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

REPORT ON AUDIT OF FINANCIAL STATEMENTS

SEPTEMBER 30, 2017

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

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Barbacane, Thornton & Company LLP
200 Springer Building
3411 Silverside Road
Wilmington, Delaware 19810

T 302.478.8940
F 302.468.4001
www.btcpa.com

INDEPENDENT AUDITOR'S REPORT

January 24, 2018

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

We have audited the accompanying financial statements of the National Council on Agricultural Life and Labor ("NCALL") Research, Inc. Loan Fund, (a division of NCALL Research, Inc.), which comprise the statement of financial position as of September 30, 2017, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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 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.

BARBACANE THORNTON & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors
National Council on Agricultural Life and Labor Research, Inc.

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, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the NCALL Research, Inc. Loan Fund's 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated January 23, 2017. In our opinion, the summarized comparative information presented herein as of and the for the year ended September 30, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matter

As discussed in Note 1, the financial statements present only the Loan Fund and are not intended to present fairly the financial position and changes in net assets of NCALL Research, Inc., Dover, Delaware, in conformity with accounting principles generally accepted in the United States of America.

Barbacane, Thornton & Company LLP

BARBACANE, THORNTON & COMPANY LLP

NATIONAL COUNCIL ON AGRICULTURAL LIFE AND LABOR RESEARCH, INC. LOAN FUND
STATEMENTS OF FINANCIAL POSITION
SEPTEMBER 30, 2017 AND 2016

	2017	2016
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 4,138,308	$ 4,417,291
Loans receivable, net of allowance for loan losses of $477,285 for 2017 and $326,415 for 2016	5,813,304	3,982,234
Prepaid expense	21,880	-
Total Current Assets	9,973,492	8,399,525
NONCURRENT ASSETS:		
Property and equipment	21,250	21,250
Less: Accumulated depreciation	(12,925)	(12,000)
Loans receivable, net of allowance for loan losses of $1,213,215 for 2017 and $973,585 for 2016	14,776,893	11,877,669
Total Noncurrent Assets	14,785,218	11,886,919
TOTAL ASSETS	$ 24,758,710	$ 20,286,444
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	$ 21,151	$ 8,676
Accrued interest	27,407	2,556
Deferred revenue	18,500	12,395
Funds held for others	300,000	400,000
Notes payable	2,150,000	3,900,000
Total Current Liabilities	2,517,058	4,323,627
NONCURRENT LIABILITIES:		
Notes payable	14,875,000	10,025,000
Total Noncurrent Liabilities	14,875,000	10,025,000
TOTAL LIABILITIES	17,392,058	14,348,627
NET ASSETS:		
Unrestricted	6,666,652	4,991,886
Permanently restricted	700,000	945,931
TOTAL NET ASSETS	7,366,652	5,937,817
TOTAL LIABILITIES AND NET ASSETS	$ 24,758,710	$ 20,286,444

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, 2017
(With Summarized Totals for 2016)

	Unrestricted	Permanently Restricted	Totals 2017	Totals 2016
REVENUE AND PUBLIC SUPPORT				
Capital grant - Neighborhood Reinvestment	$ 140,000	$ -	$ 140,000	$ 200,000
Expendable grant - Neighborhood Reinvestment	50,000	-	50,000	60,000
Other grants	1,485,000	-	1,485,000	-
Contributions	105,000	-	105,000	135,000
Interest - deposits	1,342	-	1,342	1,228
Interest - loans	958,514	-	958,514	791,050
Fee income	173,460	-	173,460	223,743
Other revenue	-	-	-	263
Net assets released from restriction	245,931	(245,931)	-	-
TOTAL REVENUE AND PUBLIC SUPPORT	3,159,247	(245,931)	2,913,316	1,411,284
EXPENSES				
Program services:				
Accounting and audit fees	7,625	-	7,625	7,850
Consultant fees	28,900	-	28,900	46,268
Consumables	1,967	-	1,967	1,525
Depreciation	925	-	925	-
Dues, registration, and training	17,166	-	17,166	10,914
Equipment and maintenance	1,423	-	1,423	11
Insurance	10,940	-	10,940	11,600
Interest expense	447,418	-	447,418	365,196
Internet and technical services	7,398	-	7,398	7,837
Legal expenses	11,875	-	11,875	7,514
Loan participation fees	19,463	-	19,463	9,624
Marketing	-	-	-	364
Miscellaneous	1,723	-	1,723	432
Office supplies	-	-	-	367
Occupancy	8,832	-	8,832	8,832
Printing and postage	241	-	241	235
Provision for loan losses	415,000	-	415,000	50,000
Salaries and benefits	363,082	-	363,082	351,055
Telephone	1,581	-	1,581	1,855
Travel and per diem	31,612	-	31,612	15,903
Total Program Services	1,377,171	-	1,377,171	897,382
Management and general	107,310	-	107,310	98,475
TOTAL EXPENSES	1,484,481	-	1,484,481	995,857
CHANGE IN NET ASSETS	1,674,766	(245,931)	1,428,835	415,427
NET ASSETS, BEGINNING OF YEAR	4,991,886	945,931	5,937,817	5,522,390
NET ASSETS, END OF YEAR	$6,666,652	$ 700,000	$7,366,652	$5,937,817

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, 2017 AND 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ 1,428,835	$ 415,427
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation	925	-
Provision for loan losses	415,000	50,000
Increase in loans receivable	(5,145,294)	(2,231,755)
Increase in prepaids	(21,880)	-
Increase in accounts payable	12,475	4,172
Increase in accrued interest	24,851	-
Increase in deferred revenue	6,105	12,395
Decrease in funds held for others	(100,000)	(100,000)
NET CASH USED BY OPERATING ACTIVITIES	(3,378,983)	(1,849,761)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from long-term debt	6,250,000	2,150,000
Repayment of long-term debt	(3,150,000)	(300,000)
Purchase of property and equipment	-	(9,250)
NET CASH PROVIDED BY FINANCING ACTIVITIES	3,100,000	1,840,750
NET DECREASE IN CASH AND CASH EQUIVALENTS	(278,983)	(9,011)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	4,417,291	4,426,302
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 4,138,308	$ 4,417,291
SUPPLEMENTAL INFORMATION:		
Interest paid	$ 422,567	$ 365,196
Taxes paid	$ -	$ -

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

NOTE 1 ENTITY DESCRIPTION

The Loan Fund operates as a line of business within 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 promote affordable housing, improved communities, and sustainable development. To that end, we seek to:

- Educate and empower customers to achieve their housing goals and improve their finances.
- Develop affordable housing and strengthen the capacity of other nonprofit housing organizations.
- Provide innovative lending and services targeted to affordable housing and community development.
- Increase public awareness about housing needs and resources, and advocate for improved public policy."

The mission of NCALL Research, Inc.'s Loan Fund is to support NCALL's overall mission, which includes community lending, providing financial support and related capacity building for nonprofit customers undertaking affordable housing and community development projects.

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® America ("NWA") Organization in 2003. The affiliation with NWA requires ongoing reporting and regular management reviews. NCALL maintained its "Exemplary" rating, and NWA last conducted a program review in August 2015 which resulted in NCALL exceeding or meeting all evaluation criteria. 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 ("CDFI") during fiscal year 2005 by the U.S. Department of Treasury. As of September 30, 2017, this certification was in good standing.

NOTE 1 ENTITY DESCRIPTION (cont'd)

As a CDFI, NCALL Research, Inc. chose to participate in the Comprehensive Ratings for CDFI Investments (Aeris) review and rating process. The process was a positive experience and yielded a substantial report and current rating of three stars for impact performance, a rating of AA for financial strength and performance, and a Policy Plus designation.

NCALL Research, Inc.'s Board of Directors undertook strategic planning during September, 2016, yielding a three-year plan for the Organization for fiscal years 2017-2019.

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 March 2017.

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 or Board-approved appointees 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 wherever 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.

NOTE 1 ENTITY DESCRIPTION (cont'd)

Products of the Loan Fund

The Loan Fund defines its customer base as qualified borrowers 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 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 guides the Loan Fund through its relationships with investors and participating lenders. There are three primary ways the Loan Fund raises capital; grants, debt, and participation loans to other lenders. Through its operations, regular financial and compliance reports are generated.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Statement Presentation

In accordance with the section of the Financial Standards Accounting Board's Accounting Standards Codification ("FASB ASC") regarding 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.

Contributions

In accordance with the FASB ASC section regarding accounting for contributions received and contributions made, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

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

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.

Loans Receivable

Loans receivable represent funds advanced to qualified organizations that have a primary mission of affordable housing and/or community development. Loans are stated at unpaid principal balances less an allowance for loan losses. The allowance for loan losses is estimated to be a minimum of five percent of the outstanding loan balance plus any amounts known to be uncollectible, and additional amounts determined by management based on the loan's internal risk rating. 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. Loans are written off as a charge to the allowance for loan loss accounts when, in management's estimation, it is probable that the receivable is worthless. Loan security is outlined in the promissory notes.

Interest on loans is recognized over the term of the loan and is calculated using the simple-interest method on principal amounts outstanding. Loan origination and commitment fees are not material to the financial statements and are recognized as revenue when the loan closes.

Loans receivable are placed on nonaccrual status when management believes, after considering economic conditions, business conditions, and collection efforts, that the loans are impaired or collection of interest is doubtful. Uncollected interest previously accrued is charged off or an allowance is established by a charge to provision for loan losses. Interest income on nonaccrual loans is recognized only to the extent cash payments are received.

Property and Equipment

The Loan Fund capitalizes all expenditures for equipment in excess of $5,000. Equipment is stated at cost at date of acquisition or fair market value at date of donation. Equipment is depreciated on the straight-line method over the estimated service life of the asset.

The estimated service life for equipment is five to ten 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

NCALL Research, Inc. is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. However, income from certain activities not directly related to NCALL Research, Inc.'s tax-exempt purpose may be subject to taxation as unrelated business income.

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

Generally accepted accounting principles prescribe rules for the recognition, measurement, classification, and disclosure in the financial statements of uncertain tax positions taken or expected to be taken in NCALL Research, Inc.'s tax returns. Management has determined that NCALL Research, Inc. does not have any uncertain tax positions or associated unrecognized benefits that materially impact the financial statements or related disclosures. Since tax matters are subject to some degree of uncertainty, there can be no assurance that NCALL Research, Inc.'s tax returns will not be challenged by the taxing authorities and that NCALL Research, Inc. will not be subject to additional tax, penalties, and interest as a result of such challenge.

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.

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 Loan Fund's financial statements for the year ended September 30, 2016, from which the summarized information was derived.

NOTE 3 ALLOWANCE FOR LOAN LOSSES

For the year ended September 30, 2017, the change in the allowance for loan losses is as follows:

	Beginning Allowance for Loan Losses	Provision for Loan Losses	Charge-offs	Ending Allowance for Loan Losses
Affordable Housing	$ 735,400	$ 415,000	$ -	$ 1,150,400
Community Facilities	564,600	-	(24,500)	540,100
Total Allowance	$ 1,300,000	$ 415,000	$ (24,500)	$ 1,690,500

NOTE 3 ALLOWANCE FOR LOAN LOSSES (cont'd)

For the year ended September 30, 2016, the change in the allowance for loan losses is as follows:

	Beginning Allowance for Loan Losses	Provision for Loan Losses	Charge-offs	Ending Allowance for Loan Losses
Affordable Housing	$ 685,400	$ 50,000	$ -	$ 735,400
Community Facilities	564,600	-	-	564,600
Total Allowance	$ 1,250,000	$ 50,000	$ -	$ 1,300,000

The ending balance in the allowance for loan losses is attributed to loans that have been evaluated collectively. As necessary, adjustments are made to the Loan Fund's method of estimating the allowance for loan losses.

NOTE 4 CREDIT QUALITY OF LOANS RECEIVABLE

The Loan Fund monitors the credit quality of its loans receivable by assessing the collection experience of existing borrowers, the creditworthiness of new borrowers, and the sufficiency of collateral related to the receivables. Loan security is outlined in the promissory notes.

Each loan is risk rated when approved. The risk rating is reviewed annually after approval and closing. Loans will be reviewed more frequently if they are/become rated below Adequate or have performance issues. The risk ratings are consistent with community development lending standards and are: Good, Standard, Adequate, Watch, Sub-standard, and Doubtful/OREO. The Loan Fund's standard Loss Loan Reserve ("LLR") is five percent against all portfolios outstanding. Special, additional reserves are defined with each rating below, where appropriate.

The internal risk ratings are as follows:

Good

The loan request, and the borrower, exceeds underwriting criteria related to: quality of collateral, strength of loan repayment, supportive market conditions, and a strong financial condition. An additional allowance is not required for this rating.

Standard

The loan request and the borrower meet all of the underwriting criteria: quality of collateral, strength of loan repayment, supportive market condition, and an acceptable financial condition. An additional allowance is not required for this rating.

NOTE 4 CREDIT QUALITY OF LOANS RECEIVABLE (cont'd)

Adequate

The loan request and the borrower meet the underwriting criteria with the understanding that there may be some weaknesses with certain criteria that would be offset by other criteria. Some weaknesses may be created by market issues, or given the size and type of borrower. These criteria do not mean that the borrower or project is weak; this situation is typical with community development projects. There may be loan policy exceptions which may prevent the loan from being rated Good or Standard, and additional loan monitoring may occur. An additional allowance is not required for this rating, but additional performance measures may be recommended that are not allowance related.

Watch

The loan request and the borrower no longer meet all the underwriting criteria, so there are one or more weaknesses to address. A specific financial loss may not be expected at this time, so the rating pertains to time and effort to offset weaknesses. The loan may, or may not, be late with its payments. A Watch rating is for shorter terms, with the expectation that the rating improves or deteriorates within six to twelve months of the Watch rating. An additional allowance of up to 25 percent of the amount may be recommended for the Watch-rated loan.

Sub-Standard

The loan and the borrower are in default, and there is an expectation that financial loss may occur, or already has done so. When the loan reaches 90 days past due, it will be placed on nonaccrual status. If the loan cannot be cured within a reasonable time (within six months from the receipt of this rating), staff will prepare a plan of action for review and approval by the Loan Fund Committee. A plan may include: restructuring the loan; charge-off, an extension for other repayment sources, etc. It may take 12-18 months to cure the loan after the plan of action has been approved. An allowance of up to 50 percent of the loan amount may be considered with this rating.

Doubtful/Other Real Estate Owned ("OREO")

The loan and borrower continue to be in default, and there is no expectation of a repayment strategy. Disposition and charge-off actions are recommended by staff to the Loan Fund Committee. Approval for the charge-off process (time and amount) is required. An allowance of up to 100 percent of the loan amount will be considered with this rating.

The information used to internally rate loans receivable was updated as of September 30, 2017.

NOTE 4 CREDIT QUALITY OF LOANS RECEIVABLE (cont'd)

For the year ended September 30, 2017 and 2016, loans were split between the following portfolio segments:

	2017	2016
Affordable Housing	$ 11,478,774	$ 9,575,287
Community Facilities	10,801,923	7,584,616
Total Loans Receivable, Gross	22,280,697	17,159,903
Allowance for Loan Losses	(1,690,500)	(1,300,000)
TOTAL	$ 20,590,197	$ 15,859,903

As of September 30, 2017, the loan ratings and amounts by portfolio segment were as follows:

	Good	Standard	Adequate	Watch	Sub-Standard	Total
Affordable Housing	$ -	$ 962,384	$ 9,240,400	$ -	$ 1,275,990	$11,478,774
Community Facilities	-	1,215,211	9,586,712	-	-	10,801,923
Total Loans Receivable, Gross	$ -	$ 2,177,595	$18,827,112	$ -	$ 1,275,990	$22,280,697

As of September 30, 2016, the loan ratings and amounts by portfolio segment were as follows:

	Good	Standard	Adequate	Watch	Sub-Standard	Total
Affordable Housing	$ -	$ 731,864	$ 7,683,423	$ 1,160,000	$ -	$ 9,575,287
Community Facilities	-	1,299,390	5,535,226	750,000	-	7,584,616
Total Loans Receivable, Gross	$ -	$ 2,031,254	$13,218,649	$ 1,910,000	$ -	$17,159,903

As of September 30, 2017, the loan aging by portfolio segment was as follows:

	Current	31-60 Days Past Due	61-90 Days Past Due	91+ Days Past Due	Total
Affordable Housing	$ 10,202,784	$ -	$ -	$ 1,275,990	$ 11,478,774
Community Facilities	10,801,923	-	-	-	10,801,923
Total Loans Receivable, Gross	$ 21,004,707	$ -	$ -	$ 1,275,990	$ 22,280,697

NOTE 4 CREDIT QUALITY OF LOANS RECEIVABLE (cont'd)

The $1,275,990 that is more than 90 days past due in Affordable Housing is in non-accrual status. There is no estimated date as to when the amount will be collected.

As of September 30, 2016, the loan aging by portfolio segment was as follows:

	Current	31-60 Days Past Due	61-90 Days Past Due	91+ Days Past Due	Total
Affordable Housing	$ 7,543,356	$ 2,031,931	$ -	$ -	$ 9,575,287
Community Facilities	7,584,616	-	-	-	7,584,616
Total Loans Receivable, Gross	$ 15,127,972	$ 2,031,931	$ -	$ -	$ 17,159,903

The amount that is 31 - 60 days past due consists of one loan expected to be collected by March 31, 2018.

NOTE 5 LOANS RECEIVABLE SOLD WITHOUT RECOURSE

The Loan Fund has sold loans receivable to financial institutions with no recourse to the Organization. The outstanding balance of the no-recourse loans at September 30, 2017 and 2016 was $13,083,822 and $7,677,206, respectively.

The Loan Fund sold a loan participation in the amount of $400,000 ($398,342 and $399,828 balance at September 30, 2017 and 2016, respectively) to Partners for the Common Good. Until the loan balance is less than $768,300, the Loan Fund agrees to take first loss of $65,000 in the event of default. The loan matures on June 1, 2020.

The Loan Fund sold a loan participation in the amount of $900,000 ($828,460 and $387,981 balance at September 30, 2017 and 2016, respectively) to Partners for the Common Good and Artisan's Bank. Once fully disbursed, the total loan outstanding will be $1,300,000 (the Loan Fund and participants' combined total), of which the Loan Fund agrees to take first loss of $200,000 in the event of default. The loan matures on November 1, 2017.

The Loan Fund sold a loan participation in the amount of $2,350,000 ($2,350,000 and $2,350,000 balance at September 30, 2017 and 2016, respectively) to Partners for the Common Good and Barclays Bank (total loan amount of $2,700,000), of which the Loan Fund agrees to take first loss of $14,400 in the event of default. The loan matures on August 1, 2019.

NOTE 5 LOANS RECEIVABLE SOLD WITHOUT RECOURSE (cont'd)

The Loan Fund sold a loan participation in the amount of $2,500,000 ($2,481,930 and $0 balance at September 30, 2017 and 2016, respectively) to Barclays Bank Delaware and Deutsche Bank Trust Company Delaware. Once fully disbursed, the total loan outstanding will be $3,500,000 (the Loan Fund and participants' combined total), of which the Loan Fund agrees to take first loss of $350,000 in the event of default. The loan matures on December 1, 2019.

The Loan Fund sold a loan participation in the amount of $500,000 ($248,741 and $0 balance at September 30, 2017 and 2016, respectively) to The Bank of Delmarva. Once fully disbursed, the total loan outstanding will be $750,000 (the Loan Fund and participants' combined total), of which the Loan Fund agrees to take first loss of $250,000 in the event of default. The loan matures on December 1, 2019.

The Loan Fund sold a loan participation in the amount of $1,400,000 ($896,978 and $0 balance at September 30, 2017 and 2016, respectively) to The Bank of Delmarva. Once fully disbursed, the total loan outstanding will be $2,200,000 (the Loan Fund and participants' combined total), of which the Loan Fund agrees to take first loss of $800,000 in the event of default. The loan matures on January 1, 2019.

The Loan Fund services, administers, and collects the receivables on behalf of the purchaser. The Loan Fund has not recognized a servicing asset or liability because it is impracticable to estimate its fair value.

NOTE 6 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 NCALL Research, Inc.'s mission. However, should NCALL Research, Inc. 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.

In September 2017, NeighborWorks® America released from restriction $300,000 in current year grant funds previously classified as permanently restricted net assets by the Loan Fund. Accordingly, this amount has been shown as net assets released from restriction in the statement of activities.

As of September 30, 2017 and 2016, the balance of permanently restricted net assets totaled $700,000 and $945,931, respectively.

NOTE 7 CONCENTRATIONS

The Loan Fund received seven and eighteen percent of its total revenue and public support from NeighborWorks® America during the years ended September 30, 2017 and 2016, respectively.

The Loan Fund received fourteen and zero percent of its total revenue and public support from The Longwood Foundation during the years ended September 30, 2017 and 2016, respectively.

The Loan Fund received thirty-four and zero percent of its total revenue and public support from Community Development Financial Institutions Treasury during the years ended September 30, 2017 and 2016, respectively.

NOTE 8 LONG-TERM DEBT

In December 2005, the Loan Fund entered into an unsecured note agreement with Wells Fargo Regional Community Development Corporation in the amount of $250,000. In 2016, the loan was increased by $100,000 to $350,000 and the maturity date extended from December 16, 2016 to December 16, 2025. This note bears interest at a fixed rate of 2.0 percent. Semi-annual installments of accrued interest are due and payable on March 31 and September 30 of each year, with the entire unpaid balance of principal due in full on December 16, 2025. As of September 30, 2017 and 2016, the outstanding balance on this note was $350,000.

In September 2008, the Loan Fund entered into an unsecured note agreement with Bank of America in the amount of $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. NCALL Research, Inc. made the scheduled principal payment of $300,000 in September 2016 and another principal payment of $300,000 in September 2017, with the remaining principal of $400,000 due in September 2018. As of September 30, 2017 and 2016, the outstanding amount of this note was $400,000 and $700,000, respectively.

In December 2010, the Loan Fund entered into an unsecured revolving line of credit agreement with the Delaware State Housing Authority in the amount of $375,000. Any outstanding balance against this line of credit will bear interest at a fixed rate of 3.0 percent. Accrued interest is payable on January 1, April 1, July 1, and October 1 of each year, with the entire unpaid principal balance due in full on December 6, 2020. As of September 30, 2017 and 2016, the outstanding amount of this note was $375,000.

In September 2011, the Loan Fund entered into an unsecured note agreement with PNC Bank in the amount of $1,250,000. In December 2016, the note amount was increased to $2,500,000. The note bears interest at a fixed rate of 3.25 percent. Accrued interest is payable on March 1, June 1, September 1, and December 1 of each year, with the entire unpaid principal balance due in full on December 20, 2021. As of September 30, 2017 and 2016, the outstanding amount of this note was $2,500,000 and 1,000,000, respectively.

NOTE 8 LONG-TERM DEBT (cont'd)

In March 2012, the Loan Fund entered into an unsecured note agreement with AIG Federal Savings Bank (this loan is now held by Artisans' Bank; all terms and conditions remain the same) in the amount of $350,000. In March 2017, the note amount was increased to $500,000. The note bears interest at a fixed rate of 3.0 percent. Accrued interest is payable on January 1, April 1, July 1, and October 1 of each year, with the entire unpaid principal balance due in full on March 28,2021 (previously March 28, 2018). As of September 30, 2017 and 2016, the outstanding amount of this note was $500,000 and $350,000, respectively.

In April 2012, the Loan Fund entered into an unsecured note agreement with Barclays Bank Delaware in the amount of $1,250,000. The loan was increased by $1,250,000 to $2,500,000 during 2016. The note bears interest at a fixed rate of 3.25 percent. 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 on March 11, 2023. As of September 30, 2017 and 2016, the outstanding amount of this note was $2,500,000.

In July 2012, the Loan Fund entered into an equity equivalent ("EQ2") investment agreement with Wells Fargo Community Investment Holdings in the amount of $600,000. The agreement bears interest at a fixed rate of 2.0 percent. Accrued interest is payable on January 15, April 15, July 15, and October 15 of each year with the entire unpaid principal balance due in full on August 9, 2022. As of September 30, 2017 and 2016, the outstanding amount of this note was $600,000.

In August 2012, the Loan Fund entered into an unsecured note agreement with HSBC Bank USA in the amount of $2,000,000. The note bears interest at a fixed rate of 2.35 percent. Accrued interest is payable on January 1, April 1, July 1, and October 1 of each year, with the entire unpaid principal balance due in full on August 31, 2021. As of September 30, 2017 and 2016, the outstanding amount of this note was $2,000,000.

In August 2012, the Loan Fund entered into an unsecured note agreement with TD Bank in the amount of $1,000,000; and in 2014 and 2017, the note was amended to increase the available amount to $1,500,000 and $3,000,000, respectively. The note bears interest at a fixed rate of 3.98 percent. Accrued interest is payable quarterly with the entire unpaid principal balance due in full on July 31, 2020 (previously July 31, 2017). As of September 30, 2017 and 2016, the outstanding amount of this note was $3,000,000 and $1,500,000, respectively.

In July 2014, the Loan Fund entered into an unsecured line of credit agreement with the Jessie Ball DuPont Religious, Charitable, and Educational Fund in the amount of $1,500,000. Any outstanding balance against this line of credit will bear interest at a fixed rate of 1.5 percent. Accrued interest is payable on June 30 and December 31 of each year, with the entire unpaid principal balance due in full on July 29, 2021. As of September 30, 2017 and 2016, the outstanding amount of this note was $1,500,000.

NOTE 8 LONG-TERM DEBT (cont'd)

In August 2014, the Loan Fund entered into an unsecured line of credit agreement with Capital One, National Association in the amount of $1,000,000. Any outstanding balance against this line of credit will bear interest at a fixed rate of 1.0 percent. Accrued interest is payable on January 1, April 1, July 1, and October 1 of each year, with the entire unpaid principal balance due in full on July 1, 2024. As of September 30, 2017 and 2016, the outstanding amount of this note was $1,000,000.

In September 2014, the Loan Fund entered into an unsecured note agreement with Wilmington Savings Fund Society in the amount of $750,000. The note bears interest at a fixed rate of 4.0 percent. Accrued interest is payable quarterly with the entire unpaid principal balance due in full on December 18, 2017. As of September 30, 2017 and 2016, the outstanding amount of this note was $750,000.

In June 2015, the Loan Fund entered into an unsecured note agreement with the Opportunity Finance Network in the amount of $1,000,000. The note bears interest at a fixed rate of 3.5 percent. Accrued interest is payable quarterly on March 31, June 30, September 30, and December 31, and the entire unpaid principal balance is due in full on June 30, 2018. As of September 30, 2017 and 2016, the outstanding amount of this note was $1,000,000.

In July 2016, the Loan Fund entered into an unsecured note agreement with The Domestic and Foreign Missionary Society of the Protestant Episcopal Church in the United States of America in the amount of $300,000. The note bears interest at a fixed rate of 3.75 percent. 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 on September 30, 2019. As of September 30, 2017 and 2016, the outstanding amount of this note was $300,000.

In December 2016, the Loan Fund entered into an unsecured note agreement with the United States Department of Agriculture in the amount of $5,000,000. The note bears interest at a fixed rate of 2.375 percent. Accrued interest is paid in monthly installments on the last day of each month, and the principal is amortized over the life of the note with a maturity date of December 20, 2056. The note requires an Irrevocable Letter of Credit for an outside institution as collateral in the minimum amount equal to the principal and interest installments due during the first five years. In June 2017, NCALL Research, Inc. entered into an unsecured note agreement with the Bank of America in the amount of $1,050,000 in order to meet the United States Department of Agriculture requirement. The note bears interest at a fixed rate of 1.00 percent. Accrued interest is due on January 1, April 1, July 1, and October 1 of each year. The outstanding principal payment as of December 5, 2020 is to be paid off in five equal installments with a maturity date of December 5, 2024. As of September 30, 2017, NCALL Research, Inc. has not drawn down on these loans.

NOTE 8 LONG-TERM DEBT (cont'd)

In August 2017, the Loan Fund entered into an unsecured note agreement with the CDFI Community Investment Fund I, Inc. in the amount of $250,000. The note bears interest at a fixed rate of 3.0 percent. 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 on August 24, 2020. As of September 30, 2017, the outstanding amount of this note was $250,000.

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

Year Ending September 30,	
2018	$ 2,150,000
2019	300,000
2020	3,000,000
2021	4,375,000
2022	3,100,000
Thereafter	4,100,000
	$ 17,025,000

NOTE 9 FUNDS HELD FOR OTHERS

Funds held for others ($300,000 and $400,000 as of September 30, 2017 and 2016, respectively) reflected in the statement of financial position represent funds received from Citi Community Development in accordance with the Department of Justice Settlement Agreement (Community Reinvestment and Neighborhood Stabilization, Annex Two, Section 4-D). These funds will be passed-through to the National Community Reinvestment Coalition ("NCRC") to support its GROWTH (Generating Real Opportunities for Work Through Housing) Initiative in Delaware. These funds were disbursed first to the Loan Fund due to its certification as a Community Development Financial Institution ("CDFI") with the infrastructure to disburse funds for real estate projects.

NOTE 10 COMMITMENTS

Loans closed but not disbursed as of September 30, 2017 were as follows:

Loan Amount	Disbursed at 09/30/2017	Undisbursed
$ 9,218,873	$ 5,701,725	$ 3,517,148

NOTE 10 COMMITMENTS (cont'd)

As of September 30, 2017, the Loan Fund issued commitment letters to five potential borrowers for loans totaling $2,375,000. All five loans are expected to close in the next fiscal year.

NCALL Research, Inc. issued a line of credit to the Loan Fund in the amount of $2,000,000. The initial term of the line shall be one year, expiring September 30, 2018. Advances under the line shall be repaid to NCALL Research, Inc. without interest. However, the Loan Fund must pay NCALL Research, Inc. an annual fee of .5 percent of the amount of the line of credit. As of June 30, 2017, there were no advances against the line of credit.

On June 16, 2016, the Loan Fund issued a letter of credit in favor of The Sussex County Council as beneficiary at the request of Milford Housing Development Corporation for a construction contract completion guarantee in an amount not to exceed $147,089. The letter of credit expires on December 16, 2017. This letter of credit can be extended for an additional year unless written notice is given to the Loan Fund 60 days prior to the expiration date of the intention not to not extend the letter of credit. As of September 30, 2017, the Loan Fund has not been notified of non-completion of the construction contract.

On June 21, 2016, the Loan Fund issued a letter of credit in favor of The Sussex County Council as beneficiary at the request of Milford Housing Development Corporation for a construction contract completion guarantee in an amount not to exceed $675,292. The letter of credit expires on June 21, 2018. As of September 30, 2017, the Loan Fund has not been notified of non-completion of the construction contract.

NOTE 11 CONCENTRATION OF CREDIT RISK

The Loan Fund maintains cash balances at one financial institution which may at times exceed the Federal Deposit Insurance Corporation ("FDIC") limit of $250,000 per depositor. The amount that exceeded the FDIC limit as of September 30, 2017 and 2016 was $3,035,845 and $3,171,390, respectively. The Loan Fund has not experienced any losses in such accounts. Management of the Loan Fund believes it is not exposed to any significant credit risk on its cash balances.

NOTE 12 RELATED PARTY TRANSACTIONS

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 wherever there may be involvement with a loan fund committee member. The Loan Fund's policies require any individual to recuse themselves from any matters regarding a potential conflict of interest.

NOTE 12 RELATED PARTY TRANSACTIONS (cont'd)

As of September 30, 2017 and 2016, NCALL Research, Inc. had outstanding loans totaling $452,808 and $467,964, respectively, to the Diamond State Community Land Trust, Inc. ("Diamond State"). A member of the Board of Directors of Diamond State is on the Board of Directors of NCALL Research, Inc. and serves as the Chair of the Loan Fund Committee.

As of September 30, 2017 and 2016, NCALL Research, Inc. had outstanding loans totaling $791,429 and $215,642, respectively, to the Dover Interfaith Mission for Housing, Inc. A member of the Board of Directors of Dover Interfaith Mission for Housing, Inc. is on the Board of Directors of NCALL Research, Inc. Also, an employee of NCALL Research, Inc. is a member of the Board of Directors of Dover Interfaith Mission for Housing, Inc.

As of September 30, 2017 and 2016, NCALL Research, Inc. had outstanding loans totaling $648,085 and $653,097, respectively, to Solid Rock Baptist Church. The Pastor of Solid Rock Baptist Church is an employee of NCALL Research, Inc.

NOTE 13 LINE OF CREDIT

In August 2017, the Loan Fund entered into an unsecured line of credit agreement with Shore United Bank in the amount of $250,000. Outstanding amounts against the line of credit are charged a variable rate which is based on the highest prime rate published in the Wall Street Journal (4.25 percent as of September 30, 2017). As of September 30, 2017, the outstanding balance was $0.

NOTE 14 SUBSEQUENT EVENTS

The Loan Fund has evaluated all subsequent events through January 24, 2018, the date the financial statements were available to be issued.