



# BIRCH FUND

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**BUILDING RESILIENT & VIBRANT COMMUNITIES**  
Final Report





# BIRCH

## AN INNOVATIVE OPTIMIST

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Birch trees help rebuild forests after fires and other disasters have ravaged lands. They're an important native species to North America, feeding moose and deer in the wintertime. Wildfires are often stopped by birch forests because of the high moisture content in their leaves. Birch trees grow very tall and are often the first species in a new clearing. Like the tree, the Birch Fund makes a difference in surrounding communities as it grows.

# MISSION

## BUILDING HOMES, RELATIONSHIPS, AND BUSINESSES THAT HELP REGENERATE COMMUNITIES AND ENVIRONMENTS

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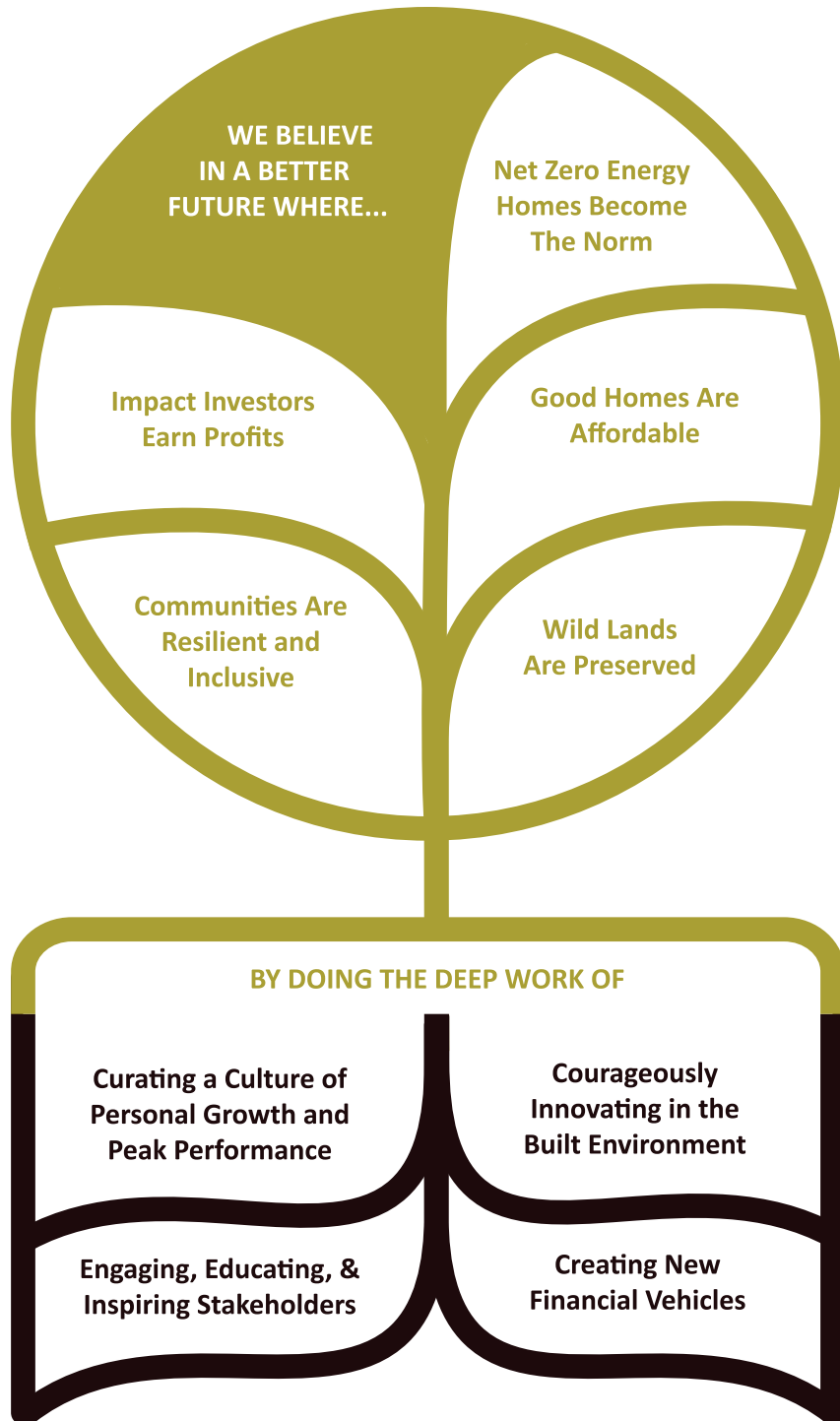
Green Canopy provides a mission-driven, innovative, and proprietary approach to building in urban walkable neighborhoods. Since inception, Green Canopy has been focused on market disruption and innovation centered around the following:

**Help solve our most intractable challenges** – climate change and housing affordability – through the lens of urban infill development. Green Canopy recognizes the critical role a focus on urban infill development has on both the planet and for our people.

**Transform the real estate market** whereby sustainable and healthy homes are demanded and rewarded. Green Canopy utilizes a proprietary vertically integrated process platform to contain costs and deliver high-quality, healthy, Net Zero Energy Ready all-electric homes. The powerful and predictable influence of the comparable market analysis approach rewards builders for following other high-performing leaders.

**Provide vehicles for Impact Investors** to expand Green Canopy's impact, while generating reliable social, environmental, and financial returns for investors. Green Canopy has proven over the course of many years of home sales and fund management that these operations, when properly integrated and aligned, generate shared benefit to their multiple stakeholders.





# THEORY OF CHANGE

WE WILL NOT STOP UNTIL WE SOLVE FOR THIS BECAUSE WE CAN ONLY WORK TOWARDS A FUTURE WORTH LIVING FOR

# FUND OVERVIEW

Creating and managing impact investment funds has been a core competency of Green Canopy since 2011. Since that time, the team at Green Canopy has raised and managed four funds with as many as 100 capital accounts concurrently. In total, Green Canopy has managed over \$50M in investor capital.

Green Canopy is driven by clearly defined impact intentionality, rigorous asset underwriting, and skilled project and financial management. The firm has earned a reputation for transparency, maintaining regular and clear investor communications, and aligning to investors' return expectations. The Birch Fund is the third fund managed by Green Canopy.

 **15.2 Million**  
INVESTED IN THE BIRCH FUND

 **10 Net Zero Homes**  
HOMES FINANCED THROUGH THE BIRCH FUND

 **5.16 Million**  
INCOME DISTRIBUTED TO BIRCH INVESTORS

 **8 Net Zero Ready Homes**  
HOMES FINANCED THROUGH THE BIRCH FUND

 **10.7 Annual IRR**  
ON AVERAGE SINCE INCEPTION IN 2015

 **102 Homes**  
FINANCED THROUGH THE BIRCH FUND



# ENVIRONMENTAL & SOCIAL IMPACT

## OF THE BIRCH FUND

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Green Canopy's investment opportunities align with the industry's standard definition for impact investing and intentionality. Green Canopy is intentionally working to address these interconnected challenges:

**Climate Change and Contribution of the Built Environment:**

With the built environment responsible for 40% of our global carbon emissions, what we build and where we build will lock in our emission patterns for the next 80 to 120 years. Building to high sustainability standards, such as Net Zero Energy Ready, can help cut 87% of greenhouse gas emissions from buildings by 2050.

**Home Health and Design:** Adhering to third party green building standards such as those set by Built Green in Seattle and Earth Advantage in Portland and building to all-electric standards helps ensure Green Canopy Homes are not only better for the environment but better for our health.

**Inclusivity and Affordability:** Many cities across the nation struggle with keeping up the demand for housing. With limited housing supply, home prices rise forcing many families to "drive until they qualify." Building gentle density, such as rowhouses, townhomes, and cluster homes with accessory dwelling units ensures more families can access highly desirable neighborhoods at price points lower than a redeveloped single-family home

**Preservation of our Wildlands:** Green Canopy has honed the ability to selectively harvest noncontiguous urban infill lots in Pacific Northwest high-growth cities. Increasing access within our urban walkable communities not only reduces vehicle miles traveled, it is also a practice that can help keep development from destroying our wildlands.



# ENVIRONMENTAL & SOCIAL IMPACT

OF THE BIRCH FUND

THE AMOUNT OF GREENHOUSE GAS THAT WAS OFFSET BY THE ENERGY PERFORMANCE OF BIRCH FUND GREEN CANOPY HOMES IS EQUIVALENT TO:

THE CARBON SEQUESTERED BY



**12,080**

TREE SEEDLINGS GROWN FOR 10 YEARS

THE GREENHOUSE GAS EMISSIONS AVOIDED BY



**248**

TONS OF WASTE RECYCLED INSTEAD OF LANDFILLED

THE GREENHOUSE GAS EMISSIONS FROM



**158**

PASSENGER VEHICLES DRIVEN FOR ONE YEAR

THE GREENHOUSE GAS EMISSIONS FROM



**1,812,742**

MILES DRIVEN BY AN AVERAGE CAR

THE CO2 EMISSIONS FROM



**1,691**

BARRELS OF OIL CONSUMED

THE CO2 EMISSIONS FROM



**82,203**

GALLONS OF GASOLINE CONSUMED

# OUR COMMUNITY

FOR EACH PROJECT, WE REACH OUT TO THE NEIGHBORS

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We have come to the understanding that addressing what and where we build will not address the climate and housing crises before us. With evidence from recent findings that Opportunity Zones have perpetuated wealth disparities, we must also consider how we work

How Green Canopy works is centered on a deep commitment to our many stakeholders and is built on a foundation of authenticity, transparency, respect, and trust. We want to bring as many along on the journey as possible, which is why we invest in building and strengthening relationships within our network of 70+ shareholders in our company, 60+ investors in our funds, board members, project equity investors, real estate agents, subcontractors, home buyers, neighbors, nonprofit partners, community members, and government officials.

An example of this is in how we reach out to neighbors in advance of purchasing any project site. Prior to purchasing a project, we reach out to neighbors to join us for a Community Meeting. This allows us to share Green Canopy's mission and initial design for the project, while taking the time to really listen to the community. We follow up with a Design Survey to gain even further insight into the needs of the community.

Being open to feedback from neighbors has not only allowed us to address potential conflict, it gives us an opportunity to enter into an important dialogue with neighbors. Entering into open dialogue with others who share different perspectives can help shift perspectives and can help bring more into the fold to help solve our climate and housing crises.







# LETTER TO MEMBERS

## BIRCH FUND FINAL REPORT - 2020

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During the first quarter of 2020, the Green Canopy's third fund, the Birch Fund, officially wound up lending operations and distributed all remaining principal to Members. Green Canopy Homes repaid the last outstanding loan in Q1, representing \$926,250 in principal returned to the Fund. This overview and final report provides a summary on the Fund's activity during the last four and a half years. As always, please let us know if you have any questions.

For more information about this report or to inquire about other impact investment opportunities at Green Canopy, contact:

Andy Wolverton | 206.792.7287  
[investorrelations@greencanopy.com](mailto:investorrelations@greencanopy.com)

## **BIRCH FUND WIND UP**

Through the end of March, the Fund had distributed 100% of capital contributions, and total distributions equaled 134% of contributions. Thank you for your investment in the Birch Fund and participation with Green Canopy to build 102 highly efficient homes (18 of them Net Zero or Net Zero Energy Ready!) in Seattle and Portland.

## **LOANS AND AVERAGE ANNUALIZED IRR**

The Fund originated over \$51.6 million in acquisition and construction loans on 28 different projects, totaling 102 homes funded. The amount of originated loans means that the Manager recycled invested capital – while distributing income quarterly – 3.4 times over the life of the Fund. Since inception of the Fund in 2015, the average annualized internal rate of return is 10.7%<sup>1</sup>.

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<sup>1</sup> *Since the calculations are an average across all Members and the return rate is based on the timing of each investment, individual Member returns may not match this number. Please contact Andy if you have any questions about the IRR calculation or if you want a personalized report of your contributions and distributions in order to calculate your specific return.*

## **IMPACT METRICS**

Please review the Impact Metrics included in this report, which provides an overview of the impact your investment in the Birch Fund has produced. Thank you for your partnership with the Fund and Green Canopy as we strive to live into our mission to build homes, relationships and business that help regenerate communities and environments.

## **FINAL CPA REVIEW**

The CPA's Review, extending from January 2019 through March 2020, is included in this report. BDO's conclusion states, "Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with the basis of accounting the Company uses for income tax purposes".

## **INVESTOR PORTAL**

In order to streamline the flow of information and provide secure access and storage of your investment information, the Manager set up individual portal accounts for each Member. Your portal account will contain your individual capital account reports, K-1s, and other investment-related documents. Please keep the portal account ID and password in a secure place, as it will be the best place for you to find your historical Birch Fund investment information.

If you would like to receive another invitation to the Portal or would like support with setting up an account, please contact [investorrelations@greencanopy.com](mailto:investorrelations@greencanopy.com).

## **GREEN CANOPY'S NEXT FUND: CEDAR FUND**

Green Canopy's fourth fund offering is the Cedar Fund. The Cedar Fund is a real estate equity fund, and Green Canopy currently owns 9.5% of the Fund. Cedar buys, builds, and sells net-zero energy ready homes in the urban walkable communities of Seattle and Portland. As the fund was designed for resilience, homes may be rented to generate income in response to a market cycle. Currently the fund includes: 25+ LPs from across the nation, \$16.5M in development capacity, and three project sites with 21 homes in neighborhoods of opportunity under development. The Fund is looking to capitalize its next project in Seattle, a six-unit townhome project with a current projected IRR of 21%.

*Targeted Fund-Level Annualized IRR: 13-17%.*

*Investment Min: \$125,000. Next Close: December 2020*

## **INVESTMENT OPPORTUNITIES WITH GREEN CANOPY AND/OR THE CEDAR FUND**

Should you or anyone you know be interested in investing in Green Canopy, direct projects and/or the Cedar Fund, please contact Susan Fairchild to set up a time to discuss: [susan@greencanopy.com](mailto:susan@greencanopy.com)

Please let us know if you have any questions on the Fund's loans, this report or the financial statements.

Thank you for your investment in the Birch Fund!

Sincerely,  
Green Canopy, Inc. | Manager



Andy Wolverton | Director of Fund Management  
Green Canopy, Inc. | Manager  
[andy@greencanopy.com](mailto:andy@greencanopy.com) | 206.792.7287

*Included: Fund Dashboard and Final CPA Review Report*



## Birch Fund, LLC

### Final Report Dashboard | Q1 2020

#### FUND OVERVIEW

	<b>*Outstanding Contributions</b>	\$0	<b>March 31 Cash Balance</b>	\$23,693			
<b>Total Loans Originated</b>	28	<b>Total Loans Repaid</b>	28.0	<b>Current Loans Outstanding</b>	0.0	<b>Loans Outstanding, Dollar Amount</b>	\$0
<b>All Time Unit Total</b>	106	<b>Total Income Distributions to Members</b>	\$5,158,197	<b>**Average Annualized IRR</b>	10.65%		
<b>Total Return of Capital Distributions to Members</b>		<b>\$15,272,000</b>	<b>Return of Capital Distributions as % of Total Contributions</b>	<b>100.0%</b>			

#### NOTES FROM THE MANAGER

**\*Outstanding Contributions:** All invested capital is repaid.

**\*\*Average Annualized IRR calculation:** The average annualized IRR figure calculates the average quarterly IRR since the Fund started lending. Each Quarter's Annualized IRR uses the distributions to Members from that quarter divided by the Contributed Capital in the Fund from the first day of that quarter, then multiplied by four to reach an annualized figure. The Manager chose to calculate the return in this manner to be consistent with prior quarter calculations. If you have any questions on your individual return profile, please inquire.

Thank you for your investment in Birch. If you are in the Seattle or Portland areas and would like to go on a property tour of Green Canopy Homes' projects or if you have any questions about this report or the Fund in general, please do not hesitate to contact me.

Green Canopy, Inc., Manager

Andy Wolverton, Director of Fund Management

#### END OF REPORT

**ALL REPAID LOANS**

Loan #	House Name	Address	# of units	Birch Loan Principal	Total Loan Revenue	Loan Start Date	Repayment Date	Gross Return*
001	MACS	1113 29th Ave S	4	\$1,100,000	\$161,341	8/3/15	12/14/16	10.58%
002	WEA	4411 Meridian Ave N	3	\$1,312,500	\$150,411	8/28/15	9/22/16	10.55%
003	Pearl Place	2120 S. Massachusetts St	5	\$1,757,500	\$217,639	12/7/15	3/3/17	9.86%
004	Jackson 5	418, 422, 426 26th Ave S	5	\$1,568,800	\$199,655	2/3/16	4/15/17	10.48%
005	Cora	2902 NE 53rd St	1	\$986,250	\$74,254	2/9/16	9/16/16	12.32%
006	BBB	825 24th Ave S	3	\$1,157,175	\$115,340	2/29/16	2/23/17	9.97%
007	Immogen & Eve	3034 Beacon Ave S	4	\$1,307,025	\$155,937	3/23/16	6/20/17	9.46%
008	VLKZ	152 20th Ave E	4	\$1,845,000	\$177,682	8/1/16	8/1/17	9.50%
009	King St	1432 S. King St	4	\$1,860,000	\$243,293	9/15/16	12/15/17	10.33%
010	Wetmore	3128-36 Wetmore Ave S	8	\$3,425,000	\$530,736	9/29/16	4/6/18	10.07%
013	Skidmore	PDX_2933 NE Skidmore Ave	2	\$1,275,000	\$149,884	3/8/17	5/18/18	9.71%
012	Wembley	PDX_2912 Wembley Park Rd	1	\$1,218,750	\$163,863	2/16/17	5/25/18	10.45%
018	Madison Bridge	PDX_008-011 SE Madison St	0	\$453,500	\$38,340	8/25/17	6/1/18	10.87%
015	13th	SEA_146-150 1917 13th Ave S	6	\$2,587,500	\$255,384	6/6/17	6/6/18	9.73%
014	18th	621 18th Ave S	5	\$2,165,250	\$278,899	4/6/17	6/28/18	10.35%
011	Laurel	PDX_905 & 917 Laurel St	2	\$1,419,000	\$214,126	2/15/17	8/16/18	9.93%
022	20th	SEA_184_810 20th Ave	1	\$1,350,000	\$85,093	4/4/18	9/12/18	14.09%
019	Dayton	SEA_180-181 4416 Dayton Ave N	2	\$1,346,800	\$133,740	9/18/17	9/20/18	9.74%
016	15th	SEA_151-156_15th Ave S-Rowhouses	4	\$585,000	\$54,553	8/8/17	11/9/18	7.33%
017	15th	SEA_151-156 15th Ave S-SFRs	2	\$555,000	\$65,201	8/8/17	11/9/18	9.23%
020	Phinney	SEA_182-183 Phinney	2	\$1,320,000	\$122,952	1/25/18	11/9/18	11.64%
021	14th	SEA_168-174_2265 14th Ave W	7	\$2,143,200	\$196,619	1/16/18	1/15/19	9.07%
023	SEA_162-167	122 17th Ave E	6	\$3,442,500	\$340,536	4/25/18	4/25/19	9.76%
026	SEA_195-196	1004 26th Ave E	2	\$3,160,000	\$321,329	7/24/18	7/24/19	10.03%
027	SEA_185-190	2116 13th Ave S	6	\$3,420,000	\$327,412	8/30/18	8/30/19	9.44%
028	SEA_175-179	3251 W Commodore Way	5	\$2,920,000	\$285,232	9/27/18	9/26/19	9.66%
025	SEA_191-194	3218 Franklin Ave E	4	\$2,833,500	\$422,893	6/28/18	12/20/19	9.95%
024	PDX_008-011	4332 SE Madison St	4	\$1,852,500	\$360,778	6/1/18	3/6/20	10.89%
<b>Total Repaid Loans</b>			<b>102</b>	<b>\$51,686,750</b>	<b>\$6,236,358</b>	<b>Average</b>		<b>10.18%</b>

\* The Gross Return is calculated as the Total Loan Revenue divided by the Birch Loan Principal from the Loan Start Date to the Repayment Date. This is not a true IRR calculation, as timing of the construction draws are not considered. As such, the true IRR for each loan is assumed to be higher than what is stated.

Birch Fund, LLC

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## **Birch Fund, LLC**

### **Financial Statements (A Review)**

Period from January 1, 2019, to March 31, 2020,  
and Year Ended December 31, 2018

# **Birch Fund, LLC**

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## **Financial Statements (A Review)**

Period from January 1, 2019, to March 31, 2020, and Year Ended December 31, 2018

# Birch Fund, LLC

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Seattle, WA 98101

## **Independent Accountant's Review Report**

To the Members and Management  
Birch Fund, LLC  
Seattle, Washington

We have reviewed the accompanying financial statements of Birch Fund, LLC (the "Company"), which comprise the balance sheet - income tax basis as of March 31, 2020, and the related statements of income and changes in members' equity - income tax basis and cash flows - income tax basis for the period from January 1, 2019, through March 31, 2020, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of management of the Company. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the basis of accounting the Company uses for income tax purposes; this includes determining the basis of accounting the Company uses for income tax purposes is an acceptable basis for the preparation of financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Accountant's Responsibility***

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with the basis of accounting the Company uses for income tax purposes. We believe that the results of our procedures provide a reasonable basis for our conclusion.

### ***Accountant's Conclusion***

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with the basis of accounting the Company uses for income tax purposes.



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### ***Basis of Accounting***

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared in accordance with the basis of accounting the Company uses for income tax purposes, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our conclusion is not modified with respect to this matter.

### ***Report on 2018 Financial Statements***

The financial statements of Birch Fund, LLC as of and for the year ended December 31, 2018, were reviewed by Peterson Sullivan LLP ("PS"), whose partners and professional staff joined BDO USA, LLP as of November 1, 2019, and has subsequently ceased operations. PS' report dated September 10, 2019, stated that based on their procedures, they are not aware of any material modifications that should be made to the financial statements in order for them to be in accordance with the basis of accounting the Company uses for income tax purposes.

*BDO USA, LLP*

July 25, 2020

## Financial Statements

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# Birch Fund, LLC

## Balance Sheets - Income Tax Basis

	March 31, 2020	December 31, 2019
<b>Assets</b>		
<b>Current Assets</b>		
Cash	\$ 23,693	\$ -
Interest receivable from related party	-	70,218
Accounts receivable from related party	18,525	-
Loans to related party	-	19,771,700
<b>Total Current Assets</b>	<b>42,218</b>	<b>19,841,918</b>
<b>Restricted Cash</b>	<b>-</b>	<b>1,726,755</b>
<b>Other Assets</b>		
Capitalized formation costs, net of accumulated amortization of \$28,611 and \$9,257, respectively	-	28,611
<b>Total Assets</b>	<b>\$ 42,218</b>	<b>\$ 21,597,284</b>
<b>Liabilities and Members' Equity</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 24,553	\$ 18,613
Interest reserve	-	202,540
Undisbursed loan commitments	-	6,238,772
Member distributions payable	17,665	334,199
<b>Total Liabilities</b>	<b>42,218</b>	<b>6,794,124</b>
<b>Members' Equity</b>	<b>-</b>	<b>14,803,160</b>
<b>Total Liabilities and Members' Equity</b>	<b>\$ 42,218</b>	<b>\$ 21,597,284</b>

*See independent accountant's review report and accompanying notes to financial statements.*

## Birch Fund, LLC

### Statements of Income and Changes in Members' Equity - Income Tax Basis

	Period From January 1, 2019 to March 31, 2020	Year Ended December 31, 2018
<b>Revenues</b>		
Interest and fee income - related party:		
Loan interest income	\$ 949,939	\$ 1,364,405
Origination fees	-	532,580
Loan extension fee income	112,245	93,638
Other interest income	12,962	4,678
<b>Total Revenues</b>	<b>1,075,146</b>	<b>1,995,301</b>
<b>Expenses</b>		
Professional and legal fees	167,737	178,448
Amortization expense	28,611	2,524
Travel and other expenses	18,620	137
<b>Total Expenses</b>	<b>214,968</b>	<b>181,109</b>
<b>Net Income</b>	<b>860,178</b>	<b>1,814,192</b>
<b>Members' Equity, beginning of year</b>	<b>14,803,160</b>	<b>14,205,688</b>
Member contributions	-	1,100,000
Member distributions	(15,663,338)	(2,316,720)
	<b>(860,178)</b>	<b>12,988,968</b>
<b>Members' Equity, end of year</b>	<b>\$ -</b>	<b>\$ 14,803,160</b>

*See independent accountant's review report and accompanying notes to financial statements.*

# Birch Fund, LLC

## Statements of Cash Flows - Income Tax Basis

	Period From January 1, 2019 to March 31, 2020	Year Ended December 31, 2018
<b>Cash Flows Provided for (from) Operating Activities</b>		
Net income	\$ 860,178	\$ 1,814,192
Adjustment to reconcile net income to net cash flows provided for operating activities - amortization	28,611	2,524
Changes in operating assets and liabilities:		
Interest receivable from related party	70,218	30,069
Accounts receivable from related party	(18,525)	-
Accounts payable	5,940	(5,336)
Undisbursed loan commitments	(6,238,772)	1,236,775
Interest reserve	(202,540)	181,953
<b>Net Cash Flows Provided for (from) Operating Activities</b>	<b>(5,494,890)</b>	<b>3,260,177</b>
<b>Cash Flows from (for) Investing Activities</b>		
Collection on loans to related party	19,771,700	16,350,800
Origination of loans to related party	-	(20,066,700)
<b>Net Cash Flows from (for) Investing Activities</b>	<b>19,771,700</b>	<b>(3,715,900)</b>
<b>Cash Flows for Financing Activities</b>		
Member distributions*	(15,979,872)	(2,342,189)
Member contributions	-	1,100,000
<b>Net Cash Flows for Financing Activities</b>	<b>(15,979,872)</b>	<b>(1,242,189)</b>
<b>Change in Cash and Restricted Cash</b>	<b>(1,703,062)</b>	<b>(1,697,912)</b>
<b>Cash and Restricted Cash, beginning of year</b>	<b>1,726,755</b>	<b>3,424,667</b>
<b>Cash and Restricted Cash, end of year</b>	<b>\$ 23,693</b>	<b>\$ 1,726,755</b>

\* Members distributions are net of changes in distributions payable.

*See independent accountant's review report and accompanying notes to financial statements.*

# Birch Fund, LLC

## Notes to Financial Statements

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### 1. Nature of Operations and Summary of Significant Accounting Policies

#### *Nature of Operations*

Birch Fund, LLC (the “Company”) is a Washington Limited Liability Company formed on May 21, 2015, for the purpose of making real estate development and construction loans for residential housing. Operational and lending activities are concentrated in the Seattle, Washington, and Portland, Oregon, areas. The manager of the Company is Green Canopy, Inc. (the “Manager”). The Manager is also the sole member of Green Canopy Homes, LLC, the exclusive borrowing entity during the period from January 1, 2019, through March 31, 2020, and the year ended December 31, 2018.

The Company’s operating agreement provides for specific instructions on the required lending conditions and collateral verification procedures for all loans to Green Canopy Homes, LLC, the methods for making member distributions, and the term during which the Company shall originate the loans. The Company’s operating agreement provides for an indefinite life, but the Company was no longer originating new loans as of December 31, 2018, and has substantially ceased all operations as of March 31, 2020. See discussion of subsequent disbursements at Note 6.

As an LLC, the liability to the owners is generally limited to amounts invested.

#### *Basis of Accounting*

The financial statements are prepared on the basis of accounting the Company uses for federal income tax purposes. Accordingly, the financial statements are not intended to present the financial position and results of the operations in conformity with accounting principles generally accepted in the United States of America.

#### *Use of Estimates*

The preparation of the financial statements in conformity with the basis of accounting the Company uses for income tax purposes requires management to make estimates and assumptions that affect the reported amounts of 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 significant change relate to the determination of the valuation of the underlying real estate as a basis for determination of lending requirements, covenants, and satisfaction of certain loan to value ratios. In connection with the determination of the valuation of underlying real estate collateral, management obtains independent appraisals from certified appraisers. The valuations are then reviewed by a third-party attorney and the Company’s management when determining the basis for loan to value specifications to extend credit to Green Canopy Homes, LLC and any other related borrowers.

#### *Cash, Cash Equivalents, and Restricted Cash*

Cash includes cash on deposit with banks and money market funds. The Company considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

# Birch Fund, LLC

## Notes to Financial Statements

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Restricted cash is composed of cash holdbacks on funded construction loans and represent cash restricted to fund construction loan draws. The Company does not hold the amount in a separate bank account. The amount is offset by a corresponding liability under the caption “Undisbursed loan commitments” on the balance sheets as presented on the income tax basis. At March 31, 2020, there were no restricted cash balances as all loans have been repaid.

### ***Capitalized Formation Costs***

Capitalized formation costs represent expenses incurred for potential new investors and legal costs at inception of the Company. As the Company prepares its financial statements on the income tax basis, these costs were capitalized during formation. The expense was being amortized over a period of 15 years, and was accelerated as of March 31, 2020, due to the wind-down of the Company’s operations.

### ***Undisbursed Loan Commitments***

Undisbursed loan commitments consist of amounts held back on construction loans at the time of loan origination and land/property acquisition for future disbursement by the borrower.

### ***Loans to Related Party***

Loans are stated at the amount of unpaid principal.

Management has not recorded any past due amounts, has not experienced any defaults since the Company’s inception, and does not anticipate any non-accrual amounts in the current loan portfolio.

The Company’s general lending conditions are outlined in the Birch Fund, LLC operating agreement. Loans are collateralized by a first lien position deed of trust on the property acquired. The loans are also secured while constructed with a corporate guarantee, personal guarantees, and cash collateral. Most loans to Green Canopy Homes, LLC are cross collateralized or otherwise secured by additional sources of equity in the event of a loan default. All loans are also collectively secured by cash collateral of at least \$920,000. These lending conditions are in accordance with guidelines enumerated in the Company’s operating agreement.

The Company will lend up to 100% of the borrower’s cost to acquire and construct the related property, but no more than 75% of the estimated completed value of the property. All loans shall have standard maturities of 6 or 12 months, subject to extension for up to four extension periods of three months each upon payment of an extension fee of one percent (1.0%) of the total loan amount for each extension. See Note 2 for detail of Related-Party Loans.

In accordance with the operating agreement, the Company has a managing subcommittee (the “Subcommittee”), which may act as a representative of the Manager in the case of the borrower requesting a note modification or a new type of loan. During 2017, the subcommittee acted to:

- Establish a more defined process and terms for “acquisition only” loans, and
- Remove the cross-collateralization requirement feature from loans made to related parties of the borrower with additional sources of equity, subject to the loan-to-value ratio threshold not exceeding 65%.



# Birch Fund, LLC

## Notes to Financial Statements

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Generally, the accrual of interest on loans at stated terms is discontinued when, in management's opinion, the borrower may be unable to meet payments as they become due, when they are past due 90 days as to either principal or interest, or if the loan is otherwise defined as in default. Interest at an applicable federal rate published by the Internal Revenue Service will then be accrued. In the event Green Canopy Homes, LLC defaults on borrowings, the Manager is to be temporarily replaced with an investor member subcommittee as described in the Company's operating agreement. When the interest accrual is discontinued, all unpaid accrued interest in excess of the applicable federal rate is to be reversed against current income. As all loans are to the same borrower and generally cross collateralized, if management determines that the ultimate collectability of principal is in doubt, management shall classify all loans to that borrower as in default. The borrower shall not receive any proceeds from any loan until the Company is fully repaid for such loans. An event of default or discontinued interest payments has not occurred since inception.

See Note 2 for loan portfolio details.

### ***Revenue Recognition and Loan Origination Fees***

As the Company reports on an income tax basis, interest revenue is recognized when earned, and loan origination fees are recognized when received.

The Company holds back a portion of most loans as an interest reserve. Once the interest reserve is fully recognized as interest income, the borrower must pay interest to the Company monthly.

Member distributions are computed and paid based on cash flows from loan origination fees and interest paid by the borrower. See Note 3.

### ***Distributions Payable***

Distributions payable consist of member distributions declared but not yet distributed.

### ***Federal Income Taxes***

The Company is treated as a partnership for federal income tax purposes. Consequently, federal income taxes are not provided for in the financial statements. Members are taxed individually on their share of the Company's earnings. The Company's net income is allocated among the members in accordance with the Company's operating agreement.

### ***Risks and Uncertainties***

On January 30, 2020, the World Health Organization ("WHO") announced a global health emergency because of a new strain of coronavirus originating in Wuhan, China (the "COVID 19 outbreak") and the risks to the international community as the virus spreads globally beyond its point of origin. In March 2020, the WHO classified the COVID 19 outbreak as a pandemic based on the rapid increase in exposure globally.

The full impact of the COVID 19 outbreak continues to evolve as of the date of this report. As such, it is uncertain as to the full magnitude that the pandemic will have on the Company's financial condition, liquidity, and future results of operations. Management is actively monitoring the impact of the global situation on its financial condition, liquidity, operations, industry, and workforce.

# Birch Fund, LLC

## Notes to Financial Statements

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On March 27, 2020, President Trump signed into law the “Coronavirus Aid, Relief, and Economic Security (CARES) Act.” The CARES Act, among other things, includes provisions relating to refundable payroll tax credits, deferment of employer side social security payments, net operating loss carryback periods, alternative minimum tax credit refunds, modifications to the net interest deduction limitations, increased limitations on qualified charitable contributions, and technical corrections to tax depreciation methods for qualified improvement property. It also appropriated funds for the SBA Paycheck Protection Program loans that are forgivable in certain situations to promote continued employment, as well as Economic Injury Disaster Loans to provide liquidity to small businesses harmed by COVID 19. The Company does not intend to benefit from provisions of the CARES Act.

The Company continues to examine the impact that the CARES Act may have on its business. Given that all loans are paid off and operations have substantially ceased as of March 31, 2020, there has not been a material impact to these financial statements.

### 2. Related-Party Loans

The Company’s loans are secured by residential real estate located primarily in the Seattle area. The Company’s loan portfolio consists of loans with interest rates of 9.5%. Interest is non-compounding, calculated using a 360-day year, and based upon the total amount actually disbursed to the borrower, or 70% of the total committed loan principal, whichever is greater.

Net outstanding loans were as follows as of December 31, 2018:

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Loans to related party	\$ 19,771,700
Plus: Interest receivable	70,218
Less: Undisbursed loan commitments	6,238,772
Less: Interest reserve	202,540
	<hr/>
	\$ 13,400,606

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All loans were repaid in full as of March 31, 2020.

The Company’s undisbursed loan commitments represent agreements to lend to Green Canopy Homes, LLC as long as there is no violation of any condition established in the underlying promissory notes. Since these commitments are to fund the construction of residential homes, it is expected that the majority of these commitments will be fully disbursed. There are no undisbursed loan commitments as of March 31, 2020.

The contractual amounts of credit related financial instruments, such as commitments to extend credit, represent the amounts of potential accounting loss should the contract be fully drawn upon, the borrower defaults, and the value of existing collateral significantly declines. There were no loans more than 90 days past due still accruing interest at the end of the year.

When the Company originates a loan, committed funds are held by the Company until they are released to the borrower. A portion of each loan is released as certain benchmarks are reached in the construction process.

# Birch Fund, LLC

## Notes to Financial Statements

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All loans include a three-month option to extend (up to four extension periods). During the period from January 1, 2019, through March 31, 2020, and the year ended December 31, 2018, two and seven loans, respectively, were extended totaling \$4,686,000 and \$9,984,750 of principal, respectively. There were no loans outstanding as of March 31, 2020, that had been extended during the period from January 1, 2019, through March 31, 2020.

### 3. Member Options and Redemptions

The group of investors classified as “Members” in Schedule A of the LLC agreement has made certain cash investments. An investor Member may not redeem their investment without prior written approval of all members of the Company.

Return on investment is the income the Company will distribute to members in proportion to their percentage interest in the Company prior to any other distributions but after the fees and expenses of the Company have been paid.

There will be no carried interest and no profit sharing with the Manager, and reimbursement of operating expenses of the Manager will be paid in accordance with the operating agreement as discussed in Note 1.

Distributions are paid in accordance with the Company’s LLC agreement. Member returns are provided in two forms of payment:

- 1) An annualized 5% distribution is accrued on a monthly basis based upon the actual capital contributed as of the first day of each month and paid out quarterly on the last business day of the month following quarter end close. Distributions of this kind paid to members totaled \$562,766 and \$736,101 for the period from January 1, 2019, through March 31, 2020, and the year ended December 31, 2018, respectively.
- 2) Quarterly net income is distributed on a pro rata basis to all eligible members based upon their percentage of capital contributed as of the first day of each quarter. Quarterly tax basis net income is used as a basis for member distributions for tax purposes and for member distributions to correspond with operational cash flow. Distributions of quarterly earnings paid and accrued to members totaled \$310,904 and \$1,080,615 for the period from January 1, 2019, through March 31, 2020, and the year ended December 31, 2018, respectively.

In addition, the Company began making distributions of invested capital back to members during 2018. Distributions of invested capital totaled \$14,771,997 and \$500,004 for the period from January 1, 2019, through March 31, 2020, and for the year ended December 31, 2018, respectively.

### 4. Other Related-Party Payments

All loan interest received is from a related party (see Note 2).

The Company paid the Manager for expenses incurred on behalf of the Company in the amount of \$119,631 and \$148,375 for the period from January 1, 2019, through March 31, 2020, and the year ended December 31, 2018, respectively.

# Birch Fund, LLC

## Notes to Financial Statements

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### 5. Concentrations

#### *Borrower Concentration and Demographics*

The Company's loan portfolio consists of 100% related-party loans to Green Canopy Homes, LLC, as discussed in Note 2. Income earned on interest and origination fees during the period from January 1, 2019, through March 31, 2020, and the year ended December 31, 2018, was concentrated to 7 and 18 underlying loans, respectively. In the event of a default, the impact could be significant to the overall entity. The Company's borrower, as well as its lending and developing activities, is concentrated in the Seattle, Washington, and Portland, Oregon, areas.

#### *Concentrations of Credit Risk*

The Company maintains its cash in bank deposit accounts that, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts. The Company believes it is not exposed to any significant credit risk related to cash.

### 6. Subsequent Events

The Company evaluated subsequent events through the date these financial statements were available to be issued, which was July 25, 2020.

Subsequent to year-end, the Company distributed the final distributions of invested capital to members totaling \$17,671. The remaining cash balance will be used to pay accounting and management fees, and any remaining funds will be allocated to members.