 and 2019.

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

2021	$ 42,451,273
2022	$ 7,432,003
2023	$ 10,052,909
2024	$ 4,434,994
2025	$ 369,315
Thereafter	$ 5,385,691

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.

4. ALLOWANCE FOR LOAN LOSSES (Continued)

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:

		2020		2019	
Category	Risk Rating	Loan Balance	Loan Loss Allowance	Loan Balance	Loan Loss Allowance
Exceptional	1 - 2	$ -	$ -	$ -	$ -
Performing	3 - 4	62,989,417	-	59,647,196	-
Substandard	5 - 6	7,136,768	713,677	4,037,090	403,709
General Reserve		-	315,792	-	298,043
		$ 70,126,185	$ 1,029,469	$ 63,684,286	$ 701,752

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, 2018	$ -	$ 396,582	$ 286,455	$ 683,037
Provision for (recovery of) loan losses	34,320	(27,193)	11,588	18,715
Balance, December 31, 2019	34,320	369,389	298,043	701,752
Provision for (recovery of) loan losses	319,471	(9,503)	17,749	327,717
Balance, December 31, 2020	$ 353,791	$ 359,886	$ 315,792	$ 1,029,469

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 2020 or 2019.

Delinquencies

As of December 31, 2019, PCI had one loan that was past due between 61 and 90 days with principal totaling $6,500,000. All loans were current as of December 31, 2020.

4. ALLOWANCE FOR LOAN LOSSES (Continued)

Impaired Loans

PCI identifies a loan as impaired when it is probable that interest and/or principal will not be collected according to the contractual terms of the loan agreement. In accordance with guidance provided by the criteria under ASC Topic, *Impairment (Recoverability)*, management employs one of three methods to determine and measure impairment: the Present Value of Future Cash Flow Method; the Fair Value of Collateral Method; and the Observable Market Price of a Loan Method. To perform an impairment analysis, PCI reviews a loan's internally assigned risk rating, its outstanding balance, value of the collateral, guarantors, and a current report of the action being implemented. Based on the nature of the specific loan, one of the impairment methods is chosen or any impairment is determined, based on criteria established for impaired loans.

Impaired loans as of December 31, 2020 and 2019, are set forth in the tables below.

	2020		
Loan Category	**Number of Impaired Loans**	**Amount of Impaired Loans**	**Allowance for Loan Losses**
Affordable Housing	2	$ 3,598,862	$ 359,886
Commercial and economic development	5	3,537,906	353,791
Total impaired loans	7	$ 7,136,768	$ 713,677

	2019		
Loan Category	**Number of Impaired Loans**	**Amount of Impaired Loans**	**Allowance for Loan Losses**
Affordable Housing	2	$ 3,693,894	$ 369,389
Commercial and economic development	5	343,196	34,320
Total impaired loans	7	$ 4.037,090	$ 403,709

Troubled Debt Restructuring

A troubled debt restructuring (TDR) occurs when a creditor, for economic or legal reasons related to a borrower's financial condition, grants a concession to the borrower that it would not otherwise consider, such as below-market interest rates, principal reductions extending the maturity of a loan, or a combination of these. As is common in the lending industry, PCI makes loan amendments in the normal course of business to extend the loan term when the take-out financing is delayed or under other similar circumstances. If PCI determines that the amendment is not due to the financial difficulties of the borrower and continues to expect full repayment of the loan, the amendment is not classified as a TDR. As of December 31, 2020 and 2019, there were no loans that met the criteria as being a TDR.

At the time a loan is modified in a TDR, PCI considers several factors in determining whether the loan should accrue interest, including:

- Cash flow necessary to pay the interest.
- Whether the customer is current on their interest payments.
- Whether PCI expects the borrower to perform under the revised terms of the restructuring.

5. INVESTMENTS IN VENTURE FUNDS

Investments in limited partnerships (see Note 2) include non-controlling interests in two venture funds as of December 31, 2020 and 2019, 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:

	2020	2019
Carried cost	$ 1,576,452	$ 1,576,452
Less - allowance for impairment	(1,312,856)	(1,312,856)
Net	$ 263,596	$ 263,596

As of December 31, 2020 and 2019, management has recorded an allowance for impairment totaling $1,312,856 for 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 did not receive any distributions during 2020 or 2019.

6. 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 $87,944 and $89,036 for 2020 and 2019, respectively, and are included in salaries, payroll taxes and fringe benefits in the accompanying consolidated statements of operations.

7. LEASES

Facility

PCI has an operating lease agreement for office space in Boston, Massachusetts which expires on May 31, 2024. Monthly payments on this lease are approximately $14,000 and escalate annually based on the terms of the lease agreement.

Rent under this lease was $170,774 and $168,407 for 2020 and 2019, respectively, and is included in occupancy costs in the accompanying consolidated statements of operations.

Equipment

PCI has an equipment lease which expires in June 2022. Equipment lease expense was $2,093 and $2,499 in 2020 and 2019, respectively, which is included in supplies and other in the accompanying consolidated statements of operations.

7. LEASES (Continued)

Future minimum lease payments are as follows:

	Facility	Equipment
2021	$ 172,464	$ 1,980
2022	$ 174,830	$ 660
2023	$ 176,520	$ -
2024	$ 73,550	$ -

8. 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 $2,000,602 and $1,538,201 to members during 2020 and 2019, 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), two members with initial capital totaling $14,095,800 opted not to participate in the extension period. 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. As of December 31, 2020, total return of capital was $1,409,580. Return of capital distributions to the two members are expected to be made as follows:

2021	$ 704,790
2022	$ 704,790
2023	$ 11,276,640

9. 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. All commitments are made on a conditional basis to allow PCI to assess the financial performance of the borrower prior to the deployment of funds.

At December 31, 2020 and 2019, PCI had commitments to lend of approximately $24,991,000 and $46,570,000, respectively (see Note 3). Among the tools available to manage liquidity are anticipated loan pay-offs, utilizing the line of credit (see Note 11) as well as the potential to initiate loan sales and loan participation agreements with lending partners.

10. CONCENTRATION OF CREDIT RISK

PCI maintains its cash balances in four banks in Massachusetts and is insured within limits of the Federal Deposit Insurance Corporation (FDIC) and Depositors Insurance Fund (DIF). 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, 2020, PCI's exposure for uninsured cash was $4,101,568. As of December 31, 2019, PCI's exposure for uninsured cash equivalents was $4,240,279. 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.

11. LINE OF CREDIT

PCI maintains a $10,000,000 revolving line of credit agreement with a bank that was increased to $15,000,000 during 2019. Borrowings are due on demand and interest is payable monthly with the option of a fixed rate based on the Federal Home Loan Bank (FHLB) plus 175 basis points or floating rate based on the London Interbank Offered Rate (LIBOR) plus 175 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 August 2021, with the option for annual one-year extension terms. There are no amounts outstanding as of December 31, 2020 and 2019. As specified in the agreement, PCI must meet certain covenants. PCI was in compliance with these covenants at December 31, 2020 and 2019.

12. CONTINGENCY

In March 2020, the COVID-19 coronavirus pandemic emerged in the United States triggering widespread government mandated and voluntary business closures, which in turn have led to substantial interruptions in financial markets, employment and the economy as a whole. The economic conditions created by the pandemic may impact PCI borrowers and their ability to repay the loans receivable of PCI. Though the potential financial effects cannot be reasonably estimated at this time, these circumstances may have adverse effects on PCI, its operations, pipeline of loan closings and financing commitments for projects currently in development, and future consolidated financial statements. The accompanying consolidated financial statements, including loan loss allowances (see Note 4), have not been adjusted for any potential financial effects that may occur in the future related to the current uncertainty.

Management of PCI is monitoring these events and their borrowers closely to assess the financial impact of the situation and determine appropriate courses of action. As of the date of this report, PCI is unable to accurately predict how the Coronavirus will affect the results of its operations because the disease's severity and the duration of the outbreak are uncertain.

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