

LIFE INSURANCE COMMUNITY INVESTMENT INITIATIVE, LLC

**FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020**

LIFE INSURANCE COMMUNITY INVESTMENT INITIATIVE, LLC

Contents
December 31, 2021 and 2020

	<u>Pages</u>
Independent Auditor's Report	1 - 1A
Financial Statements:	
Balance Sheets	2
Statements of Operations and Other Comprehensive Income	3
Statements of Changes in Members' Equity	4
Statements of Cash Flows	5
Notes to Financial Statements	6 - 14

Independent Auditor's Report

To the Audit Committee and Members of
Life Insurance Community Investment Initiative, LLC:

Opinion

We have audited the financial statements of Life Insurance Community Investment Initiative, LLC (a Massachusetts limited liability company) (the Company), which comprise the balance sheets as of December 31, 2021 and 2020, and the related statements of operations and other comprehensive income, changes in members' equity, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Life Insurance Community Investment Initiative, LLC as of December 31, 2021 and 2020, and the results of its operations and other comprehensive income and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, which raise substantial doubt about the Company's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance, and therefore, is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

Auditor's Responsibilities for the Audit of the Financial Statements (Continued)

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, which raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

The image shows a handwritten signature in black ink that reads "AAFCPA, Inc.". The letters are stylized and cursive.

Boston, Massachusetts
April 26, 2022

LIFE INSURANCE COMMUNITY INVESTMENT INITIATIVE, LLC

Balance Sheets

December 31, 2021 and 2020

Assets	2021	2020
Current Assets:		
Cash and cash equivalents	\$ 11,947,623	\$ 17,038,593
Short-term investments	55,258	60,503
Current portion of loans receivable, net of allowance for loan losses of \$2,916,200 and \$1,814,506 as of December 31, 2021 and 2020, respectively	30,431,685	17,721,013
Interest receivable on loans and other receivables	1,234,741	1,212,726
Total current assets	43,669,307	36,032,835
Loans Receivable, net of current portion and allowance for loan losses of \$5,588,752 and \$6,690,446 as of December 31, 2021 and 2020, respectively	58,320,816	65,340,932
Investments in Limited Partnerships and Other, net of allowance for impairment	1,601,509	1,636,460
Total assets	<u>\$ 103,591,632</u>	<u>\$ 103,010,227</u>
Liabilities and Members' Equity		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 800,144	\$ 774,472
Members' Equity:		
Members' capital contributions	99,446,536	99,631,024
Retained earnings	3,342,084	2,601,075
Accumulated other comprehensive income	2,868	3,656
Total members' equity	102,791,488	102,235,755
Total liabilities and members' equity	<u>\$ 103,591,632</u>	<u>\$ 103,010,227</u>

LIFE INSURANCE COMMUNITY INVESTMENT INITIATIVE, LLCStatements of Operations and Other Comprehensive Income
For the Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Operating Revenues:		
Interest on loans	\$ 5,333,256	\$ 5,087,272
Loan fees and other	241,649	212,921
Investment income	<u>184,675</u>	<u>271,773</u>
Total operating revenues	5,759,580	5,571,966
Less - provision for loan losses	<u>-</u>	<u>(600,000)</u>
Net operating revenues	<u>5,759,580</u>	<u>4,971,966</u>
Operating Expenses:		
Salaries, payroll taxes and fringe benefits	1,988,491	1,816,773
Operating expenses	313,012	423,703
Professional fees	60,383	51,591
Miscellaneous	<u>55,610</u>	<u>78,824</u>
Total operating expenses	<u>2,417,496</u>	<u>2,370,891</u>
Net income	3,342,084	2,601,075
Other Comprehensive Income:		
Unrealized gain (loss) on short-term investments	<u>(788)</u>	<u>1,095</u>
Total comprehensive income	<u><u>\$ 3,341,296</u></u>	<u><u>\$ 2,602,170</u></u>

LIFE INSURANCE COMMUNITY INVESTMENT INITIATIVE, LLC

Statements of Changes in Members' Equity
For the Years Ended December 31, 2021 and 2020

	Members' Capital Contributions	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2019	\$ 99,815,512	\$ 2,914,518	\$ 2,561	\$ 102,732,591
Net income	-	2,601,075	-	2,601,075
Other comprehensive income	-	-	1,095	1,095
Distributions to members	<u>(184,488)</u>	<u>(2,914,518)</u>	<u>-</u>	<u>(3,099,006)</u>
Balance, December 31, 2020	99,631,024	2,601,075	3,656	102,235,755
Net income	-	3,342,084	-	3,342,084
Other comprehensive loss	-	-	(788)	(788)
Distributions to members	<u>(184,488)</u>	<u>(2,601,075)</u>	<u>-</u>	<u>(2,785,563)</u>
Balance, December 31, 2021	<u>\$ 99,446,536</u>	<u>\$ 3,342,084</u>	<u>\$ 2,868</u>	<u>\$ 102,791,488</u>

The accompanying notes are an integral part of these statements.

LIFE INSURANCE COMMUNITY INVESTMENT INITIATIVE, LLC

Statements of Cash Flows

For the Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Cash Flows from Operating Activities:		
Net income	\$ 3,342,084	\$ 2,601,075
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	-	600,000
Amortization, net	4,457	4,164
Interest and other amounts paid in-kind	(1,019,645)	(671,548)
Unrealized/realized gain in limited partnerships and other	(178,748)	(210,031)
Changes in operating assets and liabilities:		
Interest receivable on loans and other receivables	(22,015)	(368,707)
Accounts payable and accrued expenses	25,672	141,189
	<u>2,151,805</u>	<u>2,096,142</u>
Cash Flows from Investing Activities:		
Issuance of loans receivable	(36,440,945)	(21,938,503)
Principal payments on loans receivable	31,770,034	29,514,795
Return on investments in limited partnerships and other	213,699	269,768
	<u>(4,457,212)</u>	<u>7,846,060</u>
Cash Flows from Financing Activities:		
Distributions to members	(2,785,563)	(3,099,006)
Net Change in Cash and Cash Equivalents	(5,090,970)	6,843,196
Cash and Cash Equivalents:		
Beginning of year	<u>17,038,593</u>	<u>10,195,397</u>
End of year	<u><u>\$ 11,947,623</u></u>	<u><u>\$ 17,038,593</u></u>

LIFE INSURANCE COMMUNITY INVESTMENT INITIATIVE, LLC

Notes to Financial Statements
December 31, 2021 and 2020

1. OPERATIONS AND TAX STATUS

Operations

Life Insurance Community Investment Initiative, LLC (the Company) was organized on December 30, 1998, as authorized by the Act Insuring Community Investment and the Equitable Taxation of Insurance Companies in Massachusetts, 1998 Massachusetts Acts, Chapter 259 (Chapter 259), in accordance with the provisions of the Massachusetts Limited Liability Company Act. The Company is a privately owned limited liability company engaged in the business of making investments in qualified Massachusetts community enterprises to the extent permitted by Chapter 259. The original term of the Company was twenty-five years from the date of organization and was set to expire on December 30, 2023, subject to earlier termination or extensions. The term of the Company has been extended to December 30, 2033 (see Note 10). The Company received initial cumulative contributions of capital from its members of \$100,000,000, representing maximum contributions required under Chapter 259 from each of its participating members. During 2019, four of the Company's members elected to no longer receive what would otherwise be their share of the annual undistributed net earnings of the Company and to begin being paid out through distributions of their initial capital contributions to the Company. Therefore, the cumulative contributions of capital continue to decrease each year and were \$99,446,536 and \$99,631,024 as of December 31, 2021 and 2020, respectively (see Note 10).

Tax Status

The Company 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 the Company are reported by the members on their respective income tax returns as allocated in accordance with the Operating Agreement. Accordingly, the accompanying financial statements do not reflect any provisions or credits for income taxes.

2. SIGNIFICANT ACCOUNTING POLICIES

The Company prepares its 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).

Estimates

The preparation of 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 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 statements of cash flows, cash and cash equivalents consist of checking, money market and savings accounts.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Short-Term Investments

The Company's short-term investments are debt securities accounted for by the Company in accordance with the provisions of ASC 320, *Investments - Debt and Equity Securities* (ASC 320). ASC 320 requires that an enterprise classify these securities into one of three categories: held-to-maturity, available-for-sale, or trading. The Company's investments in these debt securities are classified as available-for-sale and valued at fair value. Short-term investments consist solely of collateralized mortgage obligations and U.S. Treasury securities with original maturities of more than three months, but less than one year.

The Company's methodology for assessing other-than-temporary impairments is based on security specific facts and circumstances as of the balance sheet date, as well as the Company's intent to sell or ability to hold debt securities to recovery of its cost basis or maturity.

Temporary gains (losses) on investment securities are recorded as unrealized gains (losses) as a component of other comprehensive income (loss).

Loans Receivable and Allowance for Loan Losses

Loans receivable are carried at unpaid principal, adjusted for the allowance for losses, where applicable (see Notes 4 and 5). The terms of the loans vary and include differing repayment schedules for principal and interest, and contingent interest. The Company provides capital to projects that benefit low- and moderate-income communities and households with more than half of the capital secured by first and second positions on certain assets of the borrower. Interest on loans is calculated by using the simple interest method on monthly balances of the principal amount outstanding.

The Company accounts for impairments of loans receivable in accordance with ASC 310, *Receivables* (ASC 310). ASC 310 requires that a loan be classified and accounted for as an impaired loan when it is probable that the Company will be unable to collect all amounts due, both interest and principal, according to the contractual terms of the loan agreement. Specifically, ASC 310 requires that impaired loans are valued based on the present value of expected cash flows discounted at the loan's effective interest rate or, as a practical expedient, the loan's observable market price or the fair value of the collateral if the loan is collateral dependent. Impairment exists when the recorded investment in the loan exceeds the value measured using the above described techniques. Such impairment is recognized as a valuation reserve which is included as part of the overall allowance for losses.

Investments in Limited Partnerships and Other

Investments in limited partnerships consist of the Company's non-marketable interests in local investment funds. Because the Company does not exercise significant influence over its investments in limited partnerships, the Company records such investments using the cost method of accounting (see Note 8). Under this method of accounting, the Company records its investments at initial cost and periodically assesses the possibility of the impairment of cost.

Dividends from these investments, which represent distributions of partnership 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.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments in Limited Partnerships and Other (Continued)

Investments in other include investments in marketable securities that are recorded in the financial statements at fair value. If an investment is directly held by the Company and an active market with quoted prices exists, the market price of the security is used to report fair value. Interest and dividends are recorded when earned. Gains and losses are recognized as incurred or based on fair value changes during the period (see Note 8).

Revenue Recognition

Revenues include interest on loans, cash and investments in debt securities, as well as loan fees and other. All revenues are recognized as earned on the accrual basis of accounting. Premium or discount on debt securities and loans receivable is amortized over the remaining term to maturity, using the straight-line method which approximates the effective yield method.

Advertising Costs

The Company expenses advertising costs as they are incurred. Advertising expense for 2021 and 2020 was \$4,011 and \$1,599, respectively, and is included in professional fees in the accompanying statements of operations and other comprehensive income.

Fair Value Measurements

The Company follows 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 the Company would receive upon selling an asset or pay to settle a liability in an orderly transaction between market participants.

The Company uses 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 the Company. 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.

LIFE INSURANCE COMMUNITY INVESTMENT INITIATIVE, LLC

Notes to Financial Statements
December 31, 2021 and 2020

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurements (Continued)

The only assets held by the Company that are carried at fair value are cash equivalents in the form of money market accounts, short-term investments (see Note 3), and marketable securities (see Note 8). Cash equivalents are considered Level 1 in the fair value hierarchy. The Company held \$1,012,513 and \$1,012,412 in money market accounts as of December 31, 2021 and 2020, respectively, which are included in cash and cash equivalents in the accompanying balance sheets.

Subsequent Events

Subsequent events have been evaluated through April 26, 2022, which is the date the financial statements were available to be issued. No events met the criteria for recognition or disclosure in the financial statements.

3. SHORT-TERM INVESTMENTS

Short-term investments consist of debt securities and are carried at fair value on a recurring basis based on quoted market prices which are considered Level 1 inputs in the fair value hierarchy (see Note 2).

The amortized cost of short-term investments and their approximate fair values are as follows as of December 31:

	2021		2020	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Collateralized Mortgage Obligations	<u>\$ 52,390</u>	<u>\$ 55,258</u>	<u>\$ 56,847</u>	<u>\$ 60,503</u>

Unrealized gains and losses are recorded within accumulated other comprehensive income, a component of members' equity. There was an unrealized loss of \$788 for the year ended December 31, 2021, and an unrealized gain of \$1,095 for the year ended December 31, 2020.

During 2021 and 2020, the Company recognized no other-than-temporary impairment on short-term investments.

4. LOANS RECEIVABLE

The Company offers the following loan products:

Affordable Housing - Made to organizations that increase the availability of affordable housing to low and moderate-income households. These loans are generally used to acquire or develop residential real properties. Affordable housing loans receivable bear interest at rates ranging from 3.25% to 7.5% and mature at various dates through 2037. Principal balances range from \$13,358 to \$6,508,532. More than half of these loans are secured by mortgages on the properties and borrowers are required to adhere to certain affordability restrictions. The Company's five largest outstanding affordable housing loans receivable were approximately 29% and 24% of the affordable housing portfolio as of December 31, 2021 and 2020, respectively.

LIFE INSURANCE COMMUNITY INVESTMENT INITIATIVE, LLC

Notes to Financial Statements
December 31, 2021 and 2020

4. 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. The Company 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 4% to 7% and mature at various dates through 2036. Principal balances range from \$30,528 to \$4,244,099. These loans are generally secured by the borrowers' business assets. The Company's five largest outstanding commercial and economic development loans receivable were approximately 55% and 68% of the commercial and economic development portfolio as of December 31, 2021 and 2020, respectively.

Loans receivable consist of the following at December 31:

	2021		2020	
	Number of Loans	Outstanding Principal	Number of Loans	Outstanding Principal
Affordable housing	56	\$ 68,019,797	59	\$ 70,002,890
Commercial and economic development	<u>22</u>	<u>29,237,656</u>	<u>18</u>	<u>21,564,007</u>
Total loans receivable	<u>78</u>	97,257,453	<u>77</u>	91,566,897
Less - allowance for loan losses (see Note 5)		(8,504,952)		(8,504,952)
Less - current portion		<u>(30,431,685)</u>		<u>(17,721,013)</u>
Loans receivable, net		<u>\$ 58,320,816</u>		<u>\$ 65,340,932</u>

As of December 31, 2021 and 2020, total participation loans outstanding were \$15,147,810 and \$11,038,290, respectively. Given the lack of repurchase rights reserved by the Company with respect to the third-party's interest in the underlying loans receivable, the participations meet the requirements for treatment as a loan sale 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 balance sheets.

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

2022	\$ 33,347,885
2023	\$ 20,519,096
2024	\$ 12,529,482
2025	\$ 8,256,356
2026	\$ 9,699,593

At December 31, 2021 and 2020, the Company was committed to fund loans receivable of approximately \$31,511,000 and \$41,668,000, respectively. All commitments contain pullback provisions which are at the sole option of the Company. Among the tools available to manage liquidity are participation loans and the line of credit (see Note 6).

LIFE INSURANCE COMMUNITY INVESTMENT INITIATIVE, LLC

Notes to Financial Statements
December 31, 2021 and 2020

5. ALLOWANCE FOR LOSSES ON LOANS RECEIVABLE

The Company provides an allowance for expected loan losses (see Note 4). The allowance is based on the Company's loan rating policy, which is updated periodically for changes related to individual loans receivable. Loans are rated on a scale of A to E. Loans rated A are considered exceptional and no loan loss is assigned to them. Loans rated B to C are considered performing loans and an initial loan loss allowance is assigned to them. This allowance is adjusted each year, as necessary, based on analysis of each borrower's operating performance.

Loans rated D and E have a specific reserve percentage. These loans have a higher probability of loss of interest income and principal and are considered substandard. 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; and
- Guarantor has minimal and illiquid net worth.

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

<u>Category</u>	<u>Risk Rating</u>	<u>2021</u>		<u>2020</u>	
		<u>Loan Balance</u>	<u>Loan Loss Allowance</u>	<u>Loan Balance</u>	<u>Loan Loss Allowance</u>
Exceptional	A	\$ 2,377,494	\$ -	\$ 2,471,773	\$ -
Performing	B - C	89,586,203	7,021,766	83,165,136	7,022,454
Substandard	D - E	5,293,756	1,483,186	5,929,988	1,482,498
		<u>\$ 97,257,453</u>	<u>\$ 8,504,952</u>	<u>\$ 91,566,897</u>	<u>\$ 8,504,952</u>

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

	<u>Commercial and Economic Development</u>	<u>Affordable Housing</u>	<u>Total</u>
Balance, December 31, 2019	\$ 2,244,783	\$ 5,660,169	\$ 7,904,952
Provision (recovery) for loan losses	<u>694,140</u>	<u>(94,140)</u>	<u>600,000</u>
Balance, December 31, 2020	2,938,923	5,566,029	8,504,952
Reclassification of allowance between loan product categories	<u>19,858</u>	<u>(19,858)</u>	<u>-</u>
Balance, December 31, 2021	<u>\$ 2,958,781</u>	<u>\$ 5,546,171</u>	<u>\$ 8,504,952</u>

The Company reports recoveries of loans previously written-off in prior years as income when the amount is collected, or collection is assured.

5. ALLOWANCE FOR LOSSES ON LOANS RECEIVABLE (Continued)

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, the Company 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 the Company 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, 2021 and 2020, there were no loans that met the criteria as being a TDR.

At the time a loan is modified in a TDR, the Company 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 the Company expects the borrower to perform under the revised terms of the restructuring.

During 2020, modifications were made to certain borrowers' loan agreements in response to COVID-19 (see Note 11). These modifications made to certain loans as short-term relief were not considered impaired or troubled debt restructurings. This included short-term modifications, such as payment deferrals, extensions of repayment terms, changes in interest rates or other delays in payment terms that are insignificant. There were no additional modifications made to existing loans during 2021 due to COVID-19.

6. LINE OF CREDIT

The Company maintains a \$15,000,000 revolving line of credit agreement with a bank, renewable annually in June. The interest rate is based on the bank's floating base rate (0.10% and 0.15% at December 31, 2021 and 2020, respectively), plus 1.75%. There was no outstanding balance under this line of credit at December 31, 2021 and 2020. The line of credit is secured by substantially all assets of the Company and has certain covenants with which the Company must comply. The Company was in compliance with these covenants as of December 31, 2021 and 2020.

7. MANAGEMENT AGREEMENT

Massachusetts Capital Resource Company (MCRC) provides management and administrative services to the Company, the cost of which is charged to the Company. Salaries and other benefits, including both a defined benefit and defined contribution pension plan for employees of MCRC who work solely on the Company's activities, are charged directly to the Company. Other expenses, such as rent and overhead costs, are allocated between MCRC and the Company based on relative levels of capital. This expense allocation method, which is in accordance with the Operating Agreement, has been approved by the Audit Committees of both the Company and MCRC.

The amount of expense recognized by the Company related to these management and administrative services provided by MCRC during 2021 and 2020 was \$2,295,734 and \$2,214,267, respectively. The amount payable to MCRC for management fees and other reimbursable expenses at December 31, 2021 and 2020, was \$140,420 and \$149,720, respectively, and is included in accounts payable and accrued expenses in the accompanying balance sheets.

LIFE INSURANCE COMMUNITY INVESTMENT INITIATIVE, LLC

Notes to Financial Statements
December 31, 2021 and 2020

8. INVESTMENTS IN LIMITED PARTNERSHIPS AND OTHER

Investments in limited partnerships (see Note 2) include non-controlling interests in two limited partnerships and one limited liability company, which meet the requirements of qualified investments in accordance with Chapter 259 of the Massachusetts Acts of 1988. All partnership investments represent less than 20% limited partner interests, and the Company does not exercise control or significant influence over these partnerships. Investments in other include shares of common stock (see page 14).

The balance of investments in limited partnerships and other was as follows:

	<u>2021</u>	<u>2020</u>
Carried cost , beginning of year	\$ 1,971,446	\$ 2,054,667
Capital distributions	<u>(49,715)</u>	<u>(83,221)</u>
Carried cost , end of year	1,921,731	1,971,446
Less - allowance for impairment	<u>(400,000)</u>	<u>(400,000)</u>
Net investments in limited partnerships	1,521,731	1,571,446
Investments in other	<u>79,778</u>	<u>65,014</u>
Net investments in limited partnerships and other	<u>\$ 1,601,509</u>	<u>\$ 1,636,460</u>

As of December 31, 2021 and 2020, management has recorded estimated allowances for impairment totaling \$400,000 for one of these investments in limited partnerships. The Company's management determined these impairment estimates 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. There were no write-offs of investments in limited partnerships or provisions for impairment recorded during 2021 and 2020.

The Company received distributions of \$49,715 and \$83,221 for 2021 and 2020, respectively. The Company also incurred a realized gain of \$163,984 and \$186,547 for 2021 and 2020, respectively, which was distributed to the Company and is included in investment income in the accompanying statements of operations and other comprehensive income for the years ended December 31, 2021 and 2020.

The Company also holds shares of common stock in one organization. The fair value of the common stock at December 31, 2021 and 2020, was \$79,778 and \$65,014, respectively, which is included in investments in limited partnerships and other in the accompanying balance sheets. These shares of common stock are valued using Level 1 inputs.

9. CONCENTRATION OF CREDIT RISK

The Company maintains its cash balances in three 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. The Company has not experienced any losses in such accounts and management believes the credit risk related to the Company's cash and cash equivalents is not significant. As of December 31, 2021 and 2020, the Company's exposure for uninsured cash and cash equivalents was \$1,012,513 and \$1,012,412, respectively. In order to minimize the credit risk for cash equivalents, management has invested the cash equivalents in highly-liquid money market accounts designed to maximize FDIC coverage.

10. DISTRIBUTIONS TO MEMBERS

The Company makes annual distributions equal to the cumulative retained earnings of the Company, less the net change in value of derivatives, pursuant to the Articles of the First Amended and Restated Operating Agreement dated September 15, 1999 (the Operating Agreement). Distributable income for the years ended December 31, 2021 and 2020, was \$3,341,296 and \$2,601,075, respectively. The 2020 and 2019 distributable income of \$2,601,075 and \$2,914,518 was declared and paid as a distribution to members during 2021 and 2020, respectively.

In November 2016, the Company's members approved a Fourth Amendment to the First Amended and Restated Operating Agreement extending the term of the Company to 2033, with a possibility of an extension to 2043. Four of the members (exiting members) representing approximately 4% of members' equity elected to be liquidated on the following schedule effective January 1, 2019: 5% of the exiting member's capital account balance which has been determined and fixed as of December 31, 2018, commencing in the fiscal year 2019 continuing through the year 2023, with a final distribution of 80% on December 30, 2023. These exiting members will not continue to receive distributions of earnings, but will only receive distributions of their capital contribution amounts. The remainder of the exiting members' capital will remain in the Company until fully distributed.

During 2021 and 2020, the Company returned \$184,488 of the exiting members' capital contributions, which is included in distributions to members in the accompanying statements of changes in members' equity for the years ended December 31, 2021 and 2020.

11. CONTINGENCY

Beginning in March 2020 and continuing into 2022, 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 the Company's borrowers and their ability to repay the loans receivable of the Company. Though the potential financial effects cannot be reasonably estimated at this time, these circumstances may have adverse effects on the Company, its operations, pipeline of loan closings and financing commitments for projects currently in development, and future financial statements. The accompanying financial statements, including loan loss allowances (see Note 5), have not been adjusted for any potential financial effects that may occur in the future related to the current uncertainty.

Management of the Company is continually 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, the Company 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.