NORTHCOUNTRY COOPERATIVE DEVELOPMENT FUND D/B/A SHARED CAPITAL COOPERATIVE

FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

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D/B/A SHARED CAPITAL COOPERATIVE

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INDEPENDENT AUDITOR'S REPORT

Board of Directors and Members
Minneapolis, Minnesota

We have audited the accompanying financial statements of Northcountry Cooperative Development Fund d/b/a Shared Capital Cooperative, which comprise the balance sheets as of December 31, 2015 and 2014, and the related statements of operations, stockholders' equity, and cash flows for the years then ended, and the related notes to 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 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.

(Continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Shared Capital Cooperative as of December 31, 2015 and 2014, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Mahoney Ulbrich
Christiansen Russ P.A.

Saint Paul, Minnesota
March 31, 2016

NORTHCOUNTRY COOPERATIVE DEVELOPMENT FUND
D/B/A SHARED CAPITAL COOPERATIVE

BALANCE SHEETS

December 31, 2015 and 2014

		2015		2014
ASSETS				
Current assets:				
Cash	$	4,165,576	$	1,601,936
Funds held for others		828,536		128,609
Current maturities of loans receivable		1,751,998		1,994,219
Accrued interest receivable		29,645		25,743
Grants and other receivables		2,418		99,904
Prepaid expenses		14,057		5,870
Total current assets		6,792,230		3,856,281
Loans receivable - net, less current maturities		5,364,823		5,341,702
Other assets		40,359		24,000
Office equipment, net		7,612		8,534
Investments in other entities		148,160		148,160
Deferred income tax asset		166,200		180,200
Total assets	$	12,519,384	$	9,558,877
LIABILITIES AND STOCKHOLDERS' EQUITY				
Notes payable due on demand	$	1,640,301	$	1,122,839
Current maturities of notes payable		3,594,763		3,850,524
Funds due to others		828,536		451,574
Accounts payable		12,286		37,689
Accrued expenses		14,839		5,558
Patronage refund payable		9,570		-
Deferred grants		20,000		45,000
Total current liabilities		6,120,295		5,513,184
Notes payable, less portion due on demand and current maturities		4,572,663		3,569,211
Total liabilities		10,692,958		9,082,395
Stockholders' equity				
Preferred stock, $10 par value, 500,000 shares authorized, 142,686 and 120,596 shares outstanding in 2015 and 2014, respectively		1,426,864		1,205,960
Common stock - voting, $10 par value, 1,000 shares authorized, 438 and 433 shares outstanding in 2015 and 2014, respectively		4,380		4,330
Common stock - nonvoting, $10 par value, 500,000 shares authorized, 157,893 and 48,500 shares outstanding in 2015 and 2014, respectively		1,578,929		485,000
Additional paid-in capital		492,813		467,929
Retained earnings (accumulated deficit)		(1,676,560)		(1,686,737)
Total stockholders' equity		1,826,426		476,482
Total liabilities and stockholders' equity	$	12,519,384	$	9,558,877

See accompanying notes to financial statements.

NORTHCOUNTRY COOPERATIVE DEVELOPMENT FUND
D/B/A SHARED CAPITAL COOPERATIVE

STATEMENTS OF OPERATIONS

For the Years Ended December 31, 2015 and 2014

	2015	2014
Interest income:		
Loans receivable	$ 520,411	$ 503,227
Operating cash investments	15,896	5,286
Total interest income	536,307	508,513
Interest expense	(197,635)	(172,925)
Net interest income	338,672	335,588
Reduction of (provision for) loan losses, net	(29,490)	28,122
Net interest income after provision for loan losses	309,182	363,710
Noninterest income:		
Fees and service charges	92,895	50,709
Grant revenue	337,105	166,859
Other income	17,114	4,488
Total noninterest income	447,114	222,056
Income before noninterest expenses	756,296	585,766
Noninterest expenses:		
Compensation and employee benefits	443,721	305,072
Contract services	120,077	122,907
Office	22,086	16,017
Advertising / branding	33,583	7,423
Depreciation	4,119	7,297
Occupancy	17,444	13,806
Other	60,615	32,236
Total noninterest expenses	701,645	504,758
Income before patronage refund and income taxes	54,651	81,008
Patronage refund	(9,570)	-
Income before income taxes	45,081	81,008
Income tax expense - deferred	(14,000)	(20,000)
Net income	$ 31,081	$ 61,008

See accompanying notes to financial statements.

NORTHCOUNTRY COOPERATIVE DEVELOPMENT FUND
D/B/A SHARED CAPITAL COOPERATIVE

STATEMENTS OF STOCKHOLDERS' EQUITY

For the Years Ended December 31, 2015 and 2014

	Preferred Stock		Common Stock - Voting		Common Stock - Nonvoting		Additional Paid-In Capital	Retained Earnings (Accumulated Deficit)	Total Stockholders' Equity
	Shares	Amount	Shares	Amount	Shares	Amount			
Balance, December 31, 2013	102,596	$ 1,025,960	471	$ 4,710	48,500	$ 485,000	$ 495,489	$ (1,747,745)	$ 263,414
Preferred stock:									
Transfer from notes payable	4,500	45,000	-	-	-	-	-	-	45,000
Issuance of stock	13,500	135,000	-	-	-	-	-	-	135,000
Common stock:									
Issuance of stock	-	-	17	170	-	-	8,130	-	8,300
Redemption of stock	-	-	(55)	(550)	-	-	-	-	(550)
Capital contributions	-	-	-	-	-	-	1,310	-	1,310
Cost of stock issuance	-	-	-	-	-	-	(37,000)	-	(37,000)
Net income	-	-	-	-	-	-	-	61,008	61,008
Balance, December 31, 2014	120,596	1,205,960	433	4,330	48,500	485,000	467,929	(1,686,737)	476,482
Transfer from notes payable	-	-	-	-	-	-	540	-	540
Preferred stock:									
Noncash stock dividend	2,090	20,904	-	-	-	-	-	(20,904)	-
Issuance of stock	20,000	200,000	-	-	-	-	-	-	200,000
Common stock:									
Issuance of stock	-	-	13	130	109,393	1,093,929	17,620	-	1,111,679
Redemption of stock	-	-	(6)	(60)	-	-	(2,130)	-	(2,190)
Reclassification	-	-	(2)	(20)	-	-	20	-	-
Capital contributions	-	-	-	-	-	-	8,834	-	8,834
Net income	-	-	-	-	-	-	-	31,081	31,081
Balance, December 31, 2015	142,686	$ 1,426,864	438	$ 4,380	157,893	$ 1,578,929	$ 492,813	$ (1,676,560)	$ 1,826,426

See accompanying notes to financial statements.

NORTHCOUNTRY COOPERATIVE DEVELOPMENT FUND
D/B/A SHARED CAPITAL COOPERATIVE

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2015 and 2014
Increase (Decrease) in Cash and Cash Equivalents

	2015	2014
Cash flows from operating activities:		
Net income	$ 31,081	$ 61,008
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation	4,119	7,297
Provision for loan losses (reduction)	29,490	(28,122)
Income tax expense - deferred	14,000	20,000
Changes in operating assets and liabilities:		
Receivables	93,584	(99,773)
Prepaid expenses	(24,546)	(141)
Accounts payable	(25,403)	28,089
Accrued interest	94,419	58,989
Accrued expenses	18,851	(3,045)
Deferred grants	(25,000)	45,000
Net cash from operating activities	210,595	89,302
Cash flows from investing activities:		
Collections on loans receivable	1,294,571	1,150,048
Issuance of loans receivable	(1,104,961)	(1,821,315)
Funds received for borrower, net	(322,965)	322,965
Purchase of other assets	-	(24,000)
Purchase of office equipment	(3,197)	(5,649)
Investment in other entities	-	(148,160)
Net cash from investing activities	(136,552)	(526,111)
Cash flows from financing activities:		
Issuance of notes payable	1,703,983	1,553,597
Repayments on notes payable	(532,709)	(661,887)
Proceeds from issuance of preferred stock	200,000	135,000
Proceeds from issuance of common stock	1,111,679	8,300
Proceeds from additional paid in capital contribution	8,834	1,310
Redemption of common stock	(2,190)	(550)
Stock issuance costs	-	(37,000)
Net cash from financing activities	2,489,597	998,770
Net increase in cash and cash equivalents	2,563,640	561,961
Cash and cash equivalents - beginning of year	1,601,936	1,039,975
Cash and cash equivalents - end of year	$ 4,165,576	$ 1,601,936
Supplemental disclosures of cash flow information:		
Cash paid for interest	$ 115,084	$ 153,268
Stockholders' equity issued for notes payable	$ 540	$ 45,000
Noncash preferred stock dividend	$ 20,904	$ -

See accompanying notes to financial statements.

1. ORGANIZATION

Northcountry Cooperative Development Fund is in the process of changing its name to Shared Capital Cooperative (Shared Capital). Shared Capital is a member-owned and member-governed financial intermediary providing loans to support the growth and development of cooperative enterprises. Shared Capital provides financing to consumer, worker, housing and producer cooperatives and their members throughout the United States.

Shared Capital obtains funds from its members as well as from non-member institutions interested in supporting the cooperative economy, including foundations, religious organizations, community groups, cooperative coalitions, financial institutions and socially responsible organizations.

Shared Capital was formed in 1978 and is organized as a cooperative association under Chapter 308A of Minnesota law and is certified as a Community Development Financial Institution (CDFI) by the United Stated Department of Treasury. Shared Capital has more than 183 member cooperatives and more than 234 individual members.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure 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.

Material estimates that are particularly susceptible to change are the allowance for loan losses and the valuation allowance for the deferred income tax asset.

Cash Equivalents - Shared Capital considers all investment instruments purchased with original maturities of three months or less and time deposits with insignificant early withdrawal penalties to be cash equivalents.

Credit Risk - Financial instruments that potentially subject Shared Capital to credit risk include cash on deposit at banks. Shared Capital has not experienced any losses in such accounts. As of December 31, 2015 and 2014, balances exceed the insured limits by approximately $4,500,000 and $1,300,000 respectively. Shared Capital does not believe it is exposed to any significant concentration of credit risk on cash.

(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Additionally, loans receivable subject Shared Capital to a credit risk. Generally, loans are collateralized by property, equipment and inventory of the borrower.

Grants Revenue - Grant revenue is recorded when earned or over the grant period. Grants received in advance are recorded as deferred grants.

Loans Receivable - Shared Capital provides commercial and cooperative home ownership (share) loans to members throughout the United States. The ability of the members to honor their contracts is dependent upon sound management of the cooperative, general economic conditions and the value of real estate collateral in the member's geographic area.

Loans receivable are stated at unpaid principal balances, less an allowance for loan losses. Interest on loans is recognized over the term of the loan and is calculated using the simple-interest method on principal amounts outstanding. The accrual of interest on loans is discontinued at the time the loan is 120 days delinquent unless the credit is well-secured and in process of collection.

Loans are placed on non-accrual status or charged off if all or a portion of the loan is deemed to be uncollectible by management based on economic conditions, business conditions and collection efforts. It is Shared Capital's policy that any loan that is more than 120 days delinquent will be charged off unless management determines that pay off of the loan is imminent, whether through collections, liquidation or foreclosure. The Board of Directors must approve the charge off of any loan, generally upon recommendation from the Loan and Finance Committees.

All interest accrued but not collected for loans that are placed on non-accrual status or charged off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Non-refundable commitment fees are recognized upon receipt. Loan fees are recognized as income upon closing of the loan because incremental direct costs incurred on each loan exceed the fees charged.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Loan Losses - The allowance for loan losses is a non-cash reserve established against potential or expected losses on loans. Each loan in the portfolio is assigned a risk rating and each rating has a corresponding percentage that must be set aside as an allowance. The ratings and the allowance are evaluated regularly by management based upon qualitative factors that are subjective and require a high degree of management judgment. These factors include adverse situations that may affect the borrower's ability to repay, estimated value of the underlying collateral and prevailing economic conditions. The Loan Committee establishes initial risk ratings at the time loans are approved and must approve any changes to ratings. In addition, on a quarterly basis, the Loan Committee reviews and approves all risk ratings and the allowance for loan losses. The Board of Directors reviews the allowance and risk ratings at least annually.

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the loan is uncollectible. Subsequent recoveries are credited to income.

Office Equipment - Office equipment is capitalized at cost. Depreciation is provided using the straight-line method over estimated useful lives of three to seven years. When an asset is retired or sold, its cost and related accumulated depreciation are removed from the account and the resulting gain or loss is reflected in the statement of operations. Accumulated depreciation was $8,219 and $4,101 as of December 31, 2015 and 2014.

Other Assets – Other assets consist of website development and trademark costs. Website development costs are amortized over a 3 year period and trademark costs are amortized over a 10 year period, using the straight-line method.

Fair Value Measurements - Shared Capital determines fair value, when necessary, based on the assumptions that market participants would use when pricing the asset or liability. Shared Capital does not currently have any financial assets or liabilities that are measured at fair value on a recurring or non-recurring basis.

Investments in Other Entities - Investments in other entities are carried at cost.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes - Shared Capital is taxed as a cooperative and is subject to the provisions of Subchapter T of the Internal Revenue Code. The bylaws require Shared Capital to annually distribute net income from patronage to its members, based on their patronage with Shared Capital, at the Board's discretion. The distributions may be in the form of cash, stock or allocated surplus, which reduces Shared Capital's income tax liability. However, losses in Shared Capital's patronage business may, at the Board's discretion, be carried forward to offset future distributions of net income from patronage.

Members of Shared Capital receiving qualified patronage dividends consent to include them in their taxable income.

Income taxes are provided for the tax effects of the transactions reported in the financial statements and consist of taxes currently due plus deferred income taxes related primarily to the difference between the basis of loans receivable for financial and income tax reporting, which consists of the allowance for loan losses. The deferred income tax asset includes the future tax return consequences of that difference, which will be deductible when the loans are written off. A deferred income tax asset is also recognized for operating losses that are available to offset future taxable income. The deferred income taxes are reflected at income tax rates applicable to the period in which the deferred income taxes are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred income taxes are adjusted through the provision for income taxes. If it is more likely than not that all or some portion of the deferred income tax asset will not be realized, a valuation allowance is recognized. Management believes there are no uncertain tax positions.

Federal and state tax authorities generally have the right to examine income tax returns for a period of three years after they are filed. The Cooperative is not currently under examination by any taxing jurisdiction. Any interest or penalties associated with income tax positions are reported in other noninterest expenses. There was no such interest or penalties in 2015 and 2014.

be distributed as the participant portion of a pending loan disbursement.

3. LOANS RECEIVABLE

The following table presents the recorded investment in loans, net of participations, by portfolio segment and the allowance for loan losses as of December 31:

	2015	2014
Cooperative housing mortgage loans	$ 3,561,965	$ 3,209,300
Cooperative business mortgage loans	666,270	1,017,815
Cooperative business loans	3,041,711	3,213,976
Loans to individuals to purchase cooperative housing (Share)	180,768	199,233
Total loans	7,450,714	7,640,324
Less allowance for loan losses	(333,893)	(304,403)
	$ 7,116,821	$ 7,335,921
Current maturities	$ 1,751,998	$ 1,994,219
Long-term	5,364,823	5,341,702
	$ 7,116,821	$ 7,335,921

A description of the loans follows:

- Cooperative housing mortgage loans are loans for multifamily housing properties secured by a mortgage.
- Cooperative business mortgage loans are loans for commercial real estate secured by a mortgage.
- Cooperative business loans are business loans not secured by a mortgage.
- Loans to individuals to purchase cooperative housing.

The following table presents the change in the allowance for loan losses in 2015 and 2014:

	2015	2014
Beginning balance	$ 304,403	$ 380,025
Provision for loan losses (reduction)	29,490	(28,122)
Loans charged off	-	(47,500)
Ending balance	$ 333,893	$ 304,403

In addition to the loans summarized above, Shared Capital services $2,167,946 at December 31, 2015 and $2,250,290 at December 31, 2014 of loan participations, which have been sold to other lenders.

(Continued)

3. **LOANS RECEIVABLE (Continued)**

The following table presents the aging of loans by portfolio segment:

	Cooperative housing mortgage loans	Cooperative business mortgage loans	Cooperative business loans	Loans to individuals (Share)	Total
2015:					
Current	$3,561,965	$ 666,270	$3,041,711	$ 180,768	$7,450,714
31 - 90	-	-	-	-	-
90 + days	-	-	-	-	-
Total	$3,561,965	$ 666,270	$3,041,711	$ 180,768	$7,450,714
2014					
Current	$ 3,209,300	$ 1,017,815	$ 3,213,976	$ 199,233	$ 7,640,324
31 - 90	-	-	-	-	-
90 + days	-	-	-	-	-
Total	$ 3,209,300	$ 1,017,815	$ 3,213,976	$ 199,233	$ 7,640,324

The following table presents the allowance for loan losses by portfolio segment:

2015:					
Beginning balance	$ 134,783	$ 51,538	$ 115,333	$ 2,749	$ 304,403
Addition (Reduction), net	11,391	(10,857)	29,381	(425)	29,490
Ending balance	$ 146,174	$ 40,681	$ 144,714	$ 2,324	$ 333,893
2014:					
Beginning balance	$ 225,186	$ 64,615	$ 84,663	$ 5,561	$ 380,025
Reduction, net	(90,403)	34,423	30,670	(2,812)	(28,122)
Charged off	-	(47,500)	-	-	(47,500)
Ending balance	$ 134,783	$ 51,538	$ 115,333	$ 2,749	$ 304,403

(Continued)

3. LOANS RECEIVABLE (Continued)

The following table and the accompanying explanations present informative data regarding the credit quality of loans receivable at December 31, 2015:

	Cooperative housing mortgage loans	Cooperative business mortgage loans	Cooperative business loans	Loans to individuals (Share)	Total
2015:					
A	$1,690,459	$ 146,778	$ 229,773	$ 148,038	$2,215,048
B	1,283,453	330,838	1,421,181	28,076	3,063,548
C	451,691	96,787	895,269	-	1,443,747
D	-	-	488,022	-	488,022
F	136,362	91,867	-	4,654	232,883
G	-	-	7,466	-	7,466
Total	$3,561,965	$ 666,270	$3,041,711	$ 180,768	$7,450,714
2014:					
A	$ 1,718,847	$ 206,415	$ 119,894	$ 162,526	$ 2,207,682
B	945,932	614,627	2,143,119	29,401	3,733,079
C	406,764	100,185	905,113	1,505	1,413,567
D	-	-	45,850	-	45,850
F	137,757	96,588	-	5,801	240,146
	$ 3,209,300	$ 1,017,815	$ 3,213,976	$ 199,233	$ 7,640,324

The following categories are used to assess the risk profile of the loan portfolio:

		Allowance %	
Category	Description of Creditworthiness	Commercial	Share
A+	Highest credit quality, borrower is stable and reliable	0%	0%
A	Borrower is stable and reliable	1%	.5%
B	Good borrower, but some recent internal or external changes	3%	1.5%
C	Good borrower, but recent significant internal or external changes and challenges	5%	3%
D	Borrower is either rebounding or heading into a period of significant difficulties	10%	6%
E	Relatively weak borrower facing some internal or external challenges	15%	10%
F	Weak borrower facing significant challenges	25+%	25+%
G	Doubtful	Up to 100%	Up to 100%

(Continued)

3. LOANS RECEIVABLE (Continued)

Loans are considered impaired if it is probable that at least some of the principal and interest payments will not be collected. Other information related to loan impairment as of December 31, 2015 follows:

- All loans are individually reviewed for impairment
- Two business loans ($7,465) and one share loan ($4,654) are impaired and on non-accrual status

4. NOTES PAYABLE

Notes payable, including accrued interest, are summarized as follows:

	2015	2014
Senior loans payable:		
Institutional	$ 2,281,077	$ 2,376,514
Subordinate loans payable:		
Cooperatives	5,476,085	4,169,591
Individuals	548,371	494,302
Institutional	500,000	500,000
Institutional EQ2	1,002,194	1,002,167
	$ 9,807,727	$ 8,542,574

Principal maturities of notes payable, including accrued interest, are as follows:

Accrued interest ($199,519 in 2014)	$ 282,070
Due on demand – 30 days	594,988
Due on demand – 90 days	763,243
	1,640,301
2016	3,594,763
2017	1,260,363
2018	812,545
2019	653,000
2020	1,186,773
Thereafter	659,982
	$ 9,807,727

4. NOTES PAYABLE (Continued)

Notes payable at December 31, 2015, have interest rates ranging from 0.25% to 4%, are unsecured, and mature through 2021.

An institutional EQ2 note from Wells Fargo Community Lending and Investing in the amount of $500,000 matures in October 2016 and is reflected in 2016 maturities above. Management expects to submit a request for a renewal.

5. FUNDS HELD FOR OTHERS

Shared Capital has an agreement with NASCO Development Services to provide loan servicing functions for their KSCR Fund. Shared Capital accumulates principal and interest collections, net of remitting interest due to investors of the KSCR Fund, for use in providing additional loans on behalf of the KSCR Fund. NASCO Development Services and the KSCR Fund investors bear all risk of loss pertaining to these loans.

At December 31, 2015 and 2014, Shared Capital is servicing $83,711 and $79,066 of loans for the KSCR Fund, which is not included in loans receivable. Shared Capital also holds $116,472 at December 31, 2015 and $128,609 at December 31, 2014, payable to KSCR and available for lending.

At December 31, 2015, Shared Capital also held $712,064 on behalf of another lender to

6. PATRONAGE REFUND PAYABLE

The Board of Directors has declared a patronage refund to voting common stockholders. The refund will be paid as equity credits.

7. STOCKHOLDERS' EQUITY

Preferred Stock - At the discretion of the Board of Directors, Shared Capital may pay holders of Class A preferred stock an annual dividend of up to 8% in the form of cash, additional shares of Class A preferred stock or equity credits. The Class A preferred stock has no voting rights and shares may only be transferred upon the approval of the Board of Directors. The Class A preferred stock has a liquidation preference over other equity. Stock dividends of $20,904 were declared and issued during 2015. No stock dividends were declared or issued during 2014.

7. STOCKHOLDERS' EQUITY (Continued)

Lenders agreed to convert $540 of notes payable into additional paid in capital during 2015 (in 2014, $45,000 was converted into preferred stock).

Shared Capital has an agreement with an investor that allows the investor to redeem all or part of its $500,000 of preferred stock under certain conditions on or after April 1, 2021.

Additional Paid-In Capital - Additional paid-in capital requirements are determined on a multi-tiered format based for businesses on the assets and for housing on the number of units. New members contributed additional paid-in capital of $17,620 in 2015 and $8,130 in 2014. Existing members contributed additional paid-in capital of $8,834 in 2015 and $1,310 in 2014.

8. LEASE OBLIGATIONS

Shared Capital leases its office space under the terms of an operating lease agreement that expires on June 30, 2016. Rent due in 2016 is $8,700. Rent expense was $17,400 in 2015 and $13,500 in 2014.

9. RETIREMENT PLAN

Shared Capital has established a salary reduction plan with matching contributions for participating employees. The plan has received IRS approval under Section 408(p) of the Internal Revenue Code. The plan covers all employees who have met certain service requirements. Shared Capital will match the elective contributions of an employee in an amount not exceeding 3% of the employee's compensation. Matching contributions were $7,576 in 2015 and $5,793 in 2014.

10. INVESTMENTS IN OTHER ENTITIES

During 2014, Shared Capital made 5% investments in two limited liability companies that own commercial buildings that are leased to cooperatives. Shared Capital has also made a loan to one of these cooperatives. Shared Capital also has notes payable to both cooperatives, and they both hold stock in Shared Capital.

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11. INCOME TAXES

Shared Capital has Federal net operating loss carry forwards of approximately $1,600,000 that begin to expire in 2027. Minnesota net operating loss carry forwards of approximately $1,700,000 begin to expire in 2022.

The deferred income tax asset consists of the future tax effect of net operating loss carryforwards and the allowance for loan losses. For financial statement purposes an allowance for loan losses is recorded based on management's review of loans receivable. For income tax purposes, loan losses are deductible when incurred. Deferred tax assets are $463,000 and $477,000 at December 31, 2015 and 2014, respectively.

Realization of the deferred income tax asset is dependent upon sufficient future taxable income during the net operating loss carry forward period. Management expects it is more likely than not that a portion of the deferred income tax assets may not be realized, accordingly, a deferred income tax valuation allowance of $296,800 and $296,800 has been recorded at December 31, 2015 and 2014. The deferred income tax valuation allowance did not change in 2015 and increased $2,000 in 2014.

Utilization of the deferred income tax asset is dependent upon Shared Capital generating sufficient income within the net operating loss carryforward period. Due to the uncertainty of future income, it is at least reasonably possible that management's view of future income will change in the near term.

12. TRANSACTIONS WITH RELATED PARTIES

Several directors of Shared Capital are employed by, or directors of, Shared Capital member organizations or other organizations that may be borrowers from, lenders to, or hold common or preferred stock in Shared Capital. Such activities were in the ordinary course of business at normal credit terms including interest rates and collateralization and do not represent more than a normal risk of collection.

13. COMMITMENTS

As of December 31, 2015, Shared Capital has made commitments of approximately $3,300,000 to lend funds in the normal course of business to meet the financing needs of its members. These are commitments to extend credit that involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the financial statements.

(Continued)

14. CDFI AWARD

In August 2014, Shared Capital was selected to receive an award from the US Department of Treasury's CDFI Fund. The award was in the form of a grant ($267,089), nonvoting stock purchase ($1,093,929) and a note payable ($138,982) aggregating $1.5 million. As of December 31, 2015, the entire award has been received.

15. SUBSEQUENT EVENTS

During January 2016, Shared Capital issued $250,000 of preferred stock to a foundation.

During January 2016, notes payable aggregating $2,300,000 were repaid to one investor during the normal course of business.

Management has evaluated subsequent events through March 31, 2016, the date on which the financial statements were available for issue, and identified no further significant events or transactions to disclose.