Capital Impact Partners and Subsidiaries

Consolidated Financial Report
December 31, 2017

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Independent Auditor's Report

To the Board of Directors
Capital Impact Partners and Subsidiaries

Report on the Financial Statements
We have audited the accompanying consolidated financial statements of Capital Impact Partners and Subsidiaries, which comprise the consolidated statements of financial position as of December 31, 2017 and 2016, the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the financial statements).

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these 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 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 financial statements based on our audits. We did not audit the 2017 and 2016 financial statements of Impact V CDE 7, LLC, a consolidated affiliate, which statements reflect total assets and revenue constituting 4.7 percent and 4.4 percent, respectively in 2017, and 9.7 percent and 4.7 percent, respectively in 2016, of the related consolidated totals. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for Impact V CDE 7, LLC, is based solely on the reports of the other auditors. 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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, based on our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Capital Impact Partners and Subsidiaries as of December 31, 2017 and 2016, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

RSM US LLP

Blue Bell, Pennsylvania
March 26, 2018

Capital Impact Partners and Subsidiaries

Consolidated Statements of Financial Position
December 31, 2017 and 2016

	2017	2016
Assets		
Cash and cash equivalents - unrestricted	**$ 28,596,868**	$ 20,158,754
Cash and cash equivalents - restricted	**29,408,229**	27,094,685
Accounts and interest receivable	**2,832,906**	1,926,900
Contributions receivable	**525,000**	6,030,676
Investments	**5,802,541**	5,602,342
Mortgage Backed and U.S. Treasury Securities	**48,249,579**	14,185,960
Loans receivable	**311,259,856**	206,808,453
Less: allowance for loan losses	**(11,001,026)**	(8,679,760)
Loans receivable, net	**300,258,830**	198,128,693
Loans receivable - subsidiaries	**60,007,244**	50,497,966
Other assets	**3,060,779**	1,679,807
Total assets	**$ 478,741,976**	$ 325,305,783
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	**$ 3,784,058**	$ 3,222,255
Refundable advance liability	**4,800,000**	-
Office vacation obligation	**2,668,125**	-
Deferred rent and tenant allowance	**1,647,720**	79,497
Revolving line of credit	**85,000,000**	32,000,000
Notes payable	**76,212,388**	66,710,998
Investor Notes, net	**40,734,213**	-
Subordinated debt	**10,718,000**	10,718,000
Federal Home Loan Bank debt	**11,000,000**	5,000,000
Bond loan payable	**40,930,079**	28,625,536
Notes payable - subsidiaries (Note 12)	**60,157,656**	50,579,148
Total liabilities	**337,652,239**	196,935,434
Commitments and contingencies (Note 17)		
Net assets:		
Unrestricted	**102,693,027**	103,613,255
Noncontrolling interest in consolidated subsidiary	**20,104,251**	-
Total unrestricted	**122,797,278**	103,613,255
Temporarily restricted	**16,804,984**	23,269,619
Permanently restricted	**1,487,475**	1,487,475
Total net assets	**141,089,737**	128,370,349
Total liabilities and net assets	**$ 478,741,976**	$ 325,305,783

See notes to consolidated financial statements.

Capital Impact Partners and Subsidiaries

Consolidated Statements of Activities
Years Ended December 31, 2017 and 2016

	2017	2016
Changes in unrestricted net assets:		
Financial activity:		
Financial income:		
Interest income on investments	**$ 991,351**	$ 247,828
Interest income on loans	**18,172,429**	13,594,628
Unrealized and realized gain on investments, net	**10,742**	409,447
(Loss) gain on NMTC unwind	**(3,941)**	17,440
Total financial income	**19,170,581**	14,269,343
Financial expense:		
Interest expense	**7,608,780**	4,573,557
Provision (credit) for loan losses	**2,229,350**	(817,830)
Bad debt expense	**190,208**	3,877
Total financial expense	**10,028,338**	3,759,604
Net financial income	**9,142,243**	10,509,739
Revenue and support:		
Fees	**4,831,746**	3,528,576
Contract revenue	**4,559**	19,125
Other income	**303,534**	613,042
Net assets released from restrictions	**7,536,098**	10,149,769
Total revenue and support	**12,675,937**	14,310,512
Expenses:		
Innovative community lending program	**9,838,217**	10,342,602
Technical assistance	**-**	772,657
Total program expenses	**9,838,217**	11,115,259
Support expenses:		
Management and general	**9,188,028**	11,033,352
Fundraising	**931,915**	302,872
Total expenses	**19,958,160**	22,451,483
Increase in unrestricted net assets before non-operating items and noncontrolling interest activities	**1,860,020**	2,368,768
NCB office vacating expense	**(2,727,544)**	-
Cancellation of debt - subsidiary	**9,119,937**	-
Bad debt expense - subsidiary	**(9,119,937)**	-
(Decrease) increase in unrestricted net assets before noncontrolling interest activities	**(867,524)**	2,368,768
Noncontrolling interest - capital contribution	**20,104,058**	-
Noncontrolling interest - distribution	**(52,511)**	-
Increase in unrestricted net assets	**19,184,023**	2,368,768
Changes in temporarily restricted net assets:		
Interest income on investments	**56,863**	19,293
Gain on investment in joint venture	**-**	52,940
Grants - JP Morgan Chase	**500,000**	-
Grants - AARP Foundation	**200,000**	-
Grants - Kresge	**100,000**	514,260
Grants - Social Innovation Fund	**-**	660,479
Grants - Kellogg Foundation	**-**	2,012,000
Grants - CDFI Fund Healthy Foods Financing Initiative	**-**	2,400,000
Grants - CDFI Fund Financial Assistance Award	**-**	2,000,000
Grants - The California Endowment	**-**	250,000
Grants - Ford Foundation	**-**	500,000
Other grants	**214,600**	75,000
Grant relinquishment loss	**-**	(161,762)
Net assets released from restrictions	**(7,536,098)**	(10,149,769)
Decrease in temporarily restricted net assets	**(6,464,635)**	(1,827,559)
Increase in net assets	**12,719,388**	541,209
Net assets, beginning	**128,370,349**	127,829,140
Net assets, ending	**$ 141,089,737**	$ 128,370,349

See notes to consolidated financial statements.

Capital Impact Partners and Subsidiaries

Consolidated Statements of Cash Flows
Years Ended December 31, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Increase in net assets	$ 12,719,388	$ 541,209
Noncontrolling interest activities	20,051,547	-
(Decrease) increase in net assets before noncontrolling interest activities	(7,332,159)	541,209
Adjustments to reconcile (decrease) increase in net assets to net cash provided by (used in) operating activities:		
Provision (credit) for loan losses	2,229,350	(817,830)
Bad debt expense	9,310,145	3,877
Cancellation of debt - subsidiary	(9,119,937)	-
Depreciation	217,938	76,337
Amortization of notes issuance costs	23,604	-
Amortization of deferred rent and tenant allowance	14,938	-
Investment gain, net	(10,742)	(409,447)
Gain on investment in joint venture	-	(52,940)
Loss (gain) on sales of NMTC unwind	3,941	(17,440)
Loss on disposal of leasehold improvements	24,555	-
Accretion of interest on loans	115,558	125,968
Decrease (increase) in:		
Accounts and interest receivable	(1,096,214)	(7,655)
Contributions receivable	5,505,676	(5,177,865)
Other assets	39,845	1,295,015
Increase (decrease) in:		
Accounts payable and accrued expenses	509,293	(743,575)
Refundable advance liability	4,800,000	-
Office vacation obligation	2,668,125	-
Net cash provided by (used in) operating activities	7,903,916	(5,184,346)
Cash flows from investing activities:		
Loan originations and advances	(138,895,364)	(71,966,362)
Loan purchases	(17,313,319)	(9,497,850)
Loan repayments	40,349,197	49,425,869
Loan sales	11,500,000	5,927,501
Loan originations and advances - subsidiaries	(18,967,205)	(11,937,895)
Loan repayments - subsidiaries	337,988	3,294,382
Proceeds from distributions of investments	20,463,429	3,367,859
Purchase of investments	(54,720,446)	(15,314,532)
Purchase of equipment	(110,025)	(122,163)
Net cash used in investing activities	(157,355,745)	(46,823,191)
Cash flows from financing activities:		
Proceeds from notes payable	35,969,194	23,300,806
Proceeds from bond payable	13,485,000	23,380,000
Repayment of notes payable	(20,583,362)	(12,966,076)
Repayment of bond payable	(1,180,457)	(614,169)
Proceeds from issuance of investor notes, net	41,171,553	-
Payment of issuance cost of investor notes	(460,944)	-
Capital contribution - Noncontrolling interest	20,104,058	-
Proceeds from notes payable - subsidiaries	18,887,759	9,402,394
Repayment of notes payable - subsidiaries	(189,314)	(114,694)
Proceeds from lines of credit	63,000,000	15,000,000
Repayment of lines of credit	(10,000,000)	(15,800,000)
Net cash provided by financing activities	160,203,487	41,588,261
Net increase (decrease) in cash and cash equivalents	10,751,658	(10,419,276)
Cash and cash equivalents - beginning	47,253,439	57,672,715
Cash and cash equivalents - ending	$ 58,005,097	$ 47,253,439

(Continued)

Capital Impact Partners and Subsidiaries

Consolidated Statements of Cash Flows (Continued)
Years Ended December 31, 2017 and 2016

		2017		2016
Supplemental disclosure of cash flow information:				
Cash paid during the year for interest	**$**	**7,038,037**	$	4,561,998
Supplemental schedules of non-cash investing and financing activities:				
Distribution to noncontrolling interest included in accounts payable	**$**	**52,511**	$	-
Tenant allowance for leasehold improvements and furniture	**$**	**1,553,284**	$	-

See notes to consolidated financial statements.

Note 1. Description of Activities and Significant Accounting Policies

Description of activities: Capital Impact Partners is a nonprofit organization without capital stock organized under the laws of the District of Columbia at the direction of the U.S. Congress in 12 U.S. Code 3051(b). The purpose of Capital Impact Partners is to provide industry altering financial services and technical assistance programs designed to spark systemic change for lasting economic progress. Capital Impact Partners empowers communities to create more affordable cooperative homeownership, access to healthy foods, housing and services for the frail and elderly, and facilities for health care centers and charter schools. The Community Development Financial Institutions Fund of the U.S. Treasury Department has designated Capital Impact Partners as a certified Community Development Financial Institution (CDFI).

The following table provides information on Capital Impact Partners' various subsidiaries:

Subsidiary Name	Ownership %	Purpose of Subsidiary	Included in Consolidated Financials
Community Solutions Group, LLC	100%	Formed to foster development and provide technical assistance to cooperative organizations and similar nonprofit organizations and provide capital in support of development projects by making strategic grants and business planning advances.	Yes
NCBCI Education Conduit, LLC	100%	Formed to facilitate, encourage and assist in financing charter schools. This entity holds Capital Impact Partner's interest in the Charter School Financing Partnership (CSFP), LLC.	Yes
Impact V CDE 7, LLC (Impact V CDE 7)	99.99%	Formed to be a Single Purpose Entity to make qualified investments in QALICB under the NMTC program.	Yes
Impact NMTC Holdings LLC	99.99%	Formed to act as a non-managing member for NMTC Community Development Entities (CDEs) with Capital Impact Partners acting as managing member. This subsidiary owns 0.01% of Impact V CDE 7 LLC.	Yes, through Impact V CDE 7's ownership of this subsidiary.
Impact VII CDE 11, LLC	100%	Formed to act as a taxable non-managing member of CDEs upon the unwind of NMTC entities. This entity was dissolved in July 2017.	Yes
Impact NMTC Holdings II LLC	100%	Formed to act as a non-managing member for NMTC Community Development Entities (CDEs) with Capital Impact Partners acting as managing member.	Yes
Woodward Corridor Investment Fund, LLC (WWCF, LLC)	100%	Formed during 2013 to support community development projects benefiting low and moderate income populations, in particular by providing financing to developers of multi-family rental housing and mixed use facilities in Detroit, Michigan, establishing one or more credit facilities to finance such community development projects. This fund had no activity	Yes
Detroit Neighborhoods Fund, LLC (DNF, LLC)	100%	The purpose of this fund is to provide financing for mixed-use and multi-family rental housing and healthy foods retail in underserved areas in Detroit, Michigan.	Yes
FPIF, LLC	100%	The purpose of this fund is to channel funds to a predominately low income population aged 50+.	Yes
Community Investment Impact Fund, LLC	20%	The purpose of this fund is to engage solely in the business of, directly or indirectly, owning, holding for investment, exchanging, selling and disposing of investments in loans and other related activities. Capital Impact Partners is the managing member of this entity.	Yes

Note 1. Description of Activities and Significant Accounting Policies (Continued)

NCB (previously, National Cooperative Bank) provides comprehensive financial services to cooperatives and other member-owned organizations throughout the United States. The Board of Directors for Capital Impact Partners consists of eleven members, five of whom shall be elected from among the then-current senior executive officers or directors (or directors-elect) of NCB, and six outside directors not related to NCB.

As an inherent part of its charter and mission, Capital Impact Partners, in addition to making loans to established cooperative and cooperative-like businesses, makes special loans in the form of Business Planning Advances (BPAs) and strategic investments to newer, less established organizations. As a development finance entity, Capital Impact Partners originates higher risk development loans to housing, consumer, worker and business cooperatives and cooperative-like entities. Consequently, repayment estimates for these higher risk loans are less predictable than those for mature, established organizations. Loans originated by Capital Impact Partners are both secured and unsecured, and many are to borrowers that may be unable to obtain conventional credit.

Under the National Consumer Cooperative Bank Act, Congress deemed that Capital Impact Partners is exempt from Federal taxation. Capital Impact Partners has received a determination letter ruling from the Internal Revenue Service stating such exemption under the provisions of Section 501(c)(3) of the Internal Revenue Code. In 1998, Capital Impact Partners received exemption from franchise or income tax from the State of California and the Government of the District of Columbia.

Capital Impact Partners' principal sources of revenue and support are interest income and fees earned from its lending and technical assistance activities, grants and contributions, and contract revenue. Capital Impact Partners has the following distinct programs:

Innovative community lending program: Provides loans and other kinds of financial services and support (i.e., financial analysis, real estate development tools and training) to cooperative and cooperative-like organizations serving low income people and communities.

Technical assistance: Working with federal, state and local agencies, long-term care providers, housing developers and community development corporations, Capital Impact Partners' team of experts enable affordable homeownership and safe, humane community-based long-term care. Technical Assistance had no activity in 2017.

Significant Accounting Policies:

Basis of presentation: The consolidated financial statements (collectively, the financial statements) are in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP), which have been applied on a consistent basis and follow general practices within the not-for-profit industry.

Principles of consolidation: The financial statements include the accounts of Capital Impact Partners and its consolidated subsidiaries which include Community Solutions Group, LLC, NCBCI Education Conduit, LLC, Community Economic Development, LLC, Impact V CDE 7, LLC, Impact VII CDE 11, LLC, Woodward Corridor Investment Fund, LLC, Detroit Neighborhoods Fund, LLC, FPIF, LLC, Community Investment Impact Fund, LLC and Impact NMTC Holdings II LLC. Impact NMTC Holdings, LLC is consolidated via its 0.01 percent interest in Impact V CDE 7, LLC. All significant intra-organization accounts and transactions have been eliminated in consolidation. Community Economic Development, LLC was dissolved on April 8, 2016.

Note 1. Description of Activities and Significant Accounting Policies (Continued)

Use of estimates: The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at 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.

Unrestricted cash and cash equivalents: Unrestricted cash and cash equivalents consist of cash and investment securities with original maturities at the date of purchase of less than 90 days.

Restricted cash and cash equivalents: Capital Impact Partners has certain restricted cash and cash equivalents that are held per terms of grant and loan agreements.

Investments: Investments in equity securities, Mortgage Backed and U.S. Treasury securities with readily determinable fair values are stated at fair value measured as more fully described in Note 19. Capital Impact Partner's investment in Real Estate Investment Trust (REIT), stock donation and other investments are stated at estimated fair value as more fully described in Note 19. Interest and dividend income is recognized when earned. Any unrealized or realized gains or losses are reported in the statements of activities as a change in unrestricted net assets, unless explicit donor intent or law restricts their use, in which case unrealized gains or losses are reported in the statements of activities as a change in temporarily restricted assets.

Investments in other entities are accounted for under the equity or the cost method depending on Capital Impact Partner's voting interest and the degree of control or influence Capital Impact Partners may have over the operations of these entities, as noted below:

Investments in New Markets Tax Credit entities: Investments in New Markets Tax Credit (NMTC) entities are accounted for under the equity method of accounting under which Capital Impact Partner's share of net income or loss is recognized in the statements of activities and added or subtracted from the investment account, and distributions received are treated as a reduction of the investment account.

Investment in ROC USA, LLC: Capital Impact Partners has a 20 percent voting interest in ROC USA, LLC and 33 percent equity investment in ROC USA, LLC under the equity method of accounting under which Capital Impact Partner's share of change in unrestricted net assets of the affiliate is recognized as income in Capital Impact Partner's statements of activities and added to the investment account, and dividends received from the affiliate are treated as a reduction of the investment account. Capital Impact Partners appoints two of the eleven directors of the Board of Directors. The purpose of ROC USA, LLC is to aid people living in manufactured home communities, through technical assistance, loans, training and assistance in the purchase of their communities and the operation of those communities as resident-owned and/or controlled entities.

Investment in Charter School Financing Partnership, LLC: Capital Impact Partners has a 20 percent voting interest in Charter School Financing Partnership, LLC (CSFP) and is accounting for its investment in CSFP under the equity method of accounting. Accordingly, Capital Impact Partner's share of net income of the affiliate is recognized as income in Capital Impact Partner's statements of activities and added to the investment account, and dividends received from the affiliate are treated as a reduction of the investment account. Capital Impact Partners appoints one of the five managers of the Board of Managers. CSFP was originally established to function as a conduit to the capital markets to create more efficient access to capital for charter school financing.

Note 1. Description of Activities and Significant Accounting Policies (Continued)

Because of the impact on the bond market as a result of the economic downturn, the Board of Managers has opted to use capital received under a grant from the U.S. Department of Education (USED) as credit enhancement for loans to charter schools originated by its members and approved by the Board of Managers.

Investment in FHLB Stock: In January 2015, Capital Impact Partners became a member of the Federal Home Loan Bank of Atlanta (FHLBank Atlanta) and is required to maintain an investment in capital stock in FHLBank Atlanta. The FHLBank Atlanta stock does not have a readily determinable value as ownership is restricted and there is no ready market for this stock. As a result, the stock is carried at cost and management evaluates periodically for impairment based on the ultimate recovery of the cost basis of the stock. No impairment was noted as of December 31, 2017 or 2016.

Noncontrolling interest in consolidated subsidiary: The noncontrolling interest represents the equity interest in Community Investment Impact Fund, LLC, exclusive of Capital Impact Partners' interest. Community Investment Impact Fund (CIIF) is a for-profit entity, which is jointly owned by Capital Impact Partners (managing member with 20% ownership) and Annaly Social Impact LLC (non-managing member with 80% ownership). Capital Impact Partners consolidates CIIF's financial statements as Capital Impact Partners is the managing member and presumed to control the entity as the non-managing member does not have substantive kick-out rights or substantive participating rights. CIIF shall engage solely in the business of, owning, holding for investment, exchanging, selling and disposing of investments in loans and other activities related or incidental to the foregoing business. The Operating agreement outlines the "waterfall" of funds for CIIF to distribute to its investors. Distributions include: 1) preferred return of funds to Annaly, and 2) remaining portion of interest payments allocated to Annaly and Capital Impact Partners. Finally, in year 5, principal payments to Annaly and Capital Impact Partners will commence.

Revenue arrangements with multiple deliverables: Capital Impact Partners has entered into certain revenue arrangements with multiple deliverables such as loan origination services, investment entity creation, loan servicing, etc. If the delivered elements have value on a standalone basis from the undelivered items, and if there is objective and reliable evidence of the fair value of the undelivered elements, Capital Impact Partners uses the residual method to allocate revenue to the various elements. Under the residual method, revenue is recognized for the delivered elements equal to the total arrangement consideration less the aggregate fair value of the undelivered elements.

Loans receivable:

Loans: Loans are stated at their principal amounts outstanding, net of deferred loan fees. Interest income is accrued monthly at the loans' respective interest rates. Related direct loan origination fees and costs are deferred and amortized over the life of the loans. Fees relating to expired commitments are recognized as non-interest income. If a commitment is exercised during the commitment period, the fee at the time of exercise is recognized over the life of the loan as an adjustment of yield.

Impaired loans: A loan is considered impaired when, based on current information and events, it is probable that Capital Impact Partners will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by Management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is generally measured on a loan-by-loan basis using the fair value of collateral, since Capital Impact Partner's loans are largely collateral dependent.

Note 1. Description of Activities and Significant Accounting Policies (Continued)

Impaired loans also include troubled debt restructurings (TDRs), if any, where management has modified loan terms and made concessions to borrowers in financial difficulty. Consequently, the allowance for loan losses related to TDRs is based on discounted cash flows using the loan's initial effective interest rate or the fair value of the collateral for certain collateral-dependent loans.

Non-accrual loans: The accrual of interest on outstanding loans is discontinued at the time the loan is 90 days delinquent unless the credit is well secured and in process of collection. When the accrual of interest ceases, any unpaid interest previously recorded as income is deducted from income. Any future payments received are applied to reduce principal. At such time as full collection of the remaining recorded balance is expected in the ordinary course of business, interest payments are recorded as interest income on a cash basis. Loans may be reinstated to accrual status when all payments are brought current and, in the opinion of Management, collection of the remaining principal and interest can reasonably be expected. If at any time collection of principal or interest is considered doubtful, all or some portion of the loan is charged off for financial reporting purposes, although collection efforts may still continue.

***Allowance for loan losses*:** The allowance for losses is a valuation reserve that Management believes will be adequate to absorb possible losses on existing loans that may become uncollectible. It is established through a provision for loan losses charged to expense. Loans deemed to be uncollectible are charged against the allowance. Subsequent recoveries, if any, are credited to the allowance. The allowance is maintained at a level believed adequate by Management to absorb estimated potential losses after considering changes, past loss experience, the nature of the portfolio and current economic conditions. However, the allowance is an estimate that could change if there are significant changes in the portfolio and/or economic conditions.

The allowance consists of allocated and general components. The allocated component relates to loans that are classified as impaired. For those loans that are classified as impaired, an allowance is established when the discounted cash flows (or collateral value for collateral dependent loans or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loans and is based on historical charge-off experience and expected losses given Capital Impact Partner's internal risk rating process. Other adjustments are made to the allowance for pools of loans after an assessment of internal or external influences on credit quality that are not reflected in the historical loss or risk rating data.

Other assets: Other assets include deposits, a program advance, prepaid expenses and furniture, equipment and leasehold improvements. (See Note 10).

Transfers of financial assets: Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from Capital Impact Partners, (2) the transferee obtains the right to pledge or exchange the transferred assets and no condition both constrains the transferee from taking advantage of that right and provides more than a trivial benefit for the transferor, and (3) the transferor does not maintain effective control over the transferred assets through either (a) an agreement that both entitles and obligates the transferor to repurchase or redeem the assets before maturity or (b) the ability to unilaterally cause the holder to return specific assets, other than through a cleanup call.

Note 1. Description of Activities and Significant Accounting Policies (Continued)

Contributions receivable: Capital Impact Partners accounts for contributions received as unrestricted, temporarily restricted, or permanently restricted depending on the existence or nature of any donor restrictions. All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction.

When the donor restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. Contributions receivable, which represent unconditional promises to give, are recognized as revenue in the period received and as assets, decreases of liabilities or expenses depending on the form of the benefits received. Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that expect to be collected over periods in excess of one year are recorded at the net present value of the estimated cash flows beyond one year using a risk-adjusted rate of return appropriate for the expected term of the promise to give. Conditional promises to give, which depend on the occurrence of a specified future and uncertain event to bind the promisor, are recorded when the conditions on which they depend are substantially met.

Investor Notes: Capital Impact Partners launched an Investor Notes (Notes) program in 2017. The proceeds of the offering will be used primarily to fund initiatives that meet critical needs in low income communities across the United States, including through Capital Impact Partners' subsidiaries and third party intermediaries. The proceeds of the offering may also be used to purchase securities or other assets that will be leveraged to support Capital Impact Partners' lending activities and general operations, and for general corporate purposes. The Notes are sold through the Depository Trust Company (DTC). The Lead Selling Agent, InCapital, agrees to sell these notes to other agents on Capital Impact Partners behalf. The Notes are issued in increments of $1,000 or more and pay interest at various fixed interest rates. The terms for the Notes were 3 year, 5 year, 7 year and 10 year maturities.

Capital Impact Partners incurred agent and other fees to launch the Notes Program. The fees included legal, accounting, and underwriting fees which were capitalized in accordance with U.S. GAAP and amortized using the effective-yield method over the term of the Notes and are presented net of the Investor Notes on the statement of financial position.

US Bank has been designated as the indenture trustee to the indenture agreement and in this capacity US Bank serves as paying agent for the notes. The Notes constitute unsecured debt obligations of Capital Impact Partners. At December 31, 2017, the Note holders held $41,777,000 of the total Notes payable balance.

Net assets: Capital Impact Partners classifies net asset into three categories: unrestricted, temporarily restricted and permanently restricted. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Temporarily restricted net assets are contributions with temporary, donor-imposed time or purpose restrictions. Temporarily restricted net assets become unrestricted when the time restrictions expire or the contributions are used for their restricted purpose at which time they are reported in the statements of activities as net assets released from restrictions. Permanently restricted net assets represent contributions received subject to donor restrictions that neither expire by the passage of time nor can be fulfilled or otherwise removed by actions of Capital Impact Partners.

Functional expense allocation: The costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The allocation methodology changed in 2017 to better represent the distribution of time spent by staff on programmatic and fundraising efforts.

Note 1. Description of Activities and Significant Accounting Policies (Continued)

Deferred rent and tenant allowance: Capital Impact Partners leases office space that includes escalations and rent abatement for a 50% discount on the monthly rent payments within the first 34 months of occupancy. Rent expense is recorded on a straight-line basis over the entire lease term. The deferred rent liability recorded in the accompanying statements of financial position represents the cumulative difference between the monthly rent expense and the rent paid. Capital Impact Partners office lease provides for certain incentives in the form of a tenant allowance for leasehold improvements. This benefit is being amortized on a straight-line basis over the life of the lease.

Cancellation of debt – subsidiary: The investor in Impact V CDE 7 forgave the residual balance for two out of four debt payable balances subsequent to a partial principal repayment from Impact V CDE 7 during January 2018. Accordingly, cancellation of debt income has been recognized during the year ended December 31, 2017. See Note 21.

Income taxes: Capital Impact Partners is generally exempt from federal income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code. In addition, Capital Impact Partners qualifies for charitable contribution deductions and has been classified as an organization that is not a private foundation. Income which is not related to exempt purposes, less applicable deductions, is subject to federal and state corporate income taxes. Capital Impact Partners had no net unrelated business income for the years ended December 31, 2017 and 2016.

Management evaluated Capital Impact Partner's tax positions and concluded that Capital Impact Partners had taken no uncertain tax positions that require adjustment to the financial statements. Consequently, no accrual for interest and penalties was deemed necessary for the years ended December 31, 2017 and 2016. Capital Impact Partners files tax returns in the U.S. federal jurisdiction, California and Delaware. Generally, Capital Impact Partners is no longer subject to income tax examination by the U.S. federal or state tax authorities for years before 2014.

Community Investment Impact Fund, LLC, a consolidated subsidiary of Capital Impact Partners, is a Delaware Limited Liability Company. The entity files an annual tax return to report the income, deductions, gains, losses, etc., from its operations, but it does not pay income tax. Instead, it passes through any profits or losses to its members, Capital Impact Partners and Annaly. Each member includes its share of the entity's income/loss on its tax return.

Reclassifications: Certain reclassifications were made in the 2016 financial statements to conform to the current year presentation with no effect on the changes in net assets or net assets.

Recent accounting pronouncements adopted: In November 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force),* which provides guidance on the presentation of restricted cash or restricted cash equivalents in the statement of cash flows. ASU 2016-18 will be effective for Capital Impact Partners beginning on January 1, 2019. ASU 2016-18 must be applied using a retrospective transition method with early adoption permitted. Capital Impact Partners adopted this ASU during the year ended December 31, 2017; however, there was no impact on the statement of cash flows.

Note 1. Description of Activities and Significant Accounting Policies (Continued)

In January 2017, the FASB issued ASU 2017-02, *Not-for-Profit Entities–Consolidation (Subtopic 958-810): Clarifying When a Not-for-Profit Entity That Is a General Partner Should Consolidate a For-Profit Limited Partnership or Similar Entity*. This ASU amends the consolidation guidance in Subtopic 958-810 to maintain current practice. Therefore, under the amendments, a not-for-profit entity that is a general partner continues to be presumed to control a for-profit limited partnership, regardless of the extent of its ownership interest, unless that presumption is overcome. The presumption is overcome if the limited partners have either substantive kick-out rights or substantive participating rights. To be substantive, the kick-out rights must be exercisable by a simple majority vote of the limited partners' voting interests or a lower threshold. ASU 2017-02 is effective for not-for-profit entities for fiscal years beginning after December 15, 2016, with early adoption permitted. Capital Impact Partners adopted this ASU during the year ended December 31, 2017. As a result, Capital Impact Partners consolidated a newly formed for-profit limited liability company in which it is the managing member.

Recent accounting pronouncements: In May 2014, the FASB issued (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, the FASB voted to delay the effective date of the proposed standard (ASU 2015-14, *Revenue from Contracts with Customers, Deferral of the Effective Date*). Early adoption is not permitted. The updated standard will be effective for annual reporting periods beginning after December 15, 2017. Capital Impact Partners does not expect the adoption of this ASU to have a material impact on the financial statements.

In January 2016, the FASB issued ASU 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities (Subtopic 825-10)*. ASU 2016-01 includes a number of amendments that address certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. One of the amendments eliminates the requirement to disclose the fair value of financial instruments measured at amortized cost for entities that are not public business entities. Capital Impact Partners elected to early adopt this amendment described above during the year ended December 31, 2015. The other amendments in this update are effective for Capital Impact Partners for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Capital Impact Partners is currently evaluating effect on the financial statements of adopting the other amendments included in ASU 2016-01.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Capital Impact Partners is currently evaluating the impact of adoption of the new standard on the financial statements.

Note 1. Description of Activities and Significant Accounting Policies (Continued)

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which creates a new credit impairment standard for financial assets measured at amortized cost and available-for-sale debt securities. The ASU requires financial assets measured at amortized cost (including loans, trade receivables and held-to-maturity debt securities) to be presented at the net amount expected to be collected, through an allowance for credit losses that are expected to occur over the remaining life of the asset, rather than incurred losses. The ASU requires that credit losses on available-for-sale debt securities be presented as an allowance rather than as a direct write-down. The measurement of credit losses for newly recognized financial assets (other than certain purchased assets) and subsequent changes in the allowance for credit losses are recorded in the statement of income as the amounts expected to be collected change. The ASU is effective for fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021. Early adoption is permitted for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Capital Impact Partners is currently evaluating the impact the adoption of this guidance will have on its financial statements.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which replaces the three current classes of net assets with two new classes, “net assets with donor restrictions” and “net assets without donor restrictions”, and expands disclosures about the nature and amount of any donor restrictions. ASU 2016-14 is effective for annual periods beginning after December 15, 2017 and interim periods within fiscal years beginning after December 15, 2018, with early adoption permitted. Capital Impact Partners is currently evaluating the impact the adoption of this guidance will have on its financial statements.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. ASU 2016-15 provides guidance on how certain cash receipts and cash payments should be presented and classified in the statement of cash flows with the objective of reducing existing diversity in practice with respect to these items. ASU 2016-15 will be effective for Capital Impact Partners on January 1, 2019. Early adoption is permitted. ASU 2016-15 requires a retrospective transition method. This standard will not have a material impact on Capital Impact Partner’s results of operations or financial position. Capital Impact Partners is currently evaluating the impact the adoption of this guidance will have on its statement of cash flows.

Note 2. Cash and Cash Equivalents

Cash and cash equivalents, including restricted balances, consist of the following at December 31:

	2017	2016
Cash in bank	$ 29,131,217	$ 33,187,947
Overnight investments	27,350,589	13,550,102
Other short-term investments	1,523,291	515,390
	$ 58,005,097	$ 47,253,439
Unrestricted	$ 28,596,868	$ 20,158,754
Restricted	29,408,229	27,094,685
	$ 58,005,097	$ 47,253,439

Restricted cash and cash equivalents are held for the following purposes: to cover loan losses under a charter school loan program per terms of a grant from the United States Department of Education (USED), for loans under Capital Impact Partner’s revolving loan fund, for low-income people in the United States as per loan agreement, for Healthy Foods financing, and for other programs per terms of grant agreements.

Note 3. Concentration of Credit Risk

Capital Impact Partners maintains cash in various financial institutions. Cash balances at each financial institution are insured by the Federal Deposit Insurance Corporation up to $250,000.

At December 31, 2017 and 2016, Capital Impact Partners had uninsured balances of $54,256,058 and $43,511,763, respectively, that are included in cash and cash equivalents. Uninsured amounts of $28,673,881 and $13,865,492 are held in short-term investments, in sweep accounts and non-bank money market accounts at December 31, 2017 and 2016, respectively.

As indicated in Note 8, a substantial portion of the loan portfolio is represented by loans to charter schools. The viability of the borrowers and their ability to honor their contracts is dependent upon their ability to retain their charters. Approximately 30 percent and 33 percent of the portfolio represents loans made to entities associated with the NMTC program at December 31, 2017 and 2016, respectively. Approximately 40 percent and 46 percent of the portfolio represents loans made in the state of California and approximately 19 percent and 18 percent in the state of Michigan at December 31, 2017 and 2016, respectively.

Note 4. Investments

Investments consist of the following as of December 31:

	2017	2016
Marketable equity securities	$ 217,342	$ 489,624
Real estate investment trust	1,335,000	1,335,000
Other investments	514,326	503,816
Total investments at fair value (Note 19)	2,066,668	2,328,440
Certificate of deposit at cost		
Equity method investments	2,930,363	2,762,888
Equity method investments in New Markets Tax Credit entities (Note 16)	46,010	42,514
Investments at cost	759,500	468,500
	$ 5,802,541	$ 5,602,342

Other investments include Urban Partnership Bank stock that was donated to Capital Impact Partners in 2012. Capital Impact Partners received 14,700 shares of non-voting stock and 300 shares of voting stock with a total value of $720,000 upon donation. Capital Impact Partners re-valued this stock as of December 31, 2017 and 2016, and recorded a $41,700 unrealized gain and ($108,000) unrealized (loss), respectively, which was reflected in Capital Impact Partner's unrealized and realized gain (loss) on investments, net, for the years ended December 31, 2017 and 2016. Therefore, this investment was valued at $245,100 and $203,400 as of December 31, 2017 and 2016, respectively.

Equity method investments: At December 31, 2017 and 2016, Capital Impact Partners had an investment in ROC USA, LLC of $2,732,439 and $2,604,008, respectively. The increase in unrestricted net assets of ROC USA, LLC is allocated 33.33 percent to Capital Impact Partners, and the amount allocated to Capital Impact Partners for the years ended December 31, 2017 and 2016, was $128,431 and $669,792, respectively. In 2013, ROC USA, LLC admitted a new member, ROC Association, to increase customer involvement with governance. The new member has voting membership but does not share profit and loss of the ROC USA, LLC. Capital Impact Partners voting percent is 20%. As provided for in the operating agreement of ROC USA, LLC, there are certain limitations affecting member capital withdrawals.

Note 4. Investments (Continued)

The following is a summary of financial information for the years ended December 31, 2017 and 2016, for ROC USA, LLC:

	2017	2016
Total assets	$ 58,444,508	$ 65,071,125
Total liabilities	46,072,583	52,669,277
Net assets/members' capital	12,371,925	12,401,848
Total revenue	3,335,087	4,409,110
Total expenses	2,949,793	2,399,733
Change in unrestricted net assets	385,294	2,009,377

At December 31, 2017 and 2016, Capital Impact Partners had an investment in Charter School Financing Partnership, LLC (CSFP) of $197,924 and $158,879, respectively. The net income of CSFP is allocated 18 percent to Capital Impact Partners and amounted to $42,188 and $61,371, respectively, for the years ended December 31, 2017 and 2016. Capital Impact Partners also received a distribution of $3,143 and $11,598 as of December 31, 2017 and 2016, respectively. The following is a summary of financial information of CSFP for the years ended December 31, 2017 and 2016:

	2017	2016
Total assets	$ 16,053,810	$ 17,666,659
Total liabilities	2,092,764	3,986,813
Net assets/members' capital	13,961,046	13,679,846
Total revenue	556,571	815,986
Total expenses	322,196	475,036
Change in net assets	234,375	340,950

Capital Impact Partners has a 50 percent ownership interest in NCB Communities, LLC. NCB Communities, LLC reported no assets, liabilities, members' capital, revenue or expenses for the years ended December 31, 2017 and 2016.

Investments at cost: Capital Impact Partners is a member of FHLBank Atlanta, whose mission is to support member's residential-mortgage and economic-development lending activities. FHLBank Atlanta is a cooperative bank that offers, among other services, competitively priced financing. As a requirement of membership, Capital Impact Partners was required to purchase Class A Membership Stock of $250,000, which carries voting rights and is also an earning asset with dividends. Capital Impact Partners will be required to purchase additional stock in the amount of 4.5% of each advance and pledge cash or securities as collateral for advances. At December 31, 2017 and 2016, the amount of stock held was $759,500 and $468,500, respectively. As of December 31, 2017 and 2016, Capital Impact Partners has drawn $11,000,000 and $5,000,000, respectively, in advances from FHLBank Atlanta.

Note 5. Investment in Joint Venture

Capital Impact Partners had a 50 percent voting interest in the Charter School Capital Access Program (CCAP) that was accounted for under the equity method.

On July 6, 2016, CCAP dissolved. For the year ended December 31, 2016, Capital Impact Partners' allocation totaled $52,940, which was recorded as a gain on investment in joint venture.

Note 6. Mortgage Backed and U.S. Treasury Securities

Capital Impact Partners purchases Mortgage Backed and U.S. Treasury securities in order to pledge the securities to FHLBank Atlanta. The pledged securities are used to secure Capital Impact Partner's advances from FHLBank Atlanta. At December 31, 2017 and 2016, total FHLBank Atlanta borrowings are $11,000,000 and $5,000,000, respectively. The Mortgage Backed and U.S. Treasury securities by category as of December 31, 2017 follows:

	2017	2016
Mortgage backed securities:		
Federal Home Loan Mortgage Company (FHLMC)	$ 9,617,071	$ 2,687,550
Federal National Mortgage Association (FNMA)	28,604,270	8,752,836
Government National Mortgage Association (GNMA)	8,273,853	2,538,774
U.S. Treasury Securities		
U.S. Treasury Notes	1,754,385	206,800
	$ 48,249,579	$ 14,185,960

Note 7. Contributions Receivable

As of December 31, 2017 and 2016, contributions receivable are due to be collected as follows:

	2017	2016
Receivable in one year or less	$ 255,000	$ 5,753,176
Receivable within 1 - 5 years	270,000	277,500
	$ 525,000	$ 6,030,676

As of December 31, 2016, total contributions receivable includes amounts due from eight grantors of which $4,400,000 is from one grantor.

Note 8. Loans Receivable

Capital Impact Partners is a development finance organization and in that capacity originates higher risk development loans in the following primary market sectors: affordable housing, education, health care and community development. The loans originated by Capital Impact Partners are secured and unsecured and many times go to borrowers who may otherwise be unable to obtain conventional credit.

Note 8. Loans Receivable (Continued)

Capital Impact Partners' loan portfolio is diversified in terms of sector. The following is the distribution of loans outstanding at December 31:

	2017	%	2016	%
By Sector:				
Education	$125,606,814	40	$ 81,373,804	39
Health care	70,577,031	23	35,451,119	17
Affordable housing	72,956,040	23	56,026,701	27
Community development	42,119,971	14	33,956,829	17
Total - Capital Impact Partners	311,259,856	100	206,808,453	100
Impact V CDE 7, LLC	22,374,280		31,494,217	
Detroit Neighborhoods Fund, LLC	15,835,030		8,425,411	
FPIF, LLC	21,797,934		10,578,338	
	$371,267,100		$257,306,419	

Real estate loans are used to finance the development of affordable housing projects and to provide term financing to the operation of affordable housing projects once they have been completed. Loans that are made to finance development are usually short-term and are repaid from either a construction or permanent loan. Term loans take the form of mortgages and are repaid from the operations of the real estate cooperative. Interest rates range from 3.58 percent to 7.57 percent and maturities from April 1, 2018 to July 1, 2053.

The commercial lending portfolio is diverse. Loans range from lines of credit to term loans. Loans are typically secured by general business assets (e.g., real estate, inventory, receivables, fixed assets, and leasehold interests). Loan underwriting decisions are made on the basis of the analysis of markets, management, and cash flow potential; and not primarily on the basis of collateral coverage. These loans are expected to be repaid from cash flows generated by the borrower's operating activities. Interest rates range from 3.00 percent to 8.35 percent and maturities from January 1, 2018 to February 1, 2044.

Subsidiaries:

CED: On January 20, 2016, the non-managing member assigned its interest in the CED to the managing member (Capital Impact Partners). As a result, CED became wholly-owned by the managing member (Capital Impact Partners) and disregarded for income tax purposes. On March 22, 2016, the only loan due to CED, with a balance of $579,598 was sold and conveyed at book value to Capital Impact Partners. On April 8, 2016, CED was dissolved.

Impact V CDE 7: Impact V CDE 7's loans receivable consists of two loan transactions. Each loan transaction has a Note 1 and a Note 2. Note 2 has an option that entitles the lender to accelerate the maturity date. In the event the lender exercises this option, the amount of principal the borrower is required to prepay is equivalent to 1 percent of the original principal amount of the Note 2 being accelerated. Once the partial prepayment occurs, Impact V CDE 7 will accelerate payment on both loan transactions. This acceleration allows for the discharge of the remaining balance on one Note and the assignment of the remaining balance for the other Note. As of December 31, 2017, unwind discussions were underway. See Note 21.

Note 8. Loans Receivable (Continued)

Detroit Neighborhoods Fund, LLC (DNF, LLC): DNF, LLC was formed during 2014 under the laws of the state of Delaware. Capital Impact Partners is the sole member and manager of this LLC. DNF LLC was formed specifically for the purpose of providing financing for mixed-use and multi-family rental housing and healthy foods retail in underserved areas in Detroit, Michigan. Capital Impact Partners' role is managing the DNF, LLC and identifying, originating, closing and servicing the loans. For this role, Capital Impact Partners receives an annual loan servicing fee of 200 basis points of the average daily outstanding principal balance of each end borrower loan. The lenders have committed to lend an aggregate of $30 million to the fund. The lenders in the fund are Capital Impact Partners, with a $10 million commitment and J.P. Morgan Chase Community Development Corporation, with a $20 million commitment. All loans from each investor are evidenced by individual promissory notes from each lender to DNF, LLC. The loans are with sole recourse to the DNF, LLC and include no obligation for repayment on the part of Capital Impact Partners. Interest rates range from 5.0 percent to 5.5 percent and maturities from January 1, 2021 to June 27, 2029.

Woodward Corridor Fund, LLC (WWCF, LLC): The WWCF, LLC was formed during 2014 under the laws of the state of Delaware. Capital Impact Partners is the sole member and manager of this LLC. WWCF LLC was formed specifically for the purpose of supporting community development projects benefiting low and moderate income populations, in particular by providing financing to developers of multi-family rental housing and mixed use facilities in Detroit, Michigan, establishing one or more credit facilities to finance such community development. Capital Impact Partners' role is managing the WWCF, LLC and identifying, originating, closing and servicing the loans. The lenders have committed to lend an aggregate of $30,000,000 to the fund. The senior and subordinate lenders and their pro-rata shares are below:

	Commitment	Prorata Share
Senior Lenders:		
Metlife	$ 5,875,000	39.2%
Prudential	5,875,000	39.2%
Woodward Corridor Investments, LLC	3,000,000	20.0%
Max and Marjorie Fisher Foundation	250,000	1.6%
	15,000,000	100.00%
Subordinate Lenders:		
Kresge Foundation	5,000,000	33.3%
Capital Impact Partners	5,000,000	33.3%
Calvert Foundation	5,000,000	33.4%
	15,000,000	100.00%
	$ 30,000,000	

FPIF, LLC: FPIF, LLC was formed during 2014 under the laws of the state of Delaware. Capital Impact Partners is the sole member and manager of this LLC. FPIF, LLC is organized as a special purpose entity to channel funds to a predominately low income population aged 50+. The lenders have committed to lend an aggregate of $72,666,667 to FPIF, LLC. FPIF, LLC is capitalized with $ 7,266,667 or 10 percent subordinated debt from Capital Impact Partners, funded partly by a program related investment from AARP Foundation. This Program Related Investment is included in the notes payable section of the accompanying statements of financial position. The senior debt constitutes $65,400,000 or 90% of the borrowings from a special purpose entity between Calvert Foundation and AARP Foundation. Interest rates range from 5.0 percent to 6.25 percent and maturities from May 29, 2022 to December 20, 2024.

Refer to Note 12 – Notes Payable – Subsidiaries for further details on subsidiary loans receivables.

Note 9. Credit Quality

Loan origination and risk management: Capital Impact Partners has certain lending policies and procedures in place that are designed to maximize loan income within an acceptable level of risk. Management reviews and approves these policies and procedures on a regular basis. A reporting system supplements the review process by providing management with frequent reports related to loan production, loan quality, concentration of credit, loan delinquencies and non-performing and potential problem loans. Diversification in the loan portfolio is a means of managing risk associated with fluctuations in economic conditions.

Capital Impact Partner's lending is focused on owner-occupied commercial real estate in its primary sectors, which include:

- Education
- Health care
- Affordable housing
- Community development

Commercial real estate loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate. Commercial real estate lending typically involves higher loan principal amounts and the repayment of these loans is generally largely dependent on the successful operation of the property securing the loan or the business conducted on the property securing the loan. Commercial real estate loans may be more adversely affected by conditions in the real estate markets or in the general economy. Capital Impact Partners mitigates this risk by focusing on owner-occupied commercial real estate transactions in its sectors of education and health care. Management monitors and evaluates commercial real estate loans based on collateral, geography and risk grade criteria.

Loans are underwritten after evaluating and understanding the borrower's ability to operate profitably and prudently expand its business. Once it is determined that the borrower's management possesses sound ethics and solid business acumen, Capital Impact Partner's management examines current and projected cash flows to determine the ability of the borrower to repay their obligations as agreed. Loans are primarily made based on the identified cash flows of the borrower and secondarily on the underlying collateral provided by the borrower. The cash flows of borrowers, however, may not be as expected and the collateral securing these loans may fluctuate in value. Most loans are secured by the assets being financed or other business assets such as accounts receivable or inventory and may incorporate a personal guarantee to attempt to reduce the risk of loss. Some short-term loans may be made on an unsecured basis.

Age analysis of past due loans: The following tables represent an aging of loans by sector as of December 31, 2017 and 2016. The tables present the principal amount outstanding on the loans that may be past due for principal and/or interest payments contractually due:

December 31, 2017	30 - 59 Days Past Due	60 - 89 Days Past Due	90 days and Still Accruing	Non-accrual	Total Past Due	Current	Total Loans
Education	$ -	$ -	$ -	$ -	$ -	$ 125,606,814	$ 125,606,814
Health care	-	-	-		-	70,577,031	70,577,031
Affordable housing	734,617	-	-	610,103	1,344,720	71,611,320	72,956,040
Community development & other	-	-	500,000	414,619	914,619	41,205,352	42,119,971
	$ 734,617	$ -	$ 500,000	$ 1,024,722	$ 2,259,339	$ 309,000,517	$ 311,259,856

Note 9. Credit Quality (Continued)

December 31, 2016	30 - 59 Days Past Due	60 - 89 Days Past Due	90 days and Still Accruing	Non-accrual	Total Past Due	Current	Total Loans
Education	$ -	$ 3,875,000	$ -	$ -	$ 3,875,000	$ 77,498,804	$ 81,373,804
Health care	-	-	-	-	-	35,451,119	35,451,119
Affordable housing	-	-	-	579,563	579,563	55,447,138	56,026,701
Community development & other	-	-	474,214	55,406	529,620	33,427,209	33,956,829
	$ -	$ 3,875,000	$ 474,214	$ 634,969	$ 4,984,183	$ 201,824,270	$ 206,808,453

Credit quality indicators: Capital Impact Partners assigns internal credit classifications at the inception of each loan. These ratings are reviewed by an independent third party on a semi-annual basis as well as periodic internal reviews based on Capital Impact Partner's credit guidelines and when loans are renewed. Quarterly reviews are required if the borrower fails to meet contractual expectations or other performance degradation that would warrant increased monitoring. If a loan is in default for a period of 90 days or more or when the contractual collection of principal or interest is in doubt, the loan would be placed on nonaccrual status and the credit quality would be downgraded to substandard. The following definitions summarize the basis for each classification.

Above average: These borrowers have a clear ability to service debt from the primary repayment source, strong working capital position, acceptable leverage ratios, and stable operating trends. These borrowers must have current and regularly received financial information in the file, be in compliance with all financial covenants with no material delays in meeting reporting covenants, and be properly documented. Additionally, they have stable and experienced management, profitable operations for the past three years, sufficient cash flow to service debt, and if there is reliance on fund raising, it is minimal and history has proven it is a reliable source of income.

Pass: These borrowers have a clear ability to service debt from the primary repayment source and a history of strong financial performance. These loans may have a short-term or situational weakness that is expected to resolve within 24 months; examples include major construction or rehabilitation, business expansion to additional sites or services, large loan for borrower or lender and change in a key member of management. These borrowers must have current and regularly received financial information in the file, be in compliance with loan covenants, and be properly documented.

Watch: These borrowers are generally acceptable risks but show some signs of weakness in cash flow or financial strength or have short or unstable earnings history. The borrower may be unable to achieve projected operations and/or may have covenant violations. These loans are performing as agreed and may be characterized by uncertain industry outlook, cyclical or highly competitive, greater sensitivity to market forces and business cycles, full collateral coverage, insufficient current financial information or outdated loan officer review to determine repayment ability, or weak management.

Special mention: These loans are currently protected but are potentially weak. These loans constitute an undue and unwarranted credit risk but not to the point of justifying a classification of substandard. The credit risk may be relatively minor yet constitute an unwarranted risk in light of the circumstances surrounding a specific loan. These loans may be characterized by a downward trend in sales profit levels and margins, cash flow strained in order to meet debt repayment schedule, non-compliance with covenants, high leverage and weak liquidity, weak industry conditions, or collateral impairment.

Substandard: These loans are inadequately protected by the current net worth and repayment capacity of the obligor or of the collateral pledged, if any. Loans so classified must have a well-defined weakness or weaknesses that will jeopardize the liquidation of the debt. They are characterized by the distinct possibility that Capital Impact Partners will sustain some loss if the deficiencies are not corrected.

Note 9. Credit Quality (Continued)

Doubtful: These loans have all the weaknesses of substandard loans with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. The possibility of loss is extremely high, but because of certain important, and reasonably specific, pending factors which may work to the advantage and strengthening of the loan, its classification as loss is deferred until its more exact status may be determined. Pending factors include proposed merger, acquisition, or liquidation procedures, capital injection, perfecting liens on additional collateral and refinancing plans.

The following tables summarize the loan portfolio by sector and the internally assigned credit quality ratings for those categories at December 31, 2017 and 2016.

December 31, 2017	Education	Health Care	Affordable Housing	Community Development & Other	Total
Above Average	$ 7,760,475	$ 1,559,294	$ -	$ -	$ 9,319,769
Pass	29,056,620	18,621,391	12,008,861	3,328,721	63,015,593
Watch	88,757,560	50,385,823	47,338,558	32,473,770	218,955,711
Special Mention	32,159	10,523	9,235,099	5,786,349	15,064,130
Substandard	-	-	3,422,439	414,619	3,837,058
Doubtful	-	-	951,083	116,512	1,067,595
	$ 125,606,814	$ 70,577,031	$ 72,956,040	$ 42,119,971	$ 311,259,856

December 31, 2016	Education	Health Care	Affordable Housing	Community Development & Other	Total
Above Average	$ 7,964,480	$ 974,041	$ -	$ -	$ 8,938,521
Pass	23,092,280	18,773,526	6,117,550	13,057,826	61,041,182
Watch	50,283,844	15,681,945	41,692,784	15,525,116	123,183,689
Special Mention	33,200	21,607	4,709,253	3,999,058	8,763,118
Substandard	-	-	2,330,335	1,246,732	3,577,067
Doubtful	-	-	1,176,779	128,097	1,304,876
	$ 81,373,804	$ 35,451,119	$ 56,026,701	$ 33,956,829	$ 206,808,453

Allowance for loan losses: The allowance for loan losses as a percentage of loans outstanding as of December 31, 2017 and 2016, was 3.5% and 4.2%, respectively, of Capital Impact Partners' total loan portfolio, which includes a special reserve related to a specific lending program. The allowance excluding this specific lending program was 3.3% and 3.9% as of December 31, 2017 and 2016, respectively. No allowance for loan losses was deemed necessary for any of Capital Impact Partner's consolidated subsidiary loans as of December 31, 2017 and 2016.

Capital Impact Partners performs a migration analysis of Capital Impact Partner's loan risk ratings and loan loss ratios in determining the allowance for loan loss calculation. As of December 31, 2016, the migration analysis indicated that larger decreases in reserve factors are required, compared to prior periods, for the strongest loan risk ratings. The decrease in allowance for loan losses during the period is a result of the reduction of loan loss percentages and is considered a change in estimate as of December 31, 2016.

Capital Impact Partners and Subsidiaries

Notes to Consolidated Financial Statements

Note 9. Credit Quality (Continued)

The following tables summarize the allowance for loan losses as of and for the year ended December 31, 2017 and 2016, by sector and the amount of loans evaluated individually or collectively for impairment by sector.

December 31, 2017	Education	Health Care	Affordable Housing	Community Development & Other	Total
Allowance for loan losses:					
Beginning balance	$ 2,408,246	$ 1,052,563	$ 3,290,842	$ 1,928,109	$ 8,679,760
Charge-offs	-	-	-	-	-
Recoveries	-	66,962	-	24,954	91,916
Provisions	1,118,878	972,108	489,371	(351,007)	2,229,350
	$ 3,527,124	$ 2,091,633	$ 3,780,213	$ 1,602,056	$ 11,001,026
Ending balance of allowance for loan losses:					
Individually evaluated for impairment	$ -	$ -	$ 59,984	$ -	$ 59,984
Collectively evaluated for impairment	3,527,124	2,091,633	3,720,229	1,602,056	10,941,042
	$ 3,527,124	$ 2,091,633	$ 3,780,213	$ 1,602,056	$ 11,001,026
Loan ending balances:					
Individually evaluated for impairment	$ -	$ -	$ 610,103	$ 414,619	$ 1,024,722
Collectively evaluated for impairment	125,606,814	70,577,031	72,345,937	41,705,352	310,235,134
	$ 125,606,814	$ 70,577,031	$ 72,956,040	$ 42,119,971	$ 311,259,856

December 31, 2016	Education	Health Care	Affordable Housing	Community Development & Other	Total
Allowance for loan losses:					
Beginning balance	$ 2,843,519	$ 2,453,104	$ 987,177	$ 3,090,869	$ 9,374,669
Charge-offs	-	(34,396)	-	(25,000)	(59,396)
Recoveries	-	77,834	-	104,483	182,317
Provisions	(435,273)	(1,443,979)	2,303,665	(1,242,243)	(817,830)
	$ 2,408,246	$ 1,052,563	$ 3,290,842	$ 1,928,109	$ 8,679,760
Ending balance of allowance for loan losses:					
Individually evaluated for impairment	$ -	$ -	$ 1,135	$ -	$ 1,135
Collectively evaluated for impairment	2,408,246	1,052,563	3,289,707	1,928,109	8,678,625
	$ 2,408,246	$ 1,052,563	$ 3,290,842	$ 1,928,109	$ 8,679,760
Loan ending balances					
Individually evaluated for impairment	$ -	$ 2,274,929	$ 634,969	$ -	$ 2,909,898
Collectively evaluated for impairment	81,373,804	33,176,190	55,391,732	33,956,829	203,898,555
	$ 81,373,804	$ 35,451,119	$ 56,026,701	$ 33,956,829	$ 206,808,453

Note 9. Credit Quality (Continued)

Impaired loans: The following tables summarize the impaired loans as of December 31, 2017 and 2016. The tables segregate the loans by sector for impaired loans with specific allowances for losses and impaired loans without specific allowances.

December 31, 2017	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized*
With no related allowance recorded:					
Education	$ -	$ -	$ -	$ -	$ -
Health care	-	-	-	-	-
Affordable housing	550,119	550,119	-	550,119	20,033
Community development	414,619	414,619	-	442,366	25,166
	964,738	964,738	-	992,485	45,199
With an allowance recorded:					
Education	-	-	-	-	-
Health care	-	-	-	-	-
Affordable housing	59,984	59,984	59,984	59,211	575
Community development	-	-	-	-	-
	59,984	59,984	59,984	59,211	575
Total:					
Education	-	-	-	-	-
Health care	-	-	-	-	-
Affordable housing	610,103	610,103	59,984	609,330	20,608
Community development	414,619	414,619	-	442,366	25,166
	$ 1,024,722	$ 1,024,722	$ 59,984	$ 1,051,696	$ 45,774

* Interest income recognized on a cash basis during 2017 was $0.

December 31, 2016	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized*
With no related allowance recorded:					
Education	$ -	$ -	$ -	$ -	$ -
Health care	2,274,929	2,582,295	-	2,281,737	68,550
Affordable housing	579,563	579,563	-	737,474	1,384
Community development	-	-	-	-	-
	2,854,492	3,161,858	-	3,019,211	69,934
With an allowance recorded:					
Education	-	-	-	-	-
Health care	-	-	-	-	-
Affordable housing	55,406	55,406	1,135	56,446	12,783
Community development	-	-	-	-	-
	55,406	55,406	1,135	56,446	12,783
Total:					
Education	-	-	-	-	-
Health care	2,274,929	2,582,295	-	2,281,737	68,550
Affordable housing	634,969	634,969	1,135	793,920	14,167
Community development	-	-	-	-	-
	$ 2,909,898	$ 3,217,264	$ 1,135	$ 3,075,657	$ 82,717

* Interest income recognized on a cash basis during 2016 was $0.

Note 9. Credit Quality (Continued)

Impaired loans include loans modified in troubled debt restructurings (TDR's) where concessions have been granted to borrowers experiencing financial difficulties. These concessions could include a reduction of interest rate on the loan, payment extensions, forbearance or other actions intended to maximize collection.

As of December 31, 2017 and 2016, Capital Impact Partners had $474,603 and $2,304,373, respectively, of loans that were classified as TDR's and included in impaired loans. All of these loans were performing under their modified terms. Total 2017 TDR's represent one loan in the community development sector in the amount of $414,619 and one loan in the affordable housing sector in the amount of $59,984, for which extension of terms were applied. Total 2016 TDR's represent one loan in the healthcare sector in the amount of $2,274,929 and one loan in the affordable housing sector in the amount of $29,444, for which extension of terms were applied. None of the modifications represented forgiveness of debt in 2017 or 2016.

There were no loans previously identified as TDR's that re-defaulted in 2017 or 2016.

Subsidiaries with loans:

Impact V CDE 7 routinely evaluates the creditworthiness of the Borrowers and, if deemed necessary, establish reserves where Impact V CDE 7 believes collectability is no longer reasonably assured. Loans receivable are written down once management determines that the specific borrowers do not have the ability to repay the loans in full. The loans receivable are collateralized by a security interest in the underlying assets and/or other assets owned by the Borrowers. Impact V CDE 7 may incur losses in excess of recorded allowances if the financial condition of the Borrowers were to deteriorate or the full amount of any anticipated proceeds from the sale of the collateral supporting the Borrowers' financial obligations are not realized. Allowances for credit losses are maintained in amounts considered to be appropriate in relation to the loans receivable outstanding based on collection experience, economic conditions and credit risk quality. Delinquency is the primary indicator of credit quality. As of December 31, 2017 and 2016, no allowance for loan loss was recorded on the loans receivable for Impact V CDE 7; however, two of four loans receivable were forgiven as a result of the unwind in January 2018 and bad debt expense of $9,119,937 was recorded for the year ended December 31, 2017. The balance of loans receivable of $22,374,280 at December 31, 2017, equals the amount of principal repayments received by Impact V CDE 7 in January 2018. See Note 21.

DNF, WWCF and FPIF, LLC: These funds are structured so that if there are losses at the fund, they pass through to each of the lenders that funded the loans in the fund, first on a junior/subordinated debt level and then at the senior debt level. Therefore, in the event of a loss that exceeds Capital Impact Partners' junior portion of the loan, the applicable senior lender will absorb the remainder of the loss. Capital Impact Partners is not required to make up any payment shortages from borrowers due to other participating lenders. Additionally, certain funds (i.e. DNF, LLC) are required to maintain certain amounts of cash in the fund (until maturity) that will serve as an additional reserve to the senior lenders' position.

The structured fund documents do not account for the establishment of an allowance in the pricing of the ultimate loans to the borrowers and fees charged. The legal documents address how losses will be absorbed through the "waterfall" language in each fund. Typically, it is the junior lenders that take the first loss if there is no cash reserve or other enhancement that can absorb some portion of non-payment or charge off. The remainder of the loss is absorbed by the senior lender(s). Capital Impact Partners underwrites, services and manages all loans funded from these structured funds and therefore performs initial and ongoing routine evaluations of the performance of each loan's borrower and its ability to repay. Capital Impact Partners will evaluate each of the loans within these funds, individually, to determine allowance for loan loss levels.

Note 10. Other Assets

Included in Other Assets as of December 31, 2017 and 2016, are the following:

A balance of $200,000, for a cash deposit with Wells Fargo Bank on behalf of Phoenix Collegiate Academy, Inc., a charter school operator. The cash deposit, per the agreement dated November 29, 2012, provided credit enhancement that enabled Phoenix Collegiate Academy, Inc. to finance the cost of acquiring, constructing, improving and equipping the land and building for a middle and high school campus. Capital Impact Partners used proceeds of a grant from the U.S. Department of Education (DOE) received in a prior year to fund its participation. In return for its investment and providing credit enhancement, Capital Impact Partners earns an annual debt service fee.

A cash pledge deposit balance of $514,885 and $511,250, as of December 31, 2017 and 2016, respectively, per a pledge and security agreement dated February 1, 2012 between Capital Impact Partners and Charter School Financing Partnership (CSFP). CSFP used funds borrowed from the Walton Family Foundation to fund a loan to Alliance for College-Ready Public Schools, a charter school operator. The Walton Family Foundation requires CSFP to pledge a percentage of the unpaid principal of the loan to secure repayment of their loan. Capital Impact Partners used proceeds of a grant from the DOE received in a prior year to satisfy the pledge requirement. In consideration of its obligation, Capital Impact Partners earns a monthly fee.

On January 21, 2015, Capital Impact Partners entered into a Guaranty Agreement with Invest Detroit Foundation (ID) to provide up to $500,000 to support ID's participation in the 10,000 Small Businesses (10KSB) Initiative and ID's efforts to promote community revitalization in the City of Detroit. Capital Impact Partners is providing credit support to ID in the event that loan repayments by 10KSB Detroit borrowers to ID are insufficient. Capital Impact Partners funded the guaranty reserve account with $100,000 on April 16, 2015. However, ID has not drawn any funds from the reserves as of December 31, 2017. The balance of the guaranty was $100,420 and $100,197, at December 31, 2017 and 2016, respectively.

On September 1, 2015, Capital Impact Partners entered into an agreement with CoMetrics to provide a program related investment loan in the aggregate principal amount of $300,000 to finance its business and operations, consistent with its cooperative purposes. The loan was funded in two separate tranches and pays interest at an initial rate of 1 percent and increases to 5 percent if CoMetric's earnings reach a certain level. Capital Impact Partners has advanced $300,000, as of December 31, 2017. The loan has earned interest of $3,030 and $3,157 as of December 31, 2017 and 2016, respectively.

Furniture, equipment and leasehold improvements at December 31, 2017 and 2016, were comprised as follows:

	2017	2016
Furniture, equipment and software	$ 713,591	$ 332,325
Leasehold improvements	1,386,375	163,547
	2,099,966	495,872
Less accumulated depreciation and amortization	(478,006)	(294,727)
	$ 1,621,960	$ 201,145

Note 11. Notes and Bond Payable, Revolving Lines of Credit, Subordinated Debt and Investor Notes

Notes and bond payable, revolving lines of credit, subordinated debt and investor notes as of December 31, 2017 consist of the following:

Lender/Type	Original Commitment under Bond and Notes Payable	Available Undrawn	Balance December 31, 2017	Balance December 31, 2016	Interest Rate	Maturity Date
Calvert Foundation	$ 6,700,000	$ -	$ 6,700,000	$ 6,700,000	2.75%	June 2020
Bank of America	12,000,000	-	3,000,000	6,000,000	3.75%	September 2018
Ford Foundation	3,000,000	-	230,269	1,184,835	1.00%	September 2018
California Community Foundation	6,000,000	-	936,347	916,638	1.00%	June 2018
Rasmuson Foundation	200,000	-	200,000	200,000	1.00%	December 2020
PNC Bank	10,000,000	-	-	8,483,362	3.50%	December 2017
Living Cities Catalyst	5,500,000	-	5,500,000	5,500,000	2.00%	December 2020
Robert Wood Johnson	10,000,000	-	5,000,000	5,000,000	2.00%	December 2023
Kellogg Foundation	1,500,000	-	1,224,765	1,320,149	1.00%	July 2022
AARP Foundation	1,000,000	-	1,000,000	1,000,000	2.00%	May 2023
Opportunity Finance Network	2,500,000	-	2,500,000	2,500,000	3.00%	October 2023
AARP Foundation	4,000,000	-	4,000,000	4,000,000	2.00%	December 2026
Ford Foundation	3,000,000	-	2,751,007	2,705,208	1.00%	February 2024
Kellogg Foundation	3,000,000	-	3,000,000	3,000,000	1.00%	May 2025
Northern Trust	1,000,000	-	1,000,000	1,000,000	1.00%	September 2020
The California Endowment	10,000,000	-	10,000,000	1,350,806	2.00%	December 2027
Fisher Foundatioin	250,000	-	250,000	250,000	1.00%	March 2026
JPMC	15,000,000	-	15,000,000	15,000,000	3.78%	May 2023
Ford Foundation	3,000,000	1,880,000	1,120,000	-	1.00%	May 2026
Kresge Foundation	800,000	-	800,000	600,000	1.00%	June 2023
Impact Community Capital	10,000,000	-	10,000,000	-	0.88%	January 2022
Kresge Foundation PRI for Memphis	2,000,000	-	2,000,000	-	2.00%	August 2027
	110,450,000	1,880,000	76,212,388	66,710,998		
JPMC Revolving Line of Credit (a)	100,000,000	40,000,000	60,000,000	32,000,000	Libor + 2.00%	December 2018
HSBC Revolving Line of Credit	10,000,000	-	10,000,000	-	2.84%	May 2022
Schwab Revolving Line of Credit	15,000,000	-	15,000,000	-	LIBOR +1.75%	August 2018
Wells Fargo (Subordinated Debt)	2,500,000	-	2,500,000	2,500,000	2.00%	December 2023
Small Business Loan Fund (Subordinated Debt)	8,218,000	-	8,218,000	8,218,000	2.00%	September 2019
Bond Loan Payable (b) (Secured Debt)	55,000,000	12,218,000	40,930,079	28,625,536	Various	March 2044
Bond Loan Payable (b) (Secured Debt)	40,000,000	40,000,000	-	-	Various	January 2046
FHLB (c) (Secured Debt)	42,463,165	31,463,165	11,000,000	5,000,000	2.53%	December 2023
Investor Notes (d) - At Par			41,777,000	-	Various	2020 - 2027
	383,631,165	125,561,165	265,637,467	143,054,534		
Investor notes unamortized issuance cost			(1,042,787)	-		
	$ 383,631,165	$ 125,561,165	$ 264,594,680	$ 143,054,534		

Capital Impact Partners has certain debt agreements that contain both operational and financial covenants requiring Capital Impact Partners to maintain minimum cash and cash equivalents balances and certain financial ratios.

Note 11. Notes and Bond Payable, Revolving Lines of Credit, Subordinated Debt and Investor Notes (Continued)

(a) JPMC Revolving Line of Credit: Capital Impact Partners has a revolving line of credit with a group of four lenders, in which JPMC is the administrative agent and one of the lenders.

(b) CDFI Bond Guarantee Program: The CDFI Bond Guarantee Program was enacted through the Small Business Jobs Act of 2010. The bond provides fixed-rate long-term capital, which can be used to finance eligible community and economic development purposes, such as small businesses, charter schools, health care facilities, and affordable housing.

On September 25, 2014, Capital Impact Partners was awarded a $55,000,000 allocation in the $200,000,000 issuance of the CDFI Fund Bond Guarantee Program to Community Reinvestment Fund, USA. Capital Impact Partners, per the Bond Guarantee Program's requirements, committed at least 50 percent of its allocation, or $27,500,000, by September 25, 2015, and committed the remaining 50 percent, or $27,500,000, by September 25, 2016, but has until September 25, 2019 to draw down on the bond. As a condition of the program, Capital Impact Partners must pledge eligible secondary borrower loans as collateral to draw on the loan. The loans bear interest at the applicable Federal Financing bank rate +37.5 bps liquidity premium at the time of each draw down. Under the program, bonds are purchased by the Federal Financing Bank and carry a 100 percent guarantee from the Secretary of the Treasury.

On July 15, 2016, Capital Impact Partners was awarded an additional $40,000,000 allocation in the $165,000,000 issuance of the CDFI Fund Bond Guarantee Program to Community Reinvestment Fund, USA. Capital Impact Partners, per the Bond Guarantee Program's requirements, will have to commit at least 50 percent of its allocation, or $20,000,000, by July 15, 2017, and will have to commit the remaining 50 percent, or $20,000,000, by July 15, 2018, but will have until July 15, 2021, to draw down on the bond.

Capital Impact Partners has drawn on the 2014 bond and advanced bond proceeds to end borrowers as of December 31, 2017 and 2016, the loans payable balance was $40,930,079 and $28,625,536, respectively, secured by pledged loans receivable of $42,437,991 and $29,296,013, respectively. Capital Impact Partners has not drawn on the 2016 bond or advanced any of the bond proceeds to end borrowers.

Capital Impact Partners paid approximately $2,200 and $127,425 in facility fees related to this program for the years ended December 31, 2017 and 2016, respectively.

(c) FHLB borrowing: As a member bank, Capital Impact Partners may request advances from FHLBank Atlanta. As of December, 31, 2017, the outstanding balance was $11,000,000 secured by Mortgage Backed and U.S. Treasury Securities in the amount of $48,249,579. As of December, 31, 2016, the outstanding balance was $5,000,000 secured by Mortgage Backed and U.S. Treasury Securities in the amount of $14,185,960. (See Note 6).

(d) Investor Notes: Capital Impact Partners launched an Investor Notes program in 2017, for up to $100,000,000. The Notes are sold through the Depository Trust Company (DTC). The Lead Selling Agent, InCapital, agrees to sell these notes to other agents on Capital Impact Partner’s behalf. The Notes were issued in increments of $1,000 or more and pay interest at a various fixed interest rates. The terms for the Notes were 3 year, 5 year, 7 year and 10 year maturities.

US Bank has been designated as the indenture trustee to the indenture agreement and serves as paying agent for the Notes. The Notes are senior to the subordinated loans. At December 31, 2017, the Note holders held $41,777,000 of the total Notes payable balance. Interest rates range between 2.2% and 3.2%.

Note 11. Notes and Bond Payable, Revolving Lines of Credit, Subordinated Debt and Investor Notes (Continued)

Aggregate annual maturities of Capital Impact Partners' Investor Notes over each of the next five years and thereafter, as of December 31, 2017, are as follows:

Years ending December 31:	
2018	$ -
2019	-
2020	1,194,000
2021	-
2022	25,225,000
Thereafter	15,358,000
	$ 41,777,000

Aggregate annual maturities of Capital Impact Partners' borrowings over each of the next five years and thereafter, as of December 31, 2017, are as follows:

Years ending December 31:	
2018	$ 80,632,586
2019	12,974,365
2020	15,195,537
2021	9,377,913
2022	55,633,934
Thereafter	91,823,132
	$ 265,637,467

U.S. GAAP requires interest expense and contribution revenue to be reported in connection with loans of cash to not-for-profit organizations that are interest free or that have below-market interest rates. The contribution is recognized at the time the loan is made and amortized using the effective interest method. The accretion increases interest expense and notes payable.

For the Ford Foundation, Capital Impact Partners recognized interest expense of $45,434 and $55,122 for the years ended December 31, 2017 and 2016, respectively.

For the California Community Foundation, Capital Impact Partners recognized interest expense of $19,708 and $19,293 for the years ended December 31, 2017 and 2016, respectively.

For the Kellogg Foundation, Capital Impact Partners recognized interest expense of $4,617 and $6,516 for the years ended December 31, 2017 and 2016, respectively.

For the Ford Foundation received in 2014, Capital Impact Partners recognized interest expense of $45,799. and $45,037 for the years ended December 31, 2017 and 2016, respectively.

Note 11. Notes and Bond Payable, Revolving Line of Credit Subordinated Debt and Investor Notes (Continued)

Aggregate interest accretion over the next five years and thereafter for Capital Impact Partners' loans with below-market interest rates as of December 31, 2017, is as follows:

	Ford Foundation 1	California Community Foundation	Kellogg Foundation	Ford Foundation 2	Totals
Years ending December 31:					
2018	$ 19,731	$ 11,639	$ 10,500	$ 46,574	$ 88,444
2019	-	-	5,766	47,363	53,129
2020	-	-	5,188	48,165	53,353
2021	-	-	3,131	48,980	52,111
2022	-	-	649	35,721	36,370
Thereafter	-	-	-	22,190	22,190
	$ 19,731	$ 11,639	$ 25,234	$ 248,993	$ 305,597

Note 12. Notes Payable – Subsidiaries

Subsidiary	Lender	Commitment	December 31, 2017	December 31, 2016	Interest Rate	Maturity Date	Payment Details
Impact V CDE 7	Merrill Lynch NMTC Corp. (a)	17,687,500	$ 17,687,500	$ 17,687,500	LIBOR + 3.00%	January 2018	Monthly interest
Impact V CDE 7	Merrill Lynch NMTC Corp. (c)	7,312,500	73,125	7,312,500	2.00%	January 2018	Annual interest
Impact V CDE 7	Merrill Lynch NMTC Corp. (b)	4,594,659	4,594,659	4,594,659	6.686%	January 2018	Monthly interest
Impact V CDE 7	Merrill Lynch NMTC Corp. (c)	1,899,558	18,996	1,899,558	1.00%	January 2018	Monthly interest
Total Impact V CDE 7		31,494,217	22,374,280	31,494,217			
DNF, LLC (d)	JP Morgan Chase	20,000,000	15,985,441	8,506,593	2.00%	June 2029	Monthly interest
FPIF, LLC (d)	FPIF Feeder Facility LP	65,400,000	21,797,935	10,578,338	3.13%	August 2031	Monthly interest and principal
WWCF, LLC (d)	Senior Lenders (Note 8)	15,000,000	-	-	5.00%	December 2031	Monthly interest
WWCF, LLC (d)	Kresge Foundation	5,000,000	-	-	4.00%	December 2031	Monthly interest
WWCF, LLC (d)	Calvert Foundation	5,000,000	-	-	4.00%	December 2031	Monthly interest
		$ 141,894,217	$ 60,157,656	$ 50,579,148			

(a) Commencing October 1, 2030, monthly payments of principal and interest were due, pursuant to a 10-year amortization schedule in amounts sufficient to amortize the note until maturity on September 29, 2040, at which time all outstanding principal and any accrued interest were due. However, as discussed in Note 21, the maturity of the note has been accelerated as a result of an unwind in 2018. Maturity is now on January 22, 2018, at which time all outstanding principal and any accrued interest shall be due. The loan is with sole recourse to Impact V CDE 7 and includes no obligation for repayment on the part of Capital Impact Partners.

(b) Commencing February 1, 2031, principal and interest were due until maturity on January 5, 2041, at which time all outstanding principal and any accrued interest were due. However, as discussed in Note 21, the maturity of the note has been accelerated as a result of an unwind in 2018. Maturity is now on January 18, 2018, at which time all outstanding principal and any accrued interest shall be due. The loan is with sole recourse to Impact V CDE 7 and includes no obligation for repayment on the part of Capital Impact Partners.

(c) As discussed in Note 21, the maturity of the notes has been accelerated as a result of an unwind in 2018 and cancellation of debt income of $9,119,937 has been recognized in the year ended December 31, 2017. Maturity is now in January 2018, at which time all remaining outstanding principal and any accrued interest shall be due. The loans are with sole recourse to Impact V CDE 7 and include no obligation for repayment on the part of Capital Impact Partners.

Note 12. Notes Payable – Subsidiaries (Continued)

(d) The loan commitments under DNF LLC, FPIF, LLC and WWCF, LLC are with sole recourse to DNF, LLC, FPIF, LLC and WWCF, LLC and include no obligation for repayment on the part of Capital Impact Partners.

Aggregate annual maturities of subsidiary borrowings over each of the next five years and thereafter, as of December 31, 2017, are as follows:

Years ending December 31:	
2018	$ 22,636,829
2019	276,701
2020	290,771
2021	307,296
2022	4,811,673
Thereafter	31,834,386
	$ 60,157,656

Note 13. Temporarily Restricted Net Assets

Temporarily restricted net assets are those net assets whose use by Capital Impact Partners is limited by the donors for a special purpose or restricted to be used in a later period. At December 31, 2017 and 2016, temporarily restricted net assets consisted of the following:

Grantor	Purpose	2017	2016
Department of Education	Charter School Program	$ 14,318,832	$ 14,309,903
California Healthy Food Financing Initiative	Healthy Food Financing	-	115,875
CDFI Fund	Healthy Food Financing	-	2,400,000
CDFI Fund	Financial Assistance	-	2,000,000
Kellogg Foundation	Healthy Food Financing	474,982	1,828,838
Ford Foundation	Shared Equity	-	22,861
AARP Foundation	Aging Initiative	284,362	362,944
Kresge Foundation	Detroit Corridor Initiative	111,111	758,333
JP Morgan Chase Bank	Detroit Corridor Initiative	500,000	302,671
Ford Foundation	Detroit Corridor Initiative	359,237	437,500
The California Endowment	California Healthcare Lending	209,417	236,190
Other programs	Various	547,043	494,504
		$ 16,804,984	$ 23,269,619

Contributions receivable of $525,000 and $6,030,676, respectively, as of December 31, 2017 and 2016, were both time restricted and purpose restricted and are included in the above amounts.

Capital Impact Partners received grant funding from Los Angeles County Children and Families First – Proposition 10 Commission (aka First 5 LA) in 2014 to support the Food Enterprise Microlending Intermediary (FEMI) Program. The grant funds were available under the agreement until December 31, 2016, for disbursement to approved borrowers. Some of the borrowers were not able draw their entire loan amount. As of December 31, 2016, the remaining balance of $161,762 was relinquished which required the corresponding receivable and revenue balances to be reversed. These transactions were reflected in the statement of activities for the year ended December 31, 2016.

Note 14. Permanently Restricted Net Assets

At December 31, 2017 and 2016, permanently restricted net assets consisted of the following:

	2017	2016
Robert Wood Johnson Foundation - Revolving Loan Fund: A gap financing measure primarily used for development and expansion of small businesses	$ 1,487,475	$ 1,487,475

The revolving loan fund is a gap financing measure primarily used for development and expansion of small businesses.

Note 15. Related Party Transactions

NCB and NCB Financial Savings Bank (NCB, FSB): As of December 31, 2017 and 2016, Capital Impact Partners had a payable of $0 and $74,889 respectively, with NCB related to payments made by NCB on behalf of Capital Impact Partners throughout the year.

NCB provided certain management, administrative, consulting, bookkeeping, loan servicing and computer services to Capital Impact Partners under a service agreement. Total fees paid for these services were $36,421 and $269,000 for the years ended December 31, 2017 and 2016, respectively and are included in the management and general category in the statements of activities.

Capital Impact Partners is allocated rent expense from NCB. Total rent payments were $653,604 and $623,948 for the years ended December 31, 2017 and 2016, respectively.

An agreement regarding vacation of premises, with NCB, was signed on July 1, 2016. This agreement outlines that Capital Impact Partners will vacate the current office space on December 1, 2017. Additionally, Capital Impact Partners will continue to make monthly payments to NCB from December 1, 2017 to August 1, 2021, unless events occur which reduce these payments. The net present value of these payments totals $2,668,125.

Capital Impact Partners maintains cash accounts with NCB, FSB. Balances totaled $14,585,874 and $17,057,880 as of December 31, 2017 and 2016, respectively.

In the normal course of business, Capital Impact Partners, NCB and NCB, FSB will sell and purchase loan participations from each other. As of December 31, 2017 and 2016, such participations have included loans to:

Center for Elders Independence: Capital Impact Partners purchased the outstanding balance of this loan from NCB, FSB during 2014. Capital Impact Partners' balance was $1,141,869 and $1,171,165 as of December 31, 2017 and 2016, respectively.

Numero Uno: Capital Impact Partners purchased the outstanding balance of this loan from NCB, FSB during 2017. Capital Impact Partners' balance was $3,000,000 as of December 31, 2017.

Poplar Grove: Capital Impact Partners sold 50% of the outstanding balance of this loan to NCB, FSB during 2017. Capital Impact Partners' balance sold was $2,500,000.

Note 15. Related Party Transactions (Continued)

During 2011, Capital Impact Partners, NCB, FSB and NCB entered into a Memorandum of Understanding (MOU), which states that the three organizations will endeavor to work together on cooperative development and loans to underserved communities. Subsequent to the governance change of Capital Impact Partners, it was the intent of the boards of directors for all three organizations for Capital Impact Partners to continue their long history of collaborating on cooperative development and initiatives focused in low income communities.

In February 2011, Capital Impact Partners closed $2,046,362 in financing to Dayspring Investment Fund, LLC, (Dayspring) as part of a NMTC transaction. NCB, FSB, simultaneously closed a $1,900,000 commitment to Dayspring. The loans pay interest only and are due and payable in November 2018. Capital Impact Partner's debt is subordinate to NCB, FSB's exposure. NCB, FSB, independently underwrote and approved the transaction, which is serviced and monitored by Capital Impact Partners under a separate agreement.

Capital Impact Partners also jointly participated with NCB, FSB, to make a loan to the Alliance for College-Ready Public Schools. NCB, FSB, provided $6,000,000 in financing and Capital Impact Partners provided approximately $4,500,000 in financing as part of this NMTC transaction. Alliance purchased the leveraged debt on April 15, 2015. The NMTC transaction reached its 7-year transaction period in June 2016 and was completely dissolved.

The original non-managing member of Impact V CDE 7, LLC was NCB. On September 28, 2010, NCB transferred its member interest to Impact NMTC Holdings, LLC. The members in Impact NMTC Holdings, LLC are Capital Impact Partners (99.99 percent) and NCB (0.01 percent). In March 2017, Impact NMTC Holdings II, LLC was created to replace Impact NMTC Holdings, LLC. Impact NMTC Holdings II, LLC is wholly owned by Capital Impact Partners.

ROC USA, LLC: ROC USA Capital is a wholly-owned subsidiary of ROC USA, LLC (See Note 1). Capital Impact Partners has purchased loan participations from ROC USA Capital in the ordinary course of business. The balance for the purchased loan participation from ROC USA Capital as of December 31, 2017 and 2016 was $4,387,672 and $2,682,114, respectively. Capital Impact Partners services these loans; however, per an agreement between Capital Impact Partners and ROC USA, LLC, Capital Impact Partners does not earn a servicing fee.

CSFP: In December 2011, Capital Impact Partners purchased a $500,000 participation in a $3,500,000 investment made by the Charter School Financing Partnership, in which Capital Impact Partners is a 20 percent partner, as more fully described in Note 10.

CoMetrics: Also on September 1, 2015, Capital Impact Partners entered into an agreement with CoMetrics to provide a program related investment loan in the aggregate principal amount of $300,000 to finance its business and operations, consistent with its cooperative purposes, as more fully described in Note 10. Prior to May 2015, one of Capital Impact Partners' employees served on the board of CoMetrics. Currently, the Capital Impact Partners Board of Directors chairperson is the Board chairperson, owner-member and consultant for CoMetrics.

Other: In the normal course of business, members of the Capital Impact Partners Board of Directors may be related to cooperatives receiving or eligible to receive loans. Capital Impact Partners has conflict of interest policies, which require, among other things, that a board member be disassociated from decisions that pose a conflict of interest, or the appearance of a conflict of interest.

Note 15. Related Party Transactions (Continued)

Loans to applicants who are affiliated with a member of Capital Impact Partners are subject to the same eligibility and credit criteria, as well as the same loan terms and conditions, as all other loan requests. Any new loan made to an organization related to a member of the Board is reported to the Finance, Audit and Risk Committee at the next regular meeting. An analysis of the activity during the years ended December 31, 2017 and 2016, for the aggregate amount of these loans is as follows:

Balance, December 31, 2015	$ 16,915,125
Net changes	3,207,980
Balance, December 31, 2016	20,123,105
Net changes	3,473,345
Balance, December 31, 2017	$ 23,596,450

Note 16. New Markets Tax Credit Program (NMTC)

During 2005, Capital Impact Partners implemented its NMTC program and has 38 and 37 Limited Liability Companies (LLCs) that are CDEs, through December 31, 2017 and 2016, respectively. Of the 38 LLCs, there are a total of 3 Investment Funds in which Capital Impact Partners has an interest, all of which are Chase NMTC deals.

The LLCs were formed to obtain qualified equity investments from investors and make qualified investments in Qualified Active Low-Income Community Businesses (QALICB) in accordance with the terms of the NMTC program pursuant to Section 45D of the Internal Revenue Code. Investors made capital contributions of approximately $57,000,000 and $0 million to these LLCs during 2017 and 2016, respectively, in anticipation of receiving new markets tax credits of approximately $22,230,000 and $0 million in 2017 and 2016, respectively. Capital Impact Partners serves as the managing member of these LLCs, contributed nominal capital, and has financial interests in the NMTC entities noted below.

During 2017, 6 of the NMTC entities reached their 7-year transaction period and were completely dissolved. In connection with the dissolution of these entities, Capital Impact Partners incurred a loss of $3,941, which is reflected in the statement of activities for the year ended December 31, 2017. During 2016, 5 of the NMTC entities reached their 7-year transaction period and were completely dissolved. In connection with the dissolution of these entities, Capital Impact Partners incurred a gain of $17,440, which is reflected in the statement of activities for the year ended December 31, 2016.

Note 16. New Markets Tax Credit Program (NMTC) (Continued)

Capital Impact Partners serves as the managing member of the following deals which includes deals with Chase NMTC entities below:

Impact V CDE 7 LLC	Impact CDE 47 LLC
Impact V CDE 9 LLC	Impact CDE 48 LLC
Impact V CDE 10 LLC	Impact CDE 49 LLC
Impact VI CDE 5 LLC	Impact CDE 50 LLC
Impact VI CDE 7 LLC	Impact CDE 51 LLC
Impact VI CDE 8 LLC	Impact CDE 52 LLC
Impact VI CDE 9 LLC	Impact CDE 53 LLC
Impact VI CDE 10 LLC	Impact CDE 54 LLC
Impact VII CDE 1 LLC	Impact CDE 55 LLC
Impact VII CDE 2 LLC	Impact CDE 56 LLC
Impact VII CDE 3 LLC	Impact CDE 57 LLC
Impact VII CDE 4 LLC	Impact CDE 58 LLC
Impact VII CDE 5 LLC	Impact CDE 59 LLC
Impact CDE 41 LLC	Impact CDE 60 LLC
Impact CDE 42 LLC	Impact CDE 62 LLC
Impact CDE 43 LLC	Impact CDE 63 LLC
Impact CDE 44 LLC	Chase NMTC Charter Oak IF, LLC
Impact CDE 45 LLC	Chase NMTC Henry Ford IF, LLC
Impact CDE 46 LLC	Chase NMTC Northgate Markets IF, LLC

At December 31, 2017 and 2016, Capital Impact Partners had a .01 percent interest in each of the above entities, except for Impact V CDE 7 LLC, in which Capital Impact Partners had a 99.99 percent interest.

The total amount of the investment is as follows:

	Amount of Investment 2017	Amount of Investment 2016
Capital Impact Partners New Markets Tax Credit Entities	$ 45,230	$ 40,681
Chase New Markets Tax Credit Entities	780	1,833
	$ 46,010	$ 42,514

Note 16. New Markets Tax Credit Program (NMTC) (Continued)

The following is a summary of the audited financial information of these companies as of and for the years ended December 31, 2017 and 2016:

	2017	2016
Total assets	$ 284,193,894	$ 318,684,647
Total liabilities	20,026,996	48,893,155
Members' capital	264,166,898	269,791,492
Total revenue	8,098,106	9,889,415
Total expenses	13,254,256	4,537,059
Net income (loss)	(5,156,150)	5,352,356

Under the agreements with the LLCs, Capital Impact Partners earns fees for its initial services including investor syndication, LLC organization, loan origination, NMTC sub-allocation, etc. Capital Impact Partners also earns continuing fees for loan servicing. As explained in Note 1, Capital Impact Partners qualifies to use the residual method for these revenue arrangements with multiple deliverables. During the years ended December 31, 2017 and 2016, Capital Impact Partners earned $1,419,138 and $1,543,125, respectively, of servicing fees from these LLCs. In addition, as of December 31, 2017 and 2016, Capital Impact Partners reflected accounts receivable of $17,002 and $6,477, respectively.

In most of the agreements with the LLCs, Capital Impact Partners could be responsible for reimbursing the LLCs in the event of recapture and/or loss of the tax credits for failure to comply with Section 45D of the Internal Revenue Code as a result of errors made by Capital Impact Partners in its role as Managing Member. In most cases, the amount of reimbursement is limited to fees received or a multiple thereof. Capital Impact Partners has retained qualified consultants and implemented control systems to minimize the potential of any such recapture. Management believes the likelihood of recapture is remote and no liabilities have been recorded as of December 31, 2017 and 2016.

Capital Impact Partners was awarded its sixth NMTC allocation in the amount of $70,000,000 in November of 2016 bringing the total NMTC allocation to $562,000,000 as of December 31, 2017. See Note 20 for an allocation awarded subsequent to year-end.

Note 17. Commitments and Contingencies

Capital Impact Partners signed a new 15-year lease agreement for its Arlington, Virginia offices on October 19, 2016. The new location is 1400 Crystal Drive Suite 500 Arlington, Virginia. After completion of the buildout of the suite, the move in date was December 1, 2017. The lease commitment period is from December 1, 2017 through November 30, 2032. The lease agreement provides for annual escalations on base rent and there is a 5-year renewal option after the initial 15-year lease term.

The lease agreement provides for a tenant allowance of $1,553,284 that was fully utilized to defray the buildout costs of the suite and furniture. The lease agreement also provides for rent abatement of a 50% discount on the monthly rent payments within the first 34 months of occupancy. A deferred rent liability is recorded in the acing statement of financial position that represents the cumulative difference between the monthly rent expense and the rent paid and includes the tenant allowance as a lease incentive. The deferred rent liability is amortized using the straight-line method over a 15-year term. The amortization is presented in the statement of activities as an offset to rent expense.

Note 17. Commitments and Contingencies (Continued)

Capital Impact Partners leases its offices and certain office equipment under non-cancelable operating leases. Capital Impact Partner's future annual minimum payments under these leases are as follows:

Years ending December 31:	
2018	$ 562,949
2019	583,349
2020	684,738
2021	819,841
2022	811,068
Thereafter	9,225,374
	$ 12,687,319

Rent expense was $934,086 and $919,555 for the years ended December 31, 2017 and 2016, respectively. An agreement regarding vacation of premises, with NCB, was signed on July 1, 2016. This agreement outlines that Capital Impact Partners will vacate the current office space on December 1, 2017. Additionally, Capital Impact Partners will continue to make monthly payments to NCB from December 1, 2017 to August 1, 2021, unless events occur which reduce these payments. Since Capital Impact Partners does not have use of the premises, this is reported as a non-operating expense of $2,727,544 on the statement of activities for the year ended December 31, 2017, and an offsetting liability of $2,668,125 on the statement of financial position as of December 31, 2017, which represents the net present value of these payments through December 31, 2017.

Capital Impact Partners is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers or business partners. These financial instruments include commitments to extend credit and standby letters of credit. These instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the balance sheet. The contract or notional amounts of these instruments reflect the extent of Capital Impact Partner's involvement in these particular classes of financial instruments. Capital Impact Partner's exposure to credit loss, in the event of nonperformance by the other party, is represented by the contractual or notional amount of those instruments. Capital Impact Partners uses the same credit policies in making commitments and conditional obligations as they do for on-balance sheet instruments.

In the normal course of business, Capital Impact Partners makes commitments to extend term loans, BPAs and lines of credit, which are not reflected in the accompanying financial statements. The commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being completely drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Capital Impact Partners evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by Capital Impact Partners upon extension of credit, is based on management's credit evaluation of the borrower. At December 31, 2017 and 2016, these outstanding commitments totaled $32,963,841.

Note 18. Employee Benefits

Capital Impact Partners' employees participated in the NCB non-contributory defined contribution retirement plan and the 401(k) plan through the end of April 2016. Beginning in May 2016, Capital Impact Partners implemented its own retirement and 401(k) plans and terminated participation in the NCB plans. Under the non-contributory defined contribution retirement plan, Capital Impact Partners contributes 6 percent of a participant's annual salary into the plan. Total expenses for the retirement plans for the years ended December 31, 2017 and 2016 were $501,494 and $446,814, respectively. The employee thrift plan is organized under IRS Code Section 401(k) and Capital Impact Partners contributes up to 6 percent of each participant's annual salary. Contributions and expenses were $520,130 and $444,804 for 2017 and 2016, respectively.

Note 19. Fair Value

Fair value measurements: Capital Impact Partners uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. In accordance with accounting guidance, the fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for Capital Impact Partner's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

If there has been a significant decrease in the volume and the level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires the use of significant judgment. The fair value is a reasonable point within the range that is most representative of fair value under current market conditions. A three-level hierarchy exists for fair value measurements based upon the inputs to the valuation of an asset or liability. The classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement.

Level 1: Valuation is based on quoted prices in active markets for identical assets or liabilities;

Level 2: Valuation is determined from observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; or inputs that are observable for the asset or liability, either directly or indirectly through market corroboration, for substantially the full term of the financial instrument;

Level 3: Valuation is derived from model-based and other techniques in which one significant input is unobservable in the market and which may be based on Capital Impact Partner's own estimates about assumptions that a market participant would use to value the asset or liability.

Note 19. Fair Value (Continued)

Fair value on a recurring basis: The table below presents the financial assets measured at fair value on a recurring basis:

	December 31, 2017	Level 1	Level 2	Level 3
Assets:				
Marketable equity securities	$ 217,342	$ 217,342	$ -	$ -
Real estate investment trust	1,335,000	-	-	1,335,000
Other investments	514,326	-	-	514,326
Mortgage backed securities	46,495,194	-	46,495,194	-
U.S. Treasury securities	1,754,385	-	1,754,385	-
	$ 50,316,247	$ 217,342	$ 48,249,579	$ 1,849,326

	December 31, 2016	Level 1	Level 2	Level 3
Assets:				
Marketable equity securities	$ 489,624	$ 489,624	$ -	$ -
Real estate investment trust	1,335,000	-	-	1,335,000
Other investments	503,816	-	-	503,816
Mortgage backed securities	13,979,160	-	13,979,160	-
U.S. Treasury securities	206,800	-	206,800	-
	$ 16,514,400	$ 489,624	$ 14,185,960	$ 1,838,816

The following is a description of the valuation methodologies used for instruments measured at fair value. These valuation methodologies were applied to all of Capital Impact Partner's financial assets that are carried at fair value on a recurring basis.

Marketable equity securities: The fair value of these securities is the market value based on quoted market prices, or market prices provided by recognized broker dealers. Therefore, these assets are classified as Level 1.

Real estate investment trust (REIT): The fair value of the REIT is based upon a dividend yield capitalization method of establishing fair value developed by the REIT and communicated to its investors. It reflects the nature of the REIT's business, and measures the REIT's ability to produce cash flow to pay dividends. Under the dividend yield capitalization methodology, the expected dividends for the upcoming 12 months are projected, imputing a dividend payout ratio of 90 percent. This imputed forward-looking dividend is then capitalized at the Dow Jones Corporate Financials Index yield – a composite of 32, long-term bond issuances from established, creditworthy financial institutions. Fair value is derived by capitalizing the projected dividend per share at this market yield and is also supported by the REIT's net asset valuation (NAV) under the rational that, the REIT is, at a minimum, worth the liquidation value of its assets. Therefore, these assets are classified as Level 3 and use Level 3 inputs to fair value.

Stock donation: Included in other investments is donated stock. As of December 31, 2017 and 2016, the fair value of donated stock is calculated using various weightings of the Guideline Public Company Method, Merger and Acquisition Method and the Adjusted Net Asset Method, as well as inputs from financial statement data, publicly available financial information and market research. Regression analysis of market capitalization to tangible book value of similar companies was used to derive an appropriate price-to-tangible book multiple. Based on this information, donated stock is classified as Level 3.

Note 19. Fair Value (Continued)

Mortgage Backed and U.S. Treasury securities: These securities receive interest income based on their stated interest rates and are classified as Level 2 instruments, as there are no quoted market prices in active markets for identical assets. The fair value is determined using models and other valuation methodologies, which are corroborated by market data.

Other investments: The fair value of other investments is generally based upon the ending capital value evidenced by the issuers' K-1 or audited financial statements. In some instances, equity method is used as most closely approximating fair value. Therefore, these assets are classified as Level 3.

There was no change in the valuation techniques used to measure fair value of investments in the years ended December 31, 2017 and 2016.

Changes in Level 3 assets measured at fair value on a recurring basis are summarized as follows:

	2017	2016
Beginning balance at January 1	$ 1,838,816	$ 1,989,560
Total net gains (losses) included in change in net assets	13,653	(128,724)
Purchases	-	-
Distributions	(3,143)	(22,020)
Ending balance at December 31	$ 1,849,326	$ 1,838,816

Fair value on a nonrecurring basis: Certain financial instruments and liabilities are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). The table below presents the assets measured at fair value on a nonrecurring basis.

	December 31, 2017	Level 1	Level 2	Level 3
Assets:				
Impaired loans, net of specific reserves	$ -	$ -	$ -	$ -

	December 31, 2016	Level 1	Level 2	Level 3
Assets:				
Impaired loans, net of specific reserves	$ 54,271	$ -	$ -	$ 54,271

Note 19. Fair Value (Continued)

Impaired Loans Net of Specific Reserves, which are measured for impairment using the loan's observable market price or the fair value of the collateral for collateral-dependent loans. Appraised and reported values may be discounted based on management's historical knowledge, changes in market conditions from the time of valuation, and/or management's expertise and knowledge of the client and client's business. Based on this information, impaired loans, net of specific reserves, are valued using Level 3 inputs. The valuation allowance for impaired loans is included in the allowance for loan losses in the statements of financial position.

Note 20. Noncontrolling Interest in Consolidated Subsidiary

CIIF began operations on December 13, 2017. The net income of CIIF for the period ended December 31, 2017 was $71,011, of which $18,307 was allocated to Capital Impact Partners (managing member with 20% ownership) and $52,704 was allocated to Annaly (non-managing member with 80% ownership). Annaly made capital contributions of $20,104,058 and was due distributions of $52,511 as of December 31, 2017. Capital Impact Partners presents the noncontrolling interest in CIIF, its consolidated subsidiary, as a separate line item within net assets in the statement of financial position.

Note 21. Subsequent Events

Capital Impact Partners has evaluated its subsequent events (events occurring after December 31, 2017) through March 26, 2018, which represents the date the financial statements were available to be issued.

Impact V CDE 7 reached its 7-year transaction period in January 2018 and was completely dissolved. In connection with the dissolution, Capital Impact Partners incurred a loss of $17,580.

On January 18, 2018, one of Impact V CDE 7's borrowers fully repaid the $4,594,659 loan receivable and made a principal payment of $18,996 on the $1,899,558 loan receivable, as well as all accrued interest receivable on these loans. Upon receipt of the partial principal repayment of $73,125, Impact V CDE 7 assigned the remaining outstanding balance of the loan receivable to an affiliate of the borrower for $1. On that same day, Impact V CDE 7 repaid the Lender in full on the $4,594,659 loan payable and made a principal payment of $18,996 on the $1,899,558 loan payable, as well as all accrued interest payable on these loans. The Lender forgave the remaining outstanding principal balance on the loan payable.

On January 22, 2018, another one of Impact V CDE 7's borrowers repaid the $17,687,500 loan receivable and made a principal payment of $73,125 on the $7,312,500 loan receivable, as well as all accrued interest receivable on these loans. On that same day, Impact V CDE 7 repaid the Lender in full on the $17,687,500 loan payable and made a principal payment of $73,125 on the $7,312,500 loan payable, as well as all accrued interest payable on these loans. The Lender forgave the remaining outstanding principal balance on the loan payable.

As a result, bad debt expense – subsidiary of $9,119,937 and cancellation of debt income – subsidiary of $9,119,937 has been recognized in the statement of activities for the year ended December 31, 2017.

Capital Impact Partners was awarded its seventh NMTC allocation in the amount of $65,000,000 in February of 2018 bringing the total NMTC allocation to $627,000,000.