

**NATIONAL COUNCIL ON AGRICULTURAL LIFE  
AND LABOR RESEARCH, INC. LOAN FUND**

**REPORT ON AUDIT  
OF FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2008**

NATIONAL COUNCIL ON AGRICULTURAL LIFE AND LABOR RESEARCH, INC. LOAN FUND

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INDEPENDENT AUDITORS' REPORT

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December 22, 2008

To the Board of Directors  
National Council on Agricultural Life and Labor (NCALL) Research, Inc.  
Dover, Delaware

We have audited the accompanying statement of financial position of the National Council on Agricultural Life and Labor (NCALL) Research, Inc. Loan Fund , a nonprofit organization, as of September 30, 2008 and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Organization's 2007 financial statements and, in our report dated December 20, 2007, we expressed an unqualified opinion on those financial statements.

We conducted our audit 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the NCALL Research, Inc. Loan Fund as of September 30, 2008 and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

*Barbacane, Thornton & Company*  
BARBACANE, THORNTON & COMPANY

**NATIONAL COUNCIL ON AGRICULTURAL LIFE AND LABOR RESEARCH, INC. LOAN FUND  
STATEMENTS OF FINANCIAL POSITION  
SEPTEMBER 30, 2008 AND 2007**

	<u>2008</u>	<u>2007</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 1,684,717	\$ 1,232,238
Investments	42,467	-
Accounts receivable	9,813	-
Interest receivable	5,827	-
Loans receivable	2,240,946	1,362,935
Allowance for uncollectible accounts	(255,000)	-
Foreclosed real estate held for resale	150,000	-
Allowance for loss on foreclosed real estate held for resale	(60,000)	-
Total Current Assets	<u>3,818,770</u>	<u>2,595,173</u>
<b>NONCURRENT ASSETS:</b>		
Computer software	12,000	12,000
Less: Accumulated depreciation	(3,283)	(883)
Investments - restricted	375,000	375,000
Loans receivable - noncurrent	835,271	1,808,601
Total Noncurrent Assets	<u>1,218,988</u>	<u>2,194,718</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 5,037,758</u></u>	<u><u>\$ 4,789,891</u></u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 2,146	\$ 13,275
Accrued interest	-	21,904
Note payable	250,000	-
Total Current Liabilities	<u>252,146</u>	<u>35,179</u>
<b>NONCURRENT LIABILITIES:</b>		
Line of credit	1,000,000	1,500,000
Notes payable	1,400,000	650,000
Total Noncurrent Liabilities	<u>2,400,000</u>	<u>2,150,000</u>
<b>TOTAL LIABILITIES</b>	<u>2,652,146</u>	<u>2,185,179</u>
<b>NET ASSETS:</b>		
Unrestricted	1,160,047	1,554,147
Permanently restricted	1,225,565	1,050,565
<b>TOTAL NET ASSETS</b>	<u>2,385,612</u>	<u>2,604,712</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><u>\$ 5,037,758</u></u>	<u><u>\$ 4,789,891</u></u>

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

**NATIONAL COUNCIL ON AGRICULTURAL LIFE AND LABOR RESEARCH, INC. LOAN FUND**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2008**  
**(With Summarized Totals for 2007)**

	Unrestricted	Permanently Restricted	Totals	
			2008	2007
<b>REVENUE:</b>				
Capital grant - Neighborhood Reinvestment	\$ -	\$ 175,000	\$ 175,000	\$ 125,000
Grants	50,000	-	50,000	278,731
Contributions	75,000	-	75,000	45,500
Interest - investments	40,802	-	40,802	53,887
Interest - loans	290,341	-	290,341	161,678
Fee income	40,163	-	40,163	70,501
<b>TOTAL REVENUE</b>	<u>496,306</u>	<u>175,000</u>	<u>671,306</u>	<u>735,297</u>
<b>EXPENSES:</b>				
Program services:				
Accounting and audit fees	5,000	-	5,000	5,000
Bad debt expense (see Note 5)	522,699	-	522,699	-
Consultant fees	6,000	-	6,000	-
Consumables	220	-	220	166
Depreciation	2,400	-	2,400	883
Dues, registration and training	3,342	-	3,342	1,869
Interest expense	90,084	-	90,084	60,184
Internet and technical services	5,206	-	5,206	2,434
Legal expenses	11,579	-	11,579	10,099
Loan participation fees	13,832	-	13,832	3,000
Miscellaneous	10,901	-	10,901	-
Occupancy	6,600	-	6,600	6,375
Printing and postage	1,312	-	1,312	560
Property taxes and maintenance	10,823	-	10,823	-
Publications	191	-	191	-
Salaries and benefits	152,266	-	152,266	132,524
Telephone	1,493	-	1,493	1,525
Travel and per diem	706	-	706	488
<b>Total Program Services</b>	<u>844,654</u>	<u>-</u>	<u>844,654</u>	<u>225,107</u>
Management and general	45,752	-	45,752	40,574
<b>TOTAL EXPENSES</b>	<u>890,406</u>	<u>-</u>	<u>890,406</u>	<u>265,681</u>
<b>CHANGE IN NET ASSETS</b>	(394,100)	175,000	(219,100)	469,616
<b>NET ASSETS, BEGINNING OF YEAR</b>	<u>1,554,147</u>	<u>1,050,565</u>	<u>2,604,712</u>	<u>2,135,096</u>
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 1,160,047</u>	<u>\$ 1,225,565</u>	<u>\$ 2,385,612</u>	<u>\$ 2,604,712</u>

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

**NATIONAL COUNCIL ON AGRICULTURAL LIFE AND LABOR RESEARCH, INC. LOAN FUND  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED SEPTEMBER 30, 2008 AND 2007**

	2008	2007
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ (219,100)	\$ 469,616
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation	2,400	883
Bad debt expense	522,699	-
(Increase) Decrease in accounts receivable	(9,813)	165,433
(Increase) in interest receivable	(5,827)	-
(Increase) in loans receivable	(262,380)	(2,229,121)
(Decrease) Increase in accounts payable	(11,129)	10,595
(Decrease) Increase in accrued interest	(21,904)	18,779
<b>NET CASH USED BY OPERATING ACTIVITIES</b>	<b>(5,054)</b>	<b>(1,563,815)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of investments	(42,467)	-
Purchase of property and equipment	-	(12,000)
<b>NET CASH USED BY INVESTING ACTIVITIES</b>	<b>(42,467)</b>	<b>(12,000)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from long-term debt	1,000,000	1,525,000
Repayment of long-term debt	(500,000)	-
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<b>500,000</b>	<b>1,525,000</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	452,479	(50,815)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<b>1,232,238</b>	<b>1,283,053</b>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>\$ 1,684,717</b>	<b>\$ 1,232,238</b>
<b>SUPPLEMENTAL INFORMATION:</b>		
Interest paid	\$ 111,988	\$ 41,405
Taxes paid	\$ -	\$ -

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

NATIONAL COUNCIL ON AGRICULTURAL LIFE AND LABOR RESEARCH, INC. LOAN FUND

NOTES TO FINANCIAL STATEMENTS

NOTE 1 ENTITY DESCRIPTION

The Loan Fund operates as a line of business within the National Council on Agricultural Life and Labor (NCALL) Research, Inc.

NCALL Research, Inc. was organized in 1955 as a nonprofit corporation and has been providing rural housing technical assistance since 1976. NCALL Research, Inc. competes for funding in the form of contracts and grants from the federal, state and private sectors when it is available. The mission of the Organization is:

"To provide opportunities for safe, decent, affordable homes and improve housing conditions of low and moderate income people primarily in rural communities. To that end, we seek to:

- Provide training, technical assistance and support to organizations to enhance their capacity.
- Encourage, support and educate people to obtain and preserve decent, affordable housing.
- Provide financing for affordable housing and community development efforts with a goal of fostering borrower capacity and community impact.
- Increase public awareness about successful community housing efforts and the need to improve housing conditions.
- Formulate and advocate improved public policy."

The mission of NCALL Research, Inc.'s Loan Fund is to provide financing to qualified borrowers for affordable housing and community development efforts primarily in the Delmarva region. The loans provided by NCALL foster the growth and overall financial strength of the borrower while resulting in significant community development impact.

NCALL Research, Inc. is governed by a 15-member Board of Directors from the Organization's service area.

NCALL Research, Inc. was chartered as a NeighborWorks Organization in 2003 after a rigorous management and financial review by NeighborWorks America (NWA). During 2004, NCALL Research, Inc. joined the NeighborWorks Campaign for Homeownership. More recently, NCALL Research, Inc. joined the Financial Fitness Initiative and was certified as a full cycle lender. The affiliation with NWA requires ongoing reporting and regular management reviews, the most recent of which was in 2006 and which rated NCALL Research, Inc. as "Exemplary." It also provides opportunities for grant and capital funding, along with training slots for NWA's training institutes. NCALL Research, Inc. is one of only two organizations within Delaware with the NeighborWorks designation.

NCALL Research, Inc. was certified as a Community Development Financial Institution during fiscal year 2005 by the U.S. Department of Treasury. As of September 30, 2008, this certification was in good standing.

NATIONAL COUNCIL ON AGRICULTURAL LIFE AND LABOR RESEARCH, INC. LOAN FUND

NOTES TO FINANCIAL STATEMENTS

NOTE 1 ENTITY DESCRIPTION (cont'd)

Business Operations of the Loan Fund

The standard business operations of the Loan Fund are described in its business plan, loan policies and related documents. Included are descriptions of target areas for the Fund, its customer base, summary of loan products and its capitalization policy.

Management and Operations

NCALL Research, Inc.'s Board of Directors delegates the oversight authority of the Loan Fund to its Loan Fund Committee. The decision-making process, underwriting, risk rating and capitalization operations are described in the loan policies that are reviewed and updated regularly. The loan policies were updated and reconfirmed in June 2007.

NCALL Research, Inc.'s Loan Fund has an extensive review process that combines loan origination by staff; daily oversight of this function through its Executive Director, Loan Fund Director and Loan Fund Manager; and the overall review and approval process at the Loan Committee level. A committee of six NCALL Research, Inc.'s board members oversees the Loan Fund and is responsible for policies and the approval process. Experienced legal counsel has been retained to develop and review loan documents.

The Loan Fund representatives at the Committee and staff level adhere to a disclosure and conflict-of-interest policy in the event a customer or loan request comes in where there may be involvement with a Loan Fund Committee member.

The Loan Fund procedures define a process that reviews and monitors the pre-closing requirements for each loan. In the master loan file, any monitoring issues above and beyond the standard portfolio requirements are highlighted. The loan documents contain the standard language regarding timely payments and collections procedures.

The Loan Fund has an aggressive collections procedure in place to maintain the overall credit quality of the NCALL Research, Inc. portfolio.

The risk rating for each loan, after its initial approval, is reviewed no less than once a year.

Products of the Loan Fund

The Loan Fund defines its customer base as qualified nonprofits that have a primary mission of affordable housing and/or community development. The resources from the Loan Fund will, for the most part, be expected to assist customer organizations in accomplishing their housing projects. However, the Loan Fund also will consider financial products that support the overall operations of the nonprofit sector.

The Loan Fund's current products are predevelopment and working capital loans, site development and acquisition loans, gap and bridge financing on multifamily projects, loan guarantees and community-based facility loans. Each product was developed through constant interaction as technical assistance agent, advocate and, more recently, lender -

NATIONAL COUNCIL ON AGRICULTURAL LIFE AND LABOR RESEARCH, INC. LOAN FUND

NOTES TO FINANCIAL STATEMENTS

NOTE 1 ENTITY DESCRIPTION (cont'd)

with the borrowers. Each of these products fills a clear financing need that is not readily available from other sources. Each product helps to develop or preserve housing for low- and very low-income households.

Capitalization

The Loan Fund has a capitalization strategy which is more fully described in its loan policy that guides the Fund through its relationships with investors and participating lenders. There are five primary ways the Loan Fund raises capital including fees (loan servicing, interest, etc), grants, debt, and participation loans to other lenders and special fees (e.g. tax credits). Through its operations, regular financial and compliance reports are generated.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Statement Presentation

In accordance with Statement of Financial Accounting Standards (SFAS) No. 117, "Financial Statements of Not-for-Profit Organizations," the Loan Fund is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. In addition, the Loan Fund is required to present a statement of cash flows. Under SFAS No. 116, "Accounting for Contributions Received and Contributions Made," donor contributions are recognized as revenue or expense when pledged.

Recognition of Donor Restrictions

Donor-restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Temporarily Restricted Net Assets

This type of net asset includes funds restricted by funding sources. The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, 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 statement of activities as net assets released from restrictions.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Loan Fund considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Investments

Investments are reported at fair value.

NATIONAL COUNCIL ON AGRICULTURAL LIFE AND LABOR RESEARCH, INC. LOAN FUND

NOTES TO FINANCIAL STATEMENTS

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Loans Receivable

Loans receivable represent funds advanced to qualified nonprofit organizations that have a primary mission of affordable housing and/or community development. Loans are stated at unpaid principal balances less an allowance for uncollectible accounts. The allowance for uncollectible accounts is estimated to be five percent of the outstanding loan balance plus any amounts known to be uncollectible. Past due status is determined based on contractual terms. Loans are considered impaired if full principal or interest payments are not anticipated in accordance with the contractual terms. Loan security is outlined in the promissory notes.

Foreclosed Real Estate

Foreclosed real estate includes both formally foreclosed property and in-substance foreclosed property. In-substance foreclosed properties are those properties for which the institution has taken physical possession, regardless of whether formal foreclosure proceedings have taken place.

At the time of foreclosure, foreclosed real estate is recorded at the fair value less cost to sell, which becomes the property's new basis. Any write-downs based on the asset's fair value at date of acquisition are charged to the allowance for uncollectible accounts. After foreclosure, valuations are periodically performed by management and property held for sale is carried at the lower of the new cost basis or fair value less cost to sell. Costs incurred in maintaining foreclosed real estate and subsequent adjustments to the carrying amount of the property are included in income or loss on foreclosed real estate.

Property and Equipment

The Loan Fund capitalizes all expenditures for property in excess of \$5,000. Property and equipment are stated at cost at date of acquisition or fair market value at date of donation. Fixed assets are depreciated on the straight-line method over the estimated service lives of the respective assets. Estimated service lives for furniture and equipment are five to 10 years. Expenditures for maintenance, repairs, minor renewals and betterments which do not improve or extend the useful life of the respective asset are expensed.

Income Taxes

The NCALL Research, Inc. Loan Fund is exempt from federal income tax under Section 501(c)(3) of the U.S. Internal Revenue Code and is not a private foundation.

Use of Estimates in the Preparation of Financial Statements

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.

NATIONAL COUNCIL ON AGRICULTURAL LIFE AND LABOR RESEARCH, INC. LOAN FUND

NOTES TO FINANCIAL STATEMENTS

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Prior Year Financial Statements

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended September 30, 2007, from which the summarized information was derived.

NOTE 3 INVESTMENTS

As of September 30, 2008 and 2007, the Loan Fund had \$417,467 and \$375,000, respectively, invested in a certificate of deposit. A portion of this investment (\$375,000) has been pledged by the Loan Fund to secure the line of credit with Fannie Mae.

NOTE 4 FORECLOSED REAL ESTATE HELD FOR RESALE

Foreclosed real estate held for resale represents property acquired through loan default. As of September 30, 2008, the Loan Fund had title to one foreclosed property due to loan default. The outstanding principal and interest on this loan at the time of foreclosure was \$150,000. The Loan Fund has estimated that a loss of \$60,000 will be recognized when this property is sold and, accordingly, an allowance for loss on foreclosed assets held for resale has been recorded in the statement of financial position.

NOTE 5 BAD DEBT EXPENSE

For the year ended September 30, 2008, bad debt expense in the amount of \$522,699 is comprised of the following:

Allowance for uncollectible accounts	\$ 255,000 *
Allowance for loss on foreclosed assets held for resale	60,000
Loss recognized on sale/disposition of foreclosed real estate	214,349
Collection on loan previously written off	<u>(6,650)</u>
TOTAL	<u>\$ 522,699</u>

\* Fiscal year 2008 was the first time the Organization recorded an allowance for uncollectible accounts.

NOTE 6 LOANS RECEIVABLE SOLD WITHOUT RECOURSE

The Loan Fund has sold loans receivable with no recourse to financial institutions. The outstanding balance of the nonrecourse loans at September 30, 2008 and 2007 was \$10,846,858 and \$13,646,034, respectively. The loans mature at various times through December 2016. The Loan Fund serviced, administered and collected the receivables on behalf of the purchaser. The Loan Fund recognized no servicing asset or liability because it is impracticable to estimate its fair value.

NATIONAL COUNCIL ON AGRICULTURAL LIFE AND LABOR RESEARCH, INC. LOAN FUND

NOTES TO FINANCIAL STATEMENTS

NOTE 7 PERMANENTLY RESTRICTED NET ASSETS

NeighborWorks America capital grants are restricted for making loans and for capital projects. The capital grants are permanently restricted although proceeds on capital projects, or interest earned, over and above the corpus may be transferred to unrestricted net assets for furthering the Organization's mission. However, should the Organization become defunct, all remaining grant funds, interest earnings, capital projects proceeds, and the loan and capital projects portfolios representing the use of these funds will revert to NeighborWorks America. As of September 30, 2008 and 2007, the balance of permanently restricted net assets totaled \$1,225,565 and \$1,050,565, respectively.

NOTE 8 CONCENTRATIONS

The Loan Fund received 34 and 47 percent of its total revenue and public support from the NeighborWorks America for the year ended September 30, 2008 and 2007, respectively.

NOTE 9 LONG-TERM DEBT

Notes Payable

In December 2005, the Loan Fund entered into an unsecured note agreement with Wachovia Regional Community Development Corporation in the amount of \$250,000. This note bears interest at a fixed rate of 2.5 percent. Semi-annual installments of accrued interest is due and payable on March 31 and September 30 of each year. The entire unpaid balance of principal is due in full on December 16, 2008. The Loan Fund has the option of extending the maturity date for an additional two-year period. As of September 30, 2008 and 2007, the outstanding balance on this note was \$250,000.

In December 2006, the Loan Fund received an unsecured recoverable grant in the amount of \$400,000 from JPMorgan Chase Bank. The Loan Fund is required to repay this grant without interest no later than December 1, 2012. As of September 30, 2008 and 2007, the outstanding balance was \$400,000.

In November 2007, the Loan Fund entered into an unsecured note agreement with Barclays Bank Delaware in the amount of \$500,000. The note bears interest at the three-month LIBOR rate plus .01 percent (4.15 percent at September 30, 2008). Accrued interest is due on January 1, April 1, July 1 and October 1 of each year with the entire unpaid principal balance due in full in November 2014. As of September 30, 2008, the outstanding amount of this note was \$500,000.

In September 2008, the Loan Fund entered into an unsecured note agreement with Bank of America for \$1,000,000. The note bears interest at a fixed rate of 4.0 percent. Accrued interest is due on January 1, April 1, July 1 and October 1 of each year. Principal payments of \$300,000 are due in September 2016 and 2017 with the remaining principal due in September 2018. As of September 30, 2008, the outstanding amount of this note was \$500,000.

NATIONAL COUNCIL ON AGRICULTURAL LIFE AND LABOR RESEARCH, INC. LOAN FUND

NOTES TO FINANCIAL STATEMENTS

NOTE 9 LONG-TERM DEBT (cont'd)

Line of Credit

In June 2006, the Loan Fund entered into a secured line of credit agreement with Fannie Mae for \$1,500,000. In May 2008, this agreement was modified to increase the credit limit to \$2,000,000. The line of credit is secured by a portion of the Loan Fund's certificate of deposit account in the amount of \$375,000. Draws on the line of credit bear interest at the three-month LIBOR rate plus 1.0 percent (5.05 and 6.36 percent at September 30, 2008 and 2007, respectively). Accrued interest is due on January 1, April 1, July 1 and October 1 of each year with the entire unpaid principal balance due in full in June 2010. As of September 30, 2008 and 2007, the Loan Fund had \$1,000,000 and \$1,500,000 outstanding against this line of credit, respectively.

The maturity of the long-term debt is as follows:

Year Ending September 30

2009	\$ 250,000
2010	1,000,000
2011	-
2012	400,000
2013	-
2014 and thereafter	<u>1,000,000</u>
	<u>\$ 2,650,000</u>

NOTE 10 COMMITMENTS

Loans committed but not disbursed as of September 30, 2008 were as follows:

<u>Loan Amount</u>	<u>Disbursed at 09/30/08</u>	<u>Commitment</u>
<u>\$ 3,076,217</u>	<u>\$ 2,228,799</u>	<u>\$ 847,418</u>

Loans committed but not disbursed as of September 30, 2007 were as follows:

<u>Loan Amount</u>	<u>Disbursed at 09/30/07</u>	<u>Commitment</u>
<u>\$ 3,635,162</u>	<u>\$ 3,031,535</u>	<u>\$ 603,627</u>

The amounts above represent the Loan Fund's portion of the loan and exclude the amount of the loan subject to a participation agreement.