ANNUAL REPORT 2021

The Property and Casualty Initiative
176 Federal Street, Suite 402
Boston, MA 02110
617.723.7878 – Phone
617.723.4411 – Fax

TABLE OF CONTENTS

THE YEAR IN REVIEW

2021 was a significant year for The Property and Casualty Initiative (PCI). President and CEO Stacey Parks Townsend retired after a remarkable 23-year career at the helm of the organization. Under her leadership, PCI is firmly established as a critical financial resource for community and economic development initiatives across the Commonwealth. PCI has leveraged invested capital of $85 million from 26 property and casualty insurance companies based in Massachusetts to make $463 million impact investments. These investments support minority and women owned business generating wealth and creating jobs, affordable housing projects creating or preserving 5,798 units, community health centers providing access to high quality care regardless of ability to pay, schools offering parents educational choices, social service agencies providing vital programs and other investments in low-and moderate-income communities across the state.

PCI closed 5 loans in 2021, totaling $12.4 million in new lending. These investments were equally distributed between construction loans ($5.8 million or 47% of 2021 lending) and acquisition loans ($6.7 million or 51% of 2021 lending), and also included one predevelopment loan ($250k or 2% of 2021 lending). The bulk of 2021 lending supported affordable housing creation (67%) and economic development (31%), with the balance (2%) supporting community facilities. Our economic development lending this year facilitated the creation of housing for moderate income individuals and families, supporting an important priority of the Baker Administration. 2021 lending was concentrated in the Southeast Region of Massachusetts and Metro Boston.

In 2021, PCI committed 9 loans totaling $31.4 million. Our lending commitments were distributed geographically across four regions (Boston – 17%, Central – 2%, Southeast – 35%, West - 46%). 86% of committed loan dollars supported affordable housing projects and 14% advanced economic development initiatives. 69% of committed dollars were for construction loans and the remaining 31% of commitment loan dollars financed property acquisition. Seven out of nine committed loans were either closed in 2021 or are moving toward closing in 2022. Two committed loans totaling $3.124 million not expected to close, as the projects are no longer moving forward.

At December 31, 2021 PCI’s loan portfolio consisted of 38 loans with $58,479,053 in outstanding loan balances. The PCI team collaborated closely with our customers to successfully manage through the continuing public health and economic challenges in 2021. The portfolio is healthy, with no charge-offs in the year and no negative risk rating changes. Only one loan ($896,257 outstanding) is considered “Impaired” with a risk rating of 5, representing 1.5% of the total portfolio. We expect repayment in full on this investment.

OUR 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 2021

WOODLAND COVE I

WAREHAM

Commitment: $5,774,756

Affordable Units: 63

Total Units: 63

CENTRAL STREET

WALTHAM

Commitment: $2,565,000

Affordable Units: 10

Total Units: 40

Total Commitments: $8,339,756

Total Units: 103

Total Affordable Units: 73

WOODLAND COVE I

$5,774,756

WAREHAM, MA

Dakota Partners is an experienced real estate developer of primarily affordable multi-family rental communities in southern New England. Dakota has substantial experience with Low Income Housing Tax Credits, historic tax credits, and other public and private resources available to develop affordable housing.

Dakota's next project is Woodland Cove, which will be built to Passive House energy efficiency standards. The development will be constructed in three phases on 8.63-acres located at 3102 Cranberry Highway in Wareham, providing brand new, quality affordable rental housing options for individuals living and working on the South Coast. When fully built, there will be 150 mixed-income rental homes in 5 three-to-four-story elevator buildings.

Phase I is a 63-unit income-restricted rental development to be constructed on approximately on 2 acres, located on the eastern portion of the Woodland Cove site.

The units will be constructed in 1 three-story building and 1 four-story building. There will be a mix of 11 one-bedroom/one-bath units, 45 two-bedroom/one-bath units, and 7 three-bedroom/two-bath units. The project will be 100% affordable at 30%, 60% and 100% of AMI.

A PCI LOAN of $5,774,756 is a participation in a bank $17,326,000 construction loan.

Future Site

PROJECT: Woodland Cove I
BORROWER: WC Owner LLC
SPONSOR: Dakota Partners, Inc.
TYPE OF INVESTMENT: Construction Loan
REGION: Southeast
QUALIFICATION: Affordable Housing
OUTSTANDING BALANCE @ 12.31.21: $1,912,248

CENTRAL STREET

$2,565,000

WALTHAM, MA

ARX Urban is a real estate development firm founded in 2013 by Benjie Moll and Danny Moll to focus on mixed-income multi-family and mixed-use investment opportunities. Since its founding, ARX Urban has completed 19 acquisitions and development transactions throughout Greater Boston. This is PCI's second loan to ARX Urban; our $9.6 million construction loan for 233 Hancock Street, Boston was successfully repaid in 2021. ARX is innovative, socially minded, technology oriented and focused on the long-term community benefits of its building projects.

ARX Urban acquired 85-89 & 93 Central Street in Waltham, MA, a five-parcel lot of 35,118 square feet (SF) which is improved by a 12,376 SF commercial property and 35 parking spaces. The property is surrounded by multi-family properties to the east, west and south and commercial uses to the north. ARX plans to redevelop the property into a mixed-income residential rental project to create 40 units of rental housing where 25% of the units will be affordable at 80% of area median income. The property is located in the heart of Waltham's "Moody & Main" district, with excellent access to public transportation, a walking and bike trail along the Charles River, retail, restaurants and entertainment venues.

A PCI LOAN of $2,565,000 was used to acquire this property that will eventually be renovated into mixed-income housing in Waltham, MA.

Under development

PROJECT: Central Street Waltham
BORROWER: AU Waltham LLC
SPONSOR: ARX Urban
TYPE OF INVESTMENT: Acquisition Loan
REGION: Boston
QUALIFICATION: Affordable Housing
OUTSTANDING BALANCE @ 12.31.21: $2,456,738

COMMUNITY
FACILITIES
LENDING
2021

Father Bill's & MainSpring (HRC)	$250,000
Total	**$250,000**

FATHER BILL'S & MAINSPRING

HOUSING RESOURCE CENTER

$250,000

BROCKTON, MA

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 work with people who are struggling with homelessness, or are at risk of homelessness, to 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.

Father Bill's & MainSpring owns and operates 500+ units of supportive housing, owns the only emergency shelter for teens in Southeastern Massachusetts, and provides housing for victims of domestic violence. Available services for the organization's clients include advocacy, homelessness prevention, adult education, employment training, and health care. Father Bill's serves approximately 6,000 people each year in cities and town across Southern MA. Since 2003, PCI has provided many loans to support the work of FBMS.

In 2021, PCI provided predevelopment financing to facilitate the development of a new model of emergency shelter, permanent supportive housing, and services for unhoused individuals in Quincy, MA. The model will require the development of a new multi-use facility – the Housing Resource Center (HRC) – that has three major components: a new day center facility that offers a wide array of resident resources including a health clinic, a new emergency shelter facility, and efficiency apartments. The focus of the HRC will be to prevent individuals from becoming homeless, divert individuals to housing or treatment, and to rehouse individuals rapidly.

A PCI LOAN of $250,000 will be used for pre-development expenses leading to the construction of a building at 30 Broad Street/40 Field Street, Quincy, to house FBMS's program spaces, shelter beds and services for the homeless, administrative offices, and a clinic. A later phase will construct 30 units of permanent housing and common areas.

Site Plan

PROJECT: Housing Resource Center
BORROWER: Father Bill's MainSpring
TYPE OF INVESTMENT: Pre-development Loan
REGION: Southeast
QUALIFICATION: Community Facility
OUTSTANDING BALANCE @ 12.31.21: $250,000

ECONOMIC DEVELOPMENT 2021

1. 142 Main Street		$1,554,000
2. Bryant Hotel		$2,250,000
	Total	**$3,804,000**

142 MAIN STREET

$1,554,000

BROCKTON, MA

Founded in 2012, Traggorth Companies LLC is a real estate development and consulting firm and the project's sponsor. Traggorth Companies specializes in developing high quality mixed-income and mixed-use properties in urban environments. The 142 Main Street project loan is PCI's fourth predevelopment loan with Traggorth Companies.

<u>A PCI Loan of $1,554,000</u> supports the purchase of a largely vacant, historic building on Main Street in Downtown Brockton that will be rehabilitated into 35 residential units and 8,000 square feet of commercial space, with parking in a rear parcel. This project is closely aligned with the City of Brockton's vision for this building -- mixed-income housing on the upper floors and retail on the ground floor to contribute to the vitality of the downtown district. Seven units will be restricted to households earning up to 80% of AMI and the remaining 28 units will be unrestricted and rented at market rates.


Under development

PROJECT: 142 Main Street
BORROWER: 142 Main Historic LLC
SPONSOR: Traggorth Companies LLC
TYPE OF INVESTMENT: Acquisition Loan & Predevelopment Loan
REGION: Southeast
QUALIFICATION: Economic Development
OUTSTANDING BALANCE @ 12.31.21: $956,380

BRYANT HOTEL

$2,250,000

BROCKTON, MA

Steven Young is a MA licensed architect and MA licensed construction supervisor active in real estate for 20+ years. He is a member of the American Institute of Architects, the Boston Society of Architects, and the National Trust for Historic Preservation.

With PCI financing, Young acquired the Elmcourt Hotel, a historic property located in the heart of downtown Brockton just off Main Street, near the newly built Federal Court House, and a 6-minute walk to the commuter rail. The lot comprises just under a half-acre and the building extends to 43,422 SF over four stories, with parking for 22 vehicles.

This project supports the City of Brockton's investment strategy for the downtown district of expanding the supply of market rate housing options together with the expansion of commercial space, retail, parking, and restaurant offerings.

Young continues to operate the property as a hotel while he advances planning for the redevelopment of the subject property as a 40-unit market rate multifamily rental property. The project is eligible for federal and state historic tax credits.

A PCI LOAN of $2,250,000 supported the acquisition of The Elmcourt Hotel operating business, and real estate located 31-33 West Elm Street, Brockton, MA, for redevelopment into 40 market-rate rental apartments.

PROJECT: Bryant Hotel (formerly Elmcourt Hotel)
BORROWER: Steven Young & Bryant Hotel, LLC
TYPE OF INVESTMENT: Acquisition Loan
REGION: Southeast
QUALIFICATION: Economic Development
OUTSTANDING BALANCE @ 12.31.21: $2,250,000

REGIONAL DISTRIBUTIONS 2021

REGION	AMOUNT OF INVESTMENT	NUMBER OF INVESTMENTS
BOSTON	$227,840,698	72
CENTRAL	$41,310,167	18
NORTHEAST	$54,238,874	30
SOUTHEAST	$61,452,656	44
WEST	$69,057,500	23
STATEWIDE	$9,000,000	6
TOTAL	**$462,899,895**	**193**

QUALIFIED INTERIM INVESTMENTS

2021

At December 31, 2021, the total interim investments of The Property and Casualty Initiative, LLC were as follows:

BANK DEPOSITS	$27,720,706
TOTAL INTERIM INVESTMENTS	**$27,720,706**

At December 31, 2021, PCI had commitments to lend of approximately $23,996,000 to projects that had not yet fully funded.

PUBLIC MEETINGS

2021

DUE TO THE ONGOING COVID-19 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 *(formerly Holyoke Mutual)*

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

2021 CAPITAL CONTRIBUTIONS

	Cumulative Contributed Capital	Cumulative Proportionate Share %*	Actual Proportionate Share %
Arbella Indemnity Insurance Company	$92,100.00	0.092%	0.111%
Arbella Mutual Insurance Company	$1,959,900.00	1.960%	2.364%
Arbella Protection Insurance	$564,700.00	0.565%	0.681%
Arrow Mutual Liability Insurance Company	$157,700.00	0.158%	0.190%
Associated Industries of MA Mutual Ins. Co.	$500,200.00	0.500%	0.603%
Atlantic Specialty Insurance Company	$11,981,430.00	11.981%	14.451%
Barnstable County Insurance Company	$28,200.00	0.028%	0.034%
Barnstable County Mutual Insurance Company	$81,100.00	0.081%	0.098%
Berkshire Mutual Insurance Company	$74,120.00	0.074%	0.089%
Country Mutual Insurance Company	$357,000.00	0.357%	0.431%
Dorchester Mutual Insurance Company	$102,500.00	0.103%	0.124%
Electric Insurance Company	$2,946,000.00	2.946%	3.553%
Fitchburg Mutual Insurance Company	$151,100.00	0.151%	0.182%
Harleysville Worcester Insurance Company	$941,200.00	0.941%	1.135%
Liberty Mutual Fire Company	$6,475,600.00	6.476%	7.810%
Liberty Mutual Insurance Company	$49,021,000.00	49.021%	59.124%
MA Homeland Insurance Co	$27,500.00	0.028%	0.033%
Medical Professional Mutual Insurance Co	$4,041,100.00	4.041%	4.874%
Norfolk & Dedham Mutual Fire Insurance Co	$483,400.00	0.483%	0.583%
Pilgrim Insurance Company	$19,000.00	0.091%	0.023%
Plymouth Rock Assurance Corp	$496,700.00	0.497%	0.599%
Plymouth Rock Home Assurance Corporation	$54,500.00	0.055%	0.066%
ProSelect Insurance Company	$91,400.00	0.091%	0.110%
Quincy Mutual Fire Insurance Company	$1,092,500.00	1.093%	1.318%
The Premier Insurance Company of MA	$1,171,700.00	1.172%	1.413%
TOTAL	$82,911,650.00	82.912%	100.00%

*Based on $100,000,000

2021

Audited Financial Statements

THE PROPERTY AND CASUALTY INITIATIVE, LLC AND AFFILIATE

PCI

AND AFFILIATE

CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

THE PROPERTY AND CASUALTY INITIATIVE, LLC AND AFFILIATE

Contents
December 31, 2021 and 2020

AAFCPAs
great minds | great hearts

50 Washington Street
Westborough, MA 01581
508.366.9100
aafcpa.com

Independent Auditor's Report

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

Opinion

We have audited the consolidated financial statements of The Property and Casualty Initiative, LLC and Affiliate (Massachusetts limited liability companies) (collectively, PCI and the Affiliate) which comprise the consolidated balance sheets as of December 31, 2021 and 2020, 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.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of The Property and Casualty Initiative, LLC and Affiliate as of December 31, 2021 and 2020, 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.

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 Consolidated Financial Statements section of our report. We are required to be independent of PCI and the Affiliate 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 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 the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated financial statements.

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 consolidated 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 consolidated 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 PCI and the Affiliate'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 consolidated financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, which raise substantial doubt about the PCI and the Affiliate'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.

AAFCPAs, Inc.

Westborough, Massachusetts
May 3, 2022

THE PROPERTY AND CASUALTY INITIATIVE, LLC AND AFFILIATE

Consolidated Balance Sheets
December 31, 2021 and 2020

Assets	**2021**	**2020**
Current Assets:		
Cash and cash equivalents	$ 27,720,706	$ 16,967,600
Current portion of loans receivable, net of allowance for loan losses of $219,710 and $623,195 as of December 31, 2021 and 2020, respectively	33,218,290	41,828,078
Accrued interest receivable on loans	249,125	266,153
Receivable from members	339,719	-
Prepaid expenses and other	41,417	47,445
Total current assets	61,569,257	59,109,276
Loans Receivable, net of current portion and allowance for loan losses of $159,469 and $406,274 as of December 31, 2021 and 2020, respectively	23,969,520	27,057,524
Investments in Venture Funds, net of allowance for impairment	260,999	263,596
Property and Equipment, net	8,623	9,292
Total assets	$ 85,808,399	$ 86,439,688
Liabilities and Members' Equity		
Current Liabilities:		
Accounts payable and accrued expenses	$ 16,690	$ 14,241
Deposits and Escrows	265,135	1,209,149
Total liabilities	281,825	1,223,390
Members' Equity:		
Members' capital contributions	82,911,650	83,616,440
Retained earnings	2,614,924	1,599,858
Total members' equity	85,526,574	85,216,298
Total liabilities and members' equity	$ 85,808,399	$ 86,439,688

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, 2021 and 2020

	2021	2020
Operating Revenues:		
Interest on loans	$ 3,027,683	$ 2,999,932
Loan origination fees and other	144,567	174,336
Net investment income	132,273	135,294
Total operating revenues	3,304,523	3,309,562
Net recovery of (provision for) loan losses	650,290	(327,717)
Net operating revenues	3,954,813	2,981,845
Operating Expenses:		
Salaries, payroll taxes and fringe benefits	998,334	1,086,149
Occupancy costs	175,552	180,166
Professional fees and contract services	103,198	56,274
Insurance	29,487	22,302
Supplies and other	13,178	14,861
Travel	10,401	10,685
Telephone and utilities	8,614	9,680
Depreciation	669	1,337
Printing and postage	456	533
Total operating expenses	1,339,889	1,381,987
Net income	$ 2,614,924	$ 1,599,858

THE PROPERTY AND CASUALTY INITIATIVE, LLC AND AFFILIATE

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

	Members' Capital Contributions	Retained Earnings	Total
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
Net income	-	2,614,924	2,614,924
Distributions of earnings to members	-	(1,599,858)	(1,599,858)
Return of capital distributions	(704,790)	-	(704,790)
Balance, December 31, 2021	$ 82,911,650	$ 2,614,924	$ 85,526,574

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

Consolidated Statements of Cash Flows
For the Years Ended December 31, 2021 and 2020

	2021	2020
Cash Flows from Operating Activities:		
Net income	$ 2,614,924	$ 1,599,858
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	669	1,337
Net recovery of venture funds	(104,252)	-
Net (recovery of) provision for loan losses	(650,290)	327,717
Amortization of loan origination fees	(122,016)	(159,336)
Capitalized interest	(34,500)	(126,716)
Loan origination fees collected	51,738	133,594
Changes in operating assets and liabilities:		
Accrued interest receivable on loans	17,028	(22,383)
Prepaid expenses and other	6,028	11,201
Accounts payable and accrued expenses	2,449	7,304
Deposits and escrows	13,698	(13,262)
Net cash provided by operating activities	1,795,476	1,759,314
Cash Flows from Investing Activities:		
Issuance of loans receivable	(31,272,150)	(25,409,417)
Principal payments on loans receivable	43,725,010	19,094,234
Return of capital distributions from venture funds	106,849	-
Net cash provided by (used in) investing activities	12,559,709	(6,315,183)
Cash Flows from Financing Activities:		
Escrow deposits, net	114	2,139
Return of escrows	(957,826)	-
Receivable from members	(339,719)	-
Return of capital distributions	(704,790)	(704,790)
Distributions of earnings to members	(1,599,858)	(2,000,602)
Net cash used in financing activities	(3,602,079)	(2,703,253)
Net Change in Cash and Cash Equivalents	10,753,106	(7,259,122)
Cash and Cash Equivalents:		
Beginning of year	16,967,600	24,226,722
End of year	$ 27,720,706	$ 16,967,600

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, as well 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	2021	2020
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		65,696	65,027
Net property and equipment		$ 8,623	$ 9,292

Depreciation expense for the years ended December 31, 2021 and 2020, was $669 and $1,337, respectively.

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 $6,684,745 and $12,616,032 in money market accounts as of December 31, 2021 and 2020, respectively. Management also assesses the possible impairment of investments in venture funds 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 2021 and 2020, 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, 2021 and 2020. 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 May 3, 2022, 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 7.5% and mature at various dates through 2029. Principal balances range from $56,968 to $14,070,414. 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 65% and 67% of the affordable housing portfolio as of December 31, 2021 and 2020, 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 4.0% to 6.5% and mature at various dates through 2031. Principal balances range from $314,675 to $3,150,000. 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 81% and 67% of the commercial and economic development portfolio as of December 31, 2021 and 2020, respectively.

3. LOANS RECEIVABLE (Continued)

Loans receivable consist of the following at December 31:

	2021		2020	
	Number of loans		Number of loans	
Affordable housing	28	$ 43,101,368	30	$ 42,626,311
Commercial and economic development	9	14,606,457	16	27,499,874
	37	57,707,825	46	70,126,185
Less - net unamortized loan origination fees		(140,836)		(211,114)
Total loans receivable		57,566,989		69,915,071
Less - allowance for loan losses (see Note 4)		(379,179)		(1,029,469)
Loans receivable, net		57,187,810		68,885,602
Less - current portion		(33,218,290)		(41,828,078)
Loans receivable, less current portion		$ 23,969,520		$ 27,057,524

As of December 31, 2021 and 2020, total participations outstanding were $10,181,090 and $3,669,624, 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, 2021 and 2020.

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

2022	$ 33,438,000
2023	$ 8,256,853
2024	$ 10,998,496
2025	$ 366,301
2026	$ 570,591
Thereafter	$ 4,077,584

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:

		2021		2020	
Category	**Risk Rating**	**Loan Balance**	**Loan Loss Allowance**	**Loan Balance**	**Loan Loss Allowance**
Exceptional	1 - 2	$ -	$ -	$ -	$ -
Performing	3 - 4	56,811,568	-	62,989,417	-
Substandard	5 - 6	896,257	89,626	7,136,768	713,677
General Reserve		-	289,553	-	315,792
		$ 57,707,825	$ 379,179	$ 70,126,185	$ 1,029,469

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, 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
Recovery of loan losses	(353,791)	(270,260)	(26,239)	(650,290)
Balance, December 31, 2021	$ -	$ 89,626	$ 289,553	$ 379,179

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 2021 or 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, 2021 and 2020, are set forth in the tables below.

	2021		
Loan Category	Number of Impaired Loans	Amount of Impaired Loans	Allowance for Loan Losses
Affordable Housing	1	$ 896,257	$ 89,626

	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

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, 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, 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 venture funds (see Note 2) include non-controlling interests in two venture fund limited partnerships as of December 31, 2021 and 2020, which meet the requirements of qualified investments in accordance with Chapter 259 of the Massachusetts Acts of 1988 (see Note 1). Each venture fund investment represents less than 20% ownership interest and PCI does not exercise control or significant influence over these venture funds.

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

	2021	2020
Carried cost	$ 1,467,079	$ 1,576,452
Less - allowance for impairment	(1,206,080)	(1,312,856)
Net	$ 260,999	$ 263,596

As of December 31, 2021 and 2020, management has recorded an allowance for impairment totaling $1,206,080 and $1,312,856, respectively, 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 received approximately $107,000 of distributions during 2021. PCI did not receive any distributions during 2020.

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 $73,290 and $87,944 for 2021 and 2020, 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 $14,300 and escalate annually based on the terms of the lease agreement.

Rent under this lease was $172,464 and $170,774 for 2021 and 2020, 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 $1,872 and $2,093 in 2021 and 2020, 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
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 insurance 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 $1,599,858 and $2,000,602 to members during 2021 and 2020, respectively. Members are prohibited from receiving distributions that would constitute return of capital for the first twenty years of PCI's existence. During 2021, PCI distributed funds totaling $339,719 to members in excess of the required amount due to errors in the original determination of distributions of earnings. PCI intends to recapture the excess distributions as a reduction of the 2022 cash distribution. This amount is reported as receivable from members in the accompanying consolidated balance sheet at December 31, 2021.

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 is making 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, 2021 and 2020, total return of capital was $2,114,370 and $1,409,580, respectively. Return of capital distributions to the two members are expected to be made as follows:

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.

9. COMMITMENTS AND OFF-BALANCE SHEET RISK (Continued)

At December 31, 2021 and 2020, PCI had commitments to lend of approximately $23,996,000 and $24,991,000, respectively (see Note 3). Among the tools available to manage liquidity are anticipated loan payoffs, 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 three 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, 2021 and 2020, PCI's exposure for uninsured cash was $20,785,961 and $4,101,568, respectively. 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 $15,000,000 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 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 had a two-year term through August 2021, with the option for annual one-year extension terms. The agreement term has been extended through August 2022. PCI did not borrow on the facility during 2021 or 2020 and there are no amounts outstanding as of December 31, 2021 and 2020. As specified in the agreement, PCI must meet certain covenants. PCI was in compliance with these covenants at December 31, 2021 and 2020.

12. CONTINGENCY

In 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 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.

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 COVID-19 will affect the results of its operations because the disease's severity and the duration of the outbreak are uncertain. 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.