



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

**REPORT ON AUDIT
OF FINANCIAL STATEMENTS**

SEPTEMBER 30, 2017

NATIONAL COUNCIL ON AGRICULTURAL LIFE AND LABOR RESEARCH, INC.

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INDEPENDENT AUDITOR'S REPORT

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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 National Council on Agricultural Life and Labor ("NCALL") Research, Inc. (a nonprofit organization), which comprise the statement of financial position as of September 30, 2017, and the related statements of activities, functional expenses, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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.

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 NCALL Research, Inc. 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 NCALL Research, Inc.'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.

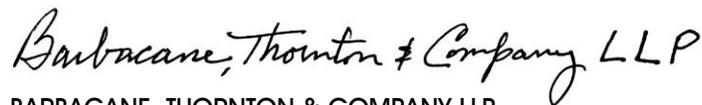
Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of financial position and schedule of activities – NeighborWorks® America Capital Fund are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 24, 2018, on our consideration of NCALL Research, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering NCALL Research, Inc.'s internal control over financial reporting and compliance.


BARBACANE, THORNTON & COMPANY LLP

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

| | 2017 | 2016 |
|--|----------------------|----------------------|
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$ 4,128,312 | \$ 3,763,511 |
| Cash and cash equivalents - Loan Fund | 4,138,308 | 4,417,291 |
| Accounts receivable | 1,543 | 2,091 |
| Grants receivable | 174,589 | 152,570 |
| Investments | 1,210,402 | 1,385,476 |
| Prepaid expense | 27,130 | 1,032 |
| Loans receivable, net of allowance for loan losses of \$477,285 for 2017 and \$326,415 for 2016 | 5,813,304 | 3,982,234 |
| Total Current Assets | 15,493,588 | 13,704,205 |
| NONCURRENT ASSETS: | | |
| Property and equipment | 1,630,159 | 1,596,755 |
| Less: Accumulated depreciation | (470,659) | (431,466) |
| Net property and equipment | 1,159,500 | 1,165,289 |
| Assets held for sale | 73,341 | 88,015 |
| 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 |
| Investment | 201,915 | 18,831 |
| Total Noncurrent Assets | 16,211,649 | 13,149,804 |
| TOTAL ASSETS | \$ 31,705,237 | \$ 26,854,009 |
| LIABILITIES AND NET ASSETS | | |
| CURRENT LIABILITIES: | | |
| Accounts payable | \$ 36,013 | \$ 57,962 |
| Accrued wages | 107,650 | 67,986 |
| Accrued compensated absences | 123,517 | 117,217 |
| Accrued interest | 27,407 | 2,556 |
| Deferred revenue | 12,190 | 22,048 |
| Funds held for others | 300,000 | 400,000 |
| Notes payable for loan fund | 2,150,000 | 3,900,000 |
| Other current liabilities | 58,919 | 23,128 |
| Total Current Liabilities | 2,815,696 | 4,590,897 |
| NONCURRENT LIABILITIES: | | |
| Notes payable for loan fund | 14,875,000 | 10,025,000 |
| Total Noncurrent Liabilities | 14,875,000 | 10,025,000 |
| TOTAL LIABILITIES | 17,690,696 | 14,615,897 |
| NET ASSETS | | |
| Unrestricted: | | |
| Undesignated | 11,634,957 | 9,513,276 |
| Designated for operating reserve | 850,000 | 800,000 |
| Designated for building reserve | 120,000 | 120,000 |
| Designated for working capital reserve | 150,000 | 150,000 |
| Designated for succession reserve | 100,000 | 100,000 |
| Designated for compensated absences | 123,517 | 117,217 |
| Total Unrestricted | 12,978,474 | 10,800,493 |
| Temporarily restricted | 326,067 | 427,619 |
| Permanently restricted | 710,000 | 1,010,000 |
| TOTAL NET ASSETS | 14,014,541 | 12,238,112 |
| TOTAL LIABILITIES AND NET ASSETS | \$ 31,705,237 | \$ 26,854,009 |

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

NATIONAL COUNCIL ON AGRICULTURAL LIFE AND LABOR RESEARCH, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2017
(With Summarized Totals for 2016)

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Totals | |
|---|---------------------|------------------------|------------------------|---------------------|---------------------|
| | | | | 2017 | 2016 |
| PUBLIC SUPPORT, REVENUE, AND GAINS | | | | | |
| Public Support: | | | | | |
| Grants and contracts | \$ 90,583 | \$ 3,902,008 | \$ - | \$ 3,992,591 | \$ 2,523,271 |
| Contributions | 174,048 | 106,536 | - | 280,584 | 634,213 |
| Total Public Support | <u>264,631</u> | <u>4,008,544</u> | <u>-</u> | <u>4,273,175</u> | <u>3,157,484</u> |
| Revenue: | | | | | |
| Interest income - investments | 8,528 | - | - | 8,528 | 10,764 |
| Interest income - loans | 958,514 | - | - | 958,514 | 791,050 |
| Fee income | 606,060 | - | - | 606,060 | 432,331 |
| Rents | 4,200 | - | - | 4,200 | 8,400 |
| Other | 22,728 | - | - | 22,728 | 14,208 |
| Total Revenue | <u>1,600,030</u> | <u>-</u> | <u>-</u> | <u>1,600,030</u> | <u>1,256,753</u> |
| Gains: | | | | | |
| Unrealized gain on investments | 1,902 | - | - | 1,902 | 1,127 |
| Net assets released from restriction: | | | | | |
| Satisfaction of program restrictions | 4,410,096 | (4,110,096) | (300,000) | - | - |
| TOTAL PUBLIC SUPPORT, REVENUE, AND GAINS | <u>6,276,659</u> | <u>(101,552)</u> | <u>(300,000)</u> | <u>5,875,107</u> | <u>4,415,364</u> |
| EXPENSES AND LOSSES | | | | | |
| Program Services: | | | | | |
| Self-Help Housing | 466,990 | - | - | 466,990 | 446,218 |
| Farmworker Housing Technical Assistance | 86,676 | - | - | 86,676 | 75,156 |
| Farmworker Emergency Housing Assistance | 11,902 | - | - | 11,902 | 20,165 |
| Rural Community Development Initiative: | | | | | |
| Delaware | 87,298 | - | - | 87,298 | 58,190 |
| Real Estate Development | 105,251 | - | - | 105,251 | 111,528 |
| Restoring Central Dover | 205,238 | - | - | 205,238 | 192,744 |
| Housing Counseling | 419,267 | - | - | 419,267 | 379,902 |
| Foreclosure Prevention | 176,291 | - | - | 176,291 | 152,491 |
| National Foreclosure Mitigation Counseling | 49,545 | - | - | 49,545 | 122,724 |
| Stand By Me Financial Coaching | 314,234 | - | - | 314,234 | 292,692 |
| Loan Fund | 1,368,339 | - | - | 1,368,339 | 888,550 |
| Total Program Services | <u>3,291,031</u> | <u>-</u> | <u>-</u> | <u>3,291,031</u> | <u>2,740,360</u> |
| Support Services: | | | | | |
| Management and general | 470,029 | - | - | 470,029 | 467,032 |
| Development | 190,217 | - | - | 190,217 | 139,758 |
| Fundraising | 74,782 | - | - | 74,782 | 71,865 |
| Total Support Services | <u>735,028</u> | <u>-</u> | <u>-</u> | <u>735,028</u> | <u>678,655</u> |
| TOTAL EXPENSES | <u>4,026,059</u> | <u>-</u> | <u>-</u> | <u>4,026,059</u> | <u>3,419,015</u> |
| LOSSES | | | | | |
| Losses on the sale on assets held for sale | 72,619 | - | - | 72,619 | - |
| TOTAL LOSSES | <u>72,619</u> | <u>-</u> | <u>-</u> | <u>72,619</u> | <u>-</u> |
| TOTAL EXPENSES AND LOSSES | <u>4,098,678</u> | <u>-</u> | <u>-</u> | <u>4,098,678</u> | <u>3,419,015</u> |
| CHANGE IN NET ASSETS | 2,177,981 | (101,552) | (300,000) | 1,776,429 | 996,349 |
| NET ASSETS, BEGINNING OF YEAR | <u>10,800,493</u> | <u>427,619</u> | <u>1,010,000</u> | <u>12,238,112</u> | <u>11,241,763</u> |
| NET ASSETS, END OF YEAR | <u>\$12,978,474</u> | <u>\$ 326,067</u> | <u>\$ 710,000</u> | <u>\$14,014,541</u> | <u>\$12,238,112</u> |

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

NATIONAL COUNCIL ON AGRICULTURAL LIFE AND LABOR RESEARCH, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2017
(With Summarized Totals for 2016)

| | Program Services | | | | | Restoring Central Dover |
|-------------------------------------|----------------------|--|--|--|----------------------------|-------------------------------|
| | Self-Help Housing | Farmworker Housing Technical Assistance | Farmworker Emergency Housing Assistance | Rural Community Development Initiative - DE | Real Estate Development | |
| EXPENSES: | | | | | | |
| Salaries | \$ 258,962 | \$ 43,179 | \$ 2,839 | \$ 59,414 | \$ 74,109 | \$ 115,723 |
| Payroll taxes | 19,530 | 3,250 | 212 | 4,551 | 5,617 | 8,448 |
| Pension | 4,010 | 803 | 60 | 1,162 | 1,023 | 1,321 |
| Other employee benefits | 42,024 | 6,514 | 505 | 6,396 | 10,273 | 14,133 |
| Total Salaries and Related Expenses | 324,526 | 53,746 | 3,616 | 71,523 | 91,022 | 139,625 |
| Accounting and audit fees | - | - | - | - | - | - |
| Consultant fees | 47,890 | 27,625 | - | 11,900 | 2,525 | 300 |
| Consumables | 450 | - | - | - | 325 | 316 |
| Contributions to others | 500 | - | - | - | - | 150 |
| Credit report charges | - | - | - | - | - | - |
| Depreciation | - | - | - | - | - | - |
| Dues/registration/training | 5,052 | 2,160 | - | 85 | 5,873 | 2,771 |
| Equipment and maintenance | 140 | 200 | - | 2,085 | 3,725 | 938 |
| Insurance | - | - | - | - | - | 953 |
| Interest expense | - | - | - | - | - | - |
| Internet and technical services | 1,806 | 170 | - | - | 55 | 573 |
| Janitorial services and supplies | - | - | - | - | - | - |
| Legal fees | - | - | - | - | - | - |
| Loan participation fees | - | - | - | - | - | - |
| Marketing | - | - | - | - | - | - |
| Miscellaneous | - | - | - | - | - | 299 |
| Office supplies | 115 | - | - | - | - | 1,821 |
| Printing and postage | 470 | - | - | - | - | - |
| Property tax/maintenance expenses | - | - | - | - | 20 | 752 |
| Provision for loan losses | - | - | - | - | - | - |
| Publications | - | - | - | - | - | - |
| Special projects | - | - | 8,262 | - | - | 51,884 |
| Telephone | 654 | 259 | 24 | - | 280 | - |
| Travel and per diem | 85,387 | 2,516 | - | 1,705 | 1,426 | 4,856 |
| Utilities | - | - | - | - | - | - |
| Subtotal | 466,990 | 86,676 | 11,902 | 87,298 | 105,251 | 205,238 |
| Allocation of indirect costs | 72,957 | 13,227 | 1,862 | 13,640 | 18,260 | 31,788 |
| Allocation of occupancy costs | 4,740 | 696 | 72 | 1,392 | 1,896 | 2,652 |
| TOTAL EXPENSES | \$ 544,687 | \$ 100,599 | \$ 13,836 | \$ 102,330 | \$ 125,407 | \$ 239,678 |

Continued on next page.

NATIONAL COUNCIL ON AGRICULTURAL LIFE AND LABOR RESEARCH, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2017
(With Summarized Totals for 2016)

| | Program Services | | | | | Total Program Services |
|--|-----------------------|---------------------------|---|---|---------------------|------------------------------|
| | Housing Counseling | Foreclosure Prevention | National Foreclosure Mitigation Counseling | Stand By Me Financial Coaching | Loan Fund | |
| EXPENSES: | | | | | | |
| Salaries | \$ 311,175 | \$ 127,828 | \$ 37,426 | \$ 212,568 | \$ 287,418 | \$ 1,530,641 |
| Payroll taxes | 23,210 | 8,966 | 2,602 | 15,230 | 20,788 | 112,404 |
| Pension | 7,458 | 2,659 | 594 | 4,172 | 3,876 | 27,138 |
| Other employee benefits | 39,479 | 29,059 | 8,923 | 44,322 | 51,000 | 252,628 |
| Total Salaries and Related Expenses | 381,322 | 168,512 | 49,545 | 276,292 | 363,082 | 1,922,811 |
| Accounting and audit fees | - | - | - | - | 7,625 | 7,625 |
| Consultant fees | 160 | - | - | - | 28,900 | 119,300 |
| Consumables | 352 | - | - | 746 | 1,967 | 4,156 |
| Contributions to others | - | - | - | - | - | 650 |
| Credit report charges | 11,889 | - | - | 23,190 | - | 35,079 |
| Depreciation | - | - | - | - | 925 | 925 |
| Dues/registration/training | 7,488 | 1,763 | - | 731 | 17,166 | 43,089 |
| Equipment and maintenance | 1,659 | 889 | - | 857 | 1,423 | 11,916 |
| Insurance | - | - | - | - | 10,940 | 11,893 |
| Interest expense | - | - | - | - | 447,418 | 447,418 |
| Internet and technical services | 425 | - | - | 324 | 7,398 | 10,751 |
| Janitorial services and supplies | - | - | - | - | - | - |
| Legal fees | - | - | - | - | 11,875 | 11,875 |
| Loan participation fees | 1,139 | - | - | - | 19,463 | 20,602 |
| Marketing | 2,298 | - | - | 730 | - | 3,327 |
| Miscellaneous | - | - | - | - | 1,723 | 3,544 |
| Office supplies | - | - | - | - | - | 115 |
| Printing and postage | 582 | 191 | - | 816 | 241 | 3,072 |
| Property tax/maintenance expenses | - | - | - | - | 415,000 | 415,000 |
| Provision for loan losses | - | - | - | - | - | - |
| Publications | - | - | - | - | - | - |
| Special projects | 1,709 | - | - | - | - | 61,855 |
| Telephone | 399 | - | - | 3,753 | 1,581 | 6,950 |
| Travel and per diem | 9,845 | 4,936 | - | 6,795 | 31,612 | 149,078 |
| Utilities | - | - | - | - | - | - |
| Subtotal | 419,267 | 176,291 | 49,545 | 314,234 | 1,368,339 | 3,291,031 |
| Allocation of indirect costs | 68,335 | 30,072 | 6,996 | 50,258 | 107,310 | 414,705 |
| Allocation of occupancy costs | 6,984 | 4,752 | 1,476 | 3,648 | 8,832 | 37,140 |
| TOTAL EXPENSES | \$ 494,586 | \$ 211,115 | \$ 58,017 | \$ 368,140 | \$ 1,484,481 | \$ 3,742,876 |

Continued on next page.

NATIONAL COUNCIL ON AGRICULTURAL LIFE AND LABOR RESEARCH, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2017
(With Summarized Totals for 2016)

| | Support Services | | | | Total Support Services |
|--|------------------------|-------------------|------------------|-------------------|------------------------|
| | Management and General | Development | Fundraising | Total | |
| EXPENSES: | | | | | |
| Salaries | \$ 240,001 | \$ 96,680 | \$ 62,653 | \$ 399,334 | \$ 1,929,975 |
| Payroll taxes | 17,553 | 7,573 | 4,850 | 29,976 | 142,380 |
| Pension | 4,243 | - | 900 | 5,143 | 32,281 |
| Other employee benefits | 31,229 | - | 5,462 | 36,691 | 289,319 |
| Total Salaries and Related Expenses | 293,026 | 104,253 | 73,865 | 471,144 | 2,393,955 |
| Accounting and audit fees | 17,100 | - | - | 17,100 | 24,725 |
| Consultant fees | 3,883 | 12,480 | - | 16,363 | 135,663 |
| Consumables | 15,097 | 2,737 | - | 17,834 | 21,990 |
| Contributions to others | - | - | - | - | 650 |
| Credit report charges | - | - | - | - | 35,079 |
| Depreciation | 2,617 | 35,651 | - | 38,268 | 39,193 |
| Dues/registration/training | 21,164 | 260 | - | 21,424 | 64,513 |
| Equipment and maintenance | 16,650 | - | - | 16,650 | 28,566 |
| Insurance | 18,541 | - | - | 18,541 | 30,434 |
| Interest expense | - | - | - | - | 447,418 |
| Internet and technical services | 16,769 | - | - | 16,769 | 27,520 |
| Janitorial services and supplies | 6,980 | - | - | 6,980 | 6,980 |
| Legal fees | 1,350 | - | - | 1,350 | 13,225 |
| Loan participation fees | - | - | - | - | 20,602 |
| Marketing | 434 | - | - | 434 | 3,761 |
| Miscellaneous | 12,220 | 1,963 | - | 14,183 | 17,727 |
| Office supplies | 514 | - | - | 514 | 629 |
| Printing and postage | 14,583 | - | - | 14,583 | 17,655 |
| Property tax/maintenance expenses | 5,176 | - | - | 5,176 | 5,176 |
| Provision for loan losses | - | - | - | - | 415,000 |
| Publications | 1,239 | - | 420 | 1,659 | 1,659 |
| Special projects | - | 33,133 | - | 33,133 | 94,988 |
| Telephone | 6,578 | - | - | 6,578 | 13,528 |
| Travel and per diem | 5,370 | - | 237 | 5,607 | 154,685 |
| Utilities | 10,738 | - | - | 10,738 | 10,738 |
| Subtotal | 470,029 | 190,217 | 74,782 | 735,028 | 4,026,059 |
| Allocation of indirect costs | (431,633) | 16,928 | - | (414,705) | - |
| Allocation of occupancy costs | (38,396) | - | 1,256 | (37,140) | - |
| TOTAL EXPENSES | \$ - | \$ 207,145 | \$ 76,038 | \$ 283,183 | \$ 4,026,059 |
| | | | | | \$ 3,419,015 |

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

NATIONAL COUNCIL ON AGRICULTURAL LIFE AND LABOR RESEARCH, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016

| | <u>2017</u> | <u>2016</u> |
|---|---------------------|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Change in net assets | \$ 1,776,429 | \$ 996,349 |
| Adjustments to reconcile change in net assets to net cash used by operating activities: | | |
| Depreciation | 39,193 | 38,601 |
| Provision for loan losses | 415,000 | 50,000 |
| Losses on sale of assets held for sale | 72,619 | - |
| Proceeds from the sale of assets held for sale | 302,602 | - |
| Cash paid developing assets held for sale | (360,547) | (67,515) |
| Unrealized gain on investments | (1,902) | (1,127) |
| Increase in loans receivable | (5,145,294) | (2,231,755) |
| Decrease in accounts receivable | 548 | 412 |
| (Increase) Decrease in grants receivable | (22,019) | 70,400 |
| (Increase) Decrease in prepaid expense | (26,098) | 37,116 |
| (Decrease) Increase in accounts payable | (21,949) | 48,276 |
| Increase in accrued wages | 39,664 | 8,073 |
| Increase in accrued compensated absences | 6,300 | 8,978 |
| Increase in accrued interest | 24,851 | - |
| Decrease in deferred revenue | (9,858) | (78,869) |
| Decrease in funds held for others | (100,000) | (100,000) |
| Increase in other current liabilities | 35,791 | 13,824 |
| NET CASH USED BY OPERATING ACTIVITIES | <u>(2,974,670)</u> | <u>(1,207,237)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Sale of investments | 1,385,476 | 1,932,447 |
| Purchase of investments | (1,391,584) | (1,938,220) |
| Purchase of property and equipment | (33,404) | (9,250) |
| NET CASH USED BY INVESTING ACTIVITIES | <u>(39,512)</u> | <u>(15,023)</u> |
| 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) |
| Repayment of capital lease | - | (930) |
| NET CASH PROVIDED BY FINANCING ACTIVITIES | <u>3,100,000</u> | <u>1,849,070</u> |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 85,818 | 626,810 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | <u>8,180,802</u> | <u>7,553,992</u> |
| CASH AND CASH EQUIVALENTS, END OF YEAR | <u>\$ 8,266,620</u> | <u>\$ 8,180,802</u> |
| CASH AND CASH EQUIVALENTS | \$ 4,128,312 | \$ 3,763,511 |
| CASH AND CASH EQUIVALENTS - LOAN FUND | 4,138,308 | 4,417,291 |
| | <u>\$ 8,266,620</u> | <u>\$ 8,180,802</u> |
| SUPPLEMENTAL INFORMATION: | | |
| Interest paid | <u>\$ 422,567</u> | <u>\$ 365,196</u> |
| Taxes paid | <u>\$ -</u> | <u>\$ -</u> |

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

NATIONAL COUNCIL ON AGRICULTURAL LIFE AND LABOR RESEARCH, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 GENERAL

The National Council on Agricultural Life and Labor ("NCALL") Research, Inc. was organized in 1955 as a nonprofit corporation and has been providing rural housing technical assistance and affordable housing services since 1976. NCALL Research, Inc. competes for funding in the form of contracts, grants, and cooperative agreements from the federal, state, and private sectors when it is available. The mission of the Organization, simply put, 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."

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.

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.

NATIONAL COUNCIL ON AGRICULTURAL LIFE AND LABOR RESEARCH, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Statement Presentation

In accordance with the section of the Financial Accounting Standards Board's Accounting Standards Codification ("FASB ASC") regarding financial statements of not-for-profit organizations, NCALL Research, Inc. 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, NCALL Research, Inc. is required to present a statement of cash flows.

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 assets includes funds restricted by funding sources. NCALL Research, Inc. 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 restriction.

Permanently Restricted Net Assets

Permanently restricted net assets are subject to donor-imposed restrictions that will not terminate. Funds are held in perpetuity while the income is available for general use.

Cash and Cash Equivalents

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

Investments

In accordance with the FASB ASC, investments are reported at fair value. Donated securities also are reported at fair market value as of the date of receipt. All realized and unrealized gains and losses arising from fluctuations in market values, sales, or other disposition of assets are accounted for in the class of net assets that owns the assets.

Level 1 – Financial assets valued using Level 1 inputs are based on unadjusted quoted market prices within active markets.

NATIONAL COUNCIL ON AGRICULTURAL LIFE AND LABOR RESEARCH, INC.

NOTES TO FINANCIAL STATEMENTS

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

Level 2 – Financial assets valued using Level 2 inputs are based on quoted prices in markets that are not active or for which all significant inputs are unobservable, either directly or indirectly. The fair value of the investments with the Delaware Community Foundation are determined based on observable market factors not included in Level 1, such as quoted market prices for similar assets or liabilities in an active or nonactive market. NCALL Research, Inc.'s portion of the investment pool is valued by the Delaware Community Foundation on a monthly basis. The investments in the pool are actively traded and valued using quoted market prices. However, since the investments are pooled funds, they are designated as Level 2 investments.

Level 3 – Financial assets valued using Level 3 inputs are determined by valuation methodologies that are unobservable and significant to the fair value measurements.

Grants and Accounts Receivable

Grants and accounts receivable are stated at unpaid balances. Receivables are considered impaired if full principal payments are not received in accordance with the payment terms. Grants and accounts receivable are considered by management to be fully collectible and, accordingly, no allowance for grants and accounts receivable losses has been recorded as of September 30, 2017 and 2016.

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 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 losses 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

NATIONAL COUNCIL ON AGRICULTURAL LIFE AND LABOR RESEARCH, INC.

NOTES TO FINANCIAL STATEMENTS

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

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.

Assets Held for Sale

Assets held for sale are valued at the lower of cost or market. Toward the end of fiscal year 2016, NCALL Research, Inc. began construction of its first "for sale" home within the Restoring Central Dover footprint. The sale of homes is recognized net of the value of the asset held for sale. Grant revenues received to supplement project costs are recognized separately.

Property and Equipment

NCALL Research, Inc. 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. Property and equipment 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 ten years. The estimated service lives for the buildings and building improvements are five to fifty 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.

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.

Advertising

NCALL Research, Inc. expenses the production costs of advertising when incurred. Advertising expense is classified as marketing expense in the statement of functional expenses.

NATIONAL COUNCIL ON AGRICULTURAL LIFE AND LABOR RESEARCH, INC.

NOTES TO FINANCIAL STATEMENTS

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

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 NCALL Research, Inc.'s financial statements for the year ended September 30, 2016, from which the summarized information was derived.

NOTE 3 PROGRAM ACTIVITIES

A description of NCALL Research, Inc.'s programs are listed below and on the pages that follow.

RHS Self-Help Housing Technical and Management Assistance Contract (Self-Help Housing)

NCALL Research, Inc. is funded by the Rural Housing Service, USDA, to provide technical and management assistance and training to new and operating self-help housing grantees throughout the 21-state northeast region. The region extends from Virginia north to New England and west to Minnesota. NCALL Research, Inc. is responsible for providing technical and management assistance in construction, accounting, scheduling, and housing development to local self-help housing programs. NCALL Research, Inc. also is called upon to conduct training, publish newsletters, and help resolve problems. NCALL Research, Inc. operated under contract extensions and currently a bridge contract through March 2018 while awaiting a new contract solicitation.

Farmworker Housing Technical Assistance/Farmworker Emergency Housing Assistance

NCALL Research, Inc. is a member of the Southeast Housing Consortium ("SEHC"), which is a group of nonprofit organizations specializing in rural and farmworker housing. Members of the SEHC are subgrantees of a grant awarded by the U.S. Department of Labor ("DOL") Employment and Training Administration, operated under the authority of the Workforce Investment Act ("WIA"), Section 167. Florida Non-Profit Housing, Inc. ("FNPH") serves as grantee/lead agency for the SEHC, with responsibility for monitoring subgrantee activities. The SEHC's goals are to eliminate substandard housing and alleviate excessive housing cost for agricultural workers. Under the allowable activities of the grant program, NCALL Research, Inc. provides technical

NATIONAL COUNCIL ON AGRICULTURAL LIFE AND LABOR RESEARCH, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 3 PROGRAM ACTIVITIES (cont'd)

assistance to nonprofit organizations who develop or preserve farmworker housing in Delaware, Maryland, and Virginia. Services can include packaging housing financing, providing asset management services, and problem solving. A smaller DOL grant through FNPH is for direct housing assistance to farmworkers and is identified as Farmworker Emergency Housing Assistance.

Rural Community Development Initiative - Delaware

NCALL Research, Inc. competed for and received a three-year USDA Rural Community Development Initiative grant during 2014 to provide organizational development and rental housing development assistance to Better Homes of Seaford and Millsboro Housing for Progress in Delaware. This grant began in September 2014 and will operate to May 31, 2018.

Real Estate Development

Real Estate Development, which includes the development and construction of single-family housing and multi-family apartments, is a newer line of business for NCALL. NCALL is purchasing lots and building for-sale homes in the Restoring Central Dover footprint. Two houses were built and sold during fiscal year 2017, and additional building lots continue to be purchased. NCALL Research, Inc. continues to successfully package LIHTC apartment projects and associated financing for other nonprofit owners. The single and multi-family housing work is supported by developer fees and grants.

Restoring Central Dover

NCALL Research, Inc. is the lead organization for a neighborhood planning and revitalization initiative for downtown Dover and chairs the 30-person steering committee. Plan development took place during 2014. The implementation phase started mid-fiscal year 2015 with a five-year Wells Fargo Regional Foundation Implementation Grant. Implementation of the plan is being carried out by NCALL Research, Inc., the steering committee, and five work groups in the areas of housing, safety, economic development, community engagement, and transportation/infrastructure.

Housing Counseling

NCALL Research, Inc. is funded by grants and fees from a variety of financial institutions and governmental entities to assist low and moderate-income families to become first-time homebuyers throughout Delaware. The education and counseling provided by NCALL Research, Inc. enables families to become more knowledgeable about the homebuying and mortgage approval process, while helping families prepare financially for the step to homeownership. NCALL Research, Inc. assists qualified families to obtain affordable home mortgage financing, including down payment and settlement assistance. The program also

NATIONAL COUNCIL ON AGRICULTURAL LIFE AND LABOR RESEARCH, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 3 PROGRAM ACTIVITIES (cont'd)

assists families with budget and financial management, submission of mortgage applications, understanding homeownership responsibilities, and the settlement process, all through group workshop sessions and individual counseling.

Foreclosure Prevention

NCALL Research, Inc. began its mortgage default and foreclosure prevention services within Delaware in 2008 and is funded primarily through fees through DSHA. Services included regular prevention workshops along with individual counseling, offering remedies and support. NCALL Research, Inc. assists families in seeking modified mortgages that are more affordable and sustainable. The Organization participates in Delaware's Foreclosure Mediation Program.

National Foreclosure Mitigation Counseling

NeighborWorks® America provides funding support for foreclosure prevention work through its National Foreclosure Mitigation Counseling ("NFMC"). NCALL Research, Inc. applies for funding directly to NeighborWorks® when it has a competitive funding round. Round ten in fiscal year 2017 is scheduled to be the last NFMC funding for NCALL. Funding is provided by reimbursements for levels of counseling services on a fee basis.

Stand By Me Financial Coaching

NCALL Research, Inc. was selected by United Way of Delaware in March 2012 to be the nonprofit provider of financial coaching services for Kent County, Delaware under the Stand By Me financial coaching program implemented by the Delaware Financial Empowerment Partnership. As such, NCALL Research, Inc. hires financial coaches to work with a variety of venues within Central and Southern Delaware, such as Dover Downs serving its employees, Delaware Technical & Community College serving students, and Public Housing serving the residents. NCALL Research, Inc. signs an annual memorandum of understanding with United Way of Delaware for each year, which is providing the majority of funding for this service.

Loan Fund

During fiscal year 2005, NCALL Research, Inc. became certified as a Community Development Financial Institution and a Community Development Entity by the U.S. Department of Treasury. These certifications reflect the authority of the Loan Fund to offer additional products and services to better address the affordable housing, community development, and nonprofit credit needs of its customer base. A committee of six NCALL Research, Inc. Board Members or Board-approved appointees oversees the Loan Fund and is responsible for recommending policies and the loan approval process. NCALL's Board of Directors is responsible for Loan Fund governance. NCALL Research, Inc. has been actively seeking capital, investment, and loan participations while building Loan Fund infrastructure to address the substantial community

NATIONAL COUNCIL ON AGRICULTURAL LIFE AND LABOR RESEARCH, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 3 PROGRAM ACTIVITIES (cont'd)

development demand. Experienced staff managing the fund includes a loan fund director, manager, servicer, and loan officer. The Loan Fund received a substantial Aeris rating of three stars for impact performance, a rating of AA for financial strength and performance, and a Policy Plus designation.

NOTE 4 INVESTMENTS

Investments consist of certificates of deposit with original maturities of more than three months. The fair value of these investments using Level 2 inputs as of September 30, 2017 and 2016 amounted to \$1,391,590 and \$1,385,476, respectively. Interest accrues at rates ranging from 0.07 percent to 1.75 percent. As of September 30, 2017 and 2016, \$1,210,402 and \$1,385,476, respectively, of the certificates of deposit were due within one year. NCALL Research, Inc. is also invested in the Delaware Community Foundation investment pool. The fair value of these investments using Level 2 inputs as of September 30, 2017 and 2016 amounted to \$20,727 and \$18,831, respectively.

NOTE 5 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 | <u>\$ 1,300,000</u> | <u>\$ 415,000</u> | <u>\$ (24,500)</u> | <u>\$ 1,690,500</u> |

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 | <u>\$ 1,250,000</u> | <u>\$ 50,000</u> | <u>\$ -</u> | <u>\$ 1,300,000</u> |

NATIONAL COUNCIL ON AGRICULTURAL LIFE AND LABOR RESEARCH, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 5 ALLOWANCE FOR LOAN LOSSES (cont'd)

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

NOTE 6 CREDIT QUALITY OF LOANS RECEIVABLE

NCALL Research, Inc. 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. NCALL Research, Inc.'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.

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.

NATIONAL COUNCIL ON AGRICULTURAL LIFE AND LABOR RESEARCH, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 6 CREDIT QUALITY OF LOANS RECEIVABLE (cont'd)

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 the review and approval of 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 for loan losses 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 for loan losses 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, 2016.

As of September 30, 2017 and 2016, loans were split between the following portfolio segments:

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

NATIONAL COUNCIL ON AGRICULTURAL LIFE AND LABOR RESEARCH, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 6 CREDIT QUALITY OF LOANS RECEIVABLE (cont'd)

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 |

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 |

NATIONAL COUNCIL ON AGRICULTURAL LIFE AND LABOR RESEARCH, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 7 LOANS RECEIVABLE SOLD WITHOUT RECOURSE

NCALL Research, Inc. 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.

NCALL Research, Inc. 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.

NCALL Research, Inc. 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.

NCALL Research, Inc. sold a loan participation in the amount of \$2,350,000 (\$2,350,000 balance at September 30, 2017 and 2016) 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.

NCALL Research, Inc. 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.

NCALL Research, Inc. 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.

NCALL Research, Inc. 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.

NCALL Research, Inc. services, administers, and collects the receivables on behalf of the purchaser.

NATIONAL COUNCIL ON AGRICULTURAL LIFE AND LABOR RESEARCH, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 8 INDIRECT COSTS

As required by federal funding sources, in accordance with Office of Management and Budget Guidelines, NCALL Research, Inc. maintains separate accounts to identify indirect costs. While most costs (direct costs) can be identified as pertaining to a specific program, other costs (indirect costs) actually apply to more than one program. These costs are accumulated in an "indirect cost pool," then allocated semi-monthly to grants and contracts based upon a predetermined rate of 21 percent for 2017 and 2016 of total direct costs. This provisional indirect cost rate has been carefully developed to allocate costs in a consistent, equitable, and reasonable manner and has been approved by NCALL Research, Inc.'s cognizant agency, the U.S. Department of Interior. The allocation on pages 5 through 7 is shown to assist funding sources in determining the total cost of each program.

NOTE 9 PROPERTY AND EQUIPMENT

As of September 30, 2017 and 2016, property and equipment consisted of the following:

| | <u>2017</u> | <u>2016</u> |
|--------------------------|---------------------|---------------------|
| Land | \$ 250,000 | \$ 250,000 |
| Buildings | 1,239,807 | 1,233,307 |
| Furniture and equipment | 140,352 | 113,448 |
| Accumulated depreciation | <u>(470,659)</u> | <u>(431,466)</u> |
| TOTAL | <u>\$ 1,159,500</u> | <u>\$ 1,165,289</u> |

NOTE 10 TEMPORARILY RESTRICTED NET ASSETS

Net assets were temporarily restricted by donors for the following programs:

| | <u>September 30</u> | |
|--|---------------------|-------------------|
| | <u>2017</u> | <u>2016</u> |
| Self-Help Housing | \$ 134,459 | \$ 234,216 |
| Real Estate Development | - | 80,032 |
| Restoring Central Dover | 124,730 | 112,265 |
| Community Development Financial Institutions | 20,000 | - |
| National Foreclosure Mitigation Counsel | 46,834 | - |
| Farmworker Housing Technical Assistance | <u>44</u> | <u>1,106</u> |
| | <u>\$ 326,067</u> | <u>\$ 427,619</u> |

NATIONAL COUNCIL ON AGRICULTURAL LIFE AND LABOR RESEARCH, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 11 BOARD-DESIGNATED NET ASSETS

In fiscal year 2011, the Board established an operating reserve to stabilize NCALL Research, Inc.'s finances and to provide a rainy day reserve. Use of this reserve requires authorization from the Board. As of September 30, 2017 and 2016, the value of this reserve was \$850,000 and \$800,000, respectively.

The Board established a building reserve to provide funding for future repairs made to the buildings in Dover and Georgetown. As of September 30, 2017 and 2016, the value of this reserve was \$120,000.

The Board established a working capital reserve to provide funding for sufficient cash flow while awaiting reimbursement of expenditures. As of September 30, 2017 and 2016, the value of this reserve was \$150,000.

The Board established a reserve to provide funding for future employee compensated absence liabilities. As of September 30, 2017 and 2016, the value of this reserve was \$123,517 and \$117,217, respectively.

The Board established a succession reserve to provide funding for future costs associated with succession planning. As of September 30, 2017 and 2016, the value of this reserve was \$100,000.

NOTE 12 PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets were restricted as follows:

| | September 30 | |
|--------------------------------------|-------------------|---------------------|
| | <u>2017</u> | <u>2016</u> |
| NeighborWorks® America capital grant | \$ 700,000 | \$ 1,000,000 |
| Delaware Community Foundation Trust | <u>10,000</u> | <u>10,000</u> |
| | <u>\$ 710,000</u> | <u>\$ 1,010,000</u> |

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.

NATIONAL COUNCIL ON AGRICULTURAL LIFE AND LABOR RESEARCH, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 12 PERMANENTLY RESTRICTED NET ASSETS (cont'd)

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

NCALL Research, Inc. was the beneficiary of a trust administered by the Delaware Community Foundation. The permanently restricted amount in this fund is \$10,000. Amounts above \$10,000 are not restricted. The assets of the trust are included in the statement of financial position of NCALL Research, Inc. at fair value.

NOTE 13 PENSION/RETIREMENT PLAN

NCALL Research, Inc. sponsors an Internal Revenue Code Section 401(k) retirement plan. All full-time employees are eligible to contribute to the plan after completing one year of employment, with NCALL Research, Inc. matching employee contributions up to \$1,200 for the calendar year.

The total pension expense for 2017 and 2016 was \$32,281 and \$31,920, respectively.

NOTE 14 COMPENSATED ABSENCES

NCALL Research, Inc. allows employees to accumulate unused annual leave to be paid upon retirement or leaving employment. The balance in this account as of September 30, 2017 and 2016 was \$123,517 and \$117,217, respectively.

NOTE 15 CONCENTRATIONS

NCALL Research, Inc. received fifteen and twenty percent of its total revenue and public support from the U.S. Department of Agriculture during the years ended September 30, 2017 and 2016, respectively.

NCALL Research, Inc. received nine and eighteen percent of its total revenue and public support from NeighborWorks® America during the years ended September 30, 2017 and 2016, respectively.

NCALL Research, Inc. received seventeen 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.

NATIONAL COUNCIL ON AGRICULTURAL LIFE AND LABOR RESEARCH, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 16 LONG-TERM DEBT

Notes Payable for Loan Fund

In December 2005, NCALL Research, Inc. 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, NCALL Research, Inc. 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, NCALL Research, Inc. 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, NCALL Research, Inc. 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.

In March 2012, NCALL Research, Inc. 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.

NATIONAL COUNCIL ON AGRICULTURAL LIFE AND LABOR RESEARCH, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 16 LONG-TERM DEBT (cont'd)

In April 2012, NCALL Research, Inc. 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, NCALL Research, Inc. 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, NCALL Research, Inc. 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, NCALL Research, Inc. 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, NCALL Research, Inc. 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.

In August 2014, NCALL Research, Inc. 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.

NATIONAL COUNCIL ON AGRICULTURAL LIFE AND LABOR RESEARCH, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 16 LONG-TERM DEBT (cont'd)

In September 2014, NCALL Research, Inc. 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, NCALL Research, Inc. 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, NCALL Research, Inc. 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, NCALL Research, Inc. 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.

In August 2017, NCALL Research, Inc. 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.

NATIONAL COUNCIL ON AGRICULTURAL LIFE AND LABOR RESEARCH, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 16 LONG-TERM DEBT (cont'd)

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 | <u>4,100,000</u> |
| | <u>\$ 17,025,000</u> |

NOTE 17 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 NCALL Research, Inc. due to its certification as a Community Development Financial Institution ("CDFI") with the infrastructure to disburse funds for real estate projects.

NOTE 18 COMMITMENTS

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

| <u>Loan Amount</u> | <u>Disbursed at 09/30/2017</u> | <u>Undisbursed</u> |
|------------------------|------------------------------------|---------------------|
| <u>\$ 9,218,873</u> | <u>\$ 5,701,725</u> | <u>\$ 3,517,148</u> |

As of September 30, 2017, NCALL Research, Inc. 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.

NATIONAL COUNCIL ON AGRICULTURAL LIFE AND LABOR RESEARCH, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 18 COMMITMENTS (cont'd)

On June 16, 2016, NCALL Research, Inc. 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 NCALL Research, Inc. 60 days prior to the expiration date of the intention not to extend the letter of credit. As of September 30, 2017, NCALL Research, Inc. has not been notified of non-completion of the construction contract.

On June 21, 2016, NCALL Research, Inc. 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, NCALL Research, Inc. has not been notified of non-completion of the construction contract.

NOTE 19 CONCENTRATION OF CREDIT RISK

NCALL Research, Inc. 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 bank balances that exceeded the FDIC limit as of September 30, 2017 and 2016 were \$6,562,473 and \$6,389,105, respectively. NCALL Research, Inc. has not experienced any losses in such accounts. Management of NCALL Research, Inc. believes it is not exposed to any significant credit risk on its cash balances.

NOTE 20 ASSETS HELD FOR SALE

The following is a schedule of the inventory of assets held for resale (actual acquisition and development costs) held for resale as of September 30, 2017 and 2016:

| Property | 2017 | 2016 |
|-------------------------|-----------|-----------|
| 212 N. Governors Avenue | \$ - | \$ 57,690 |
| 231 N. Queen Street | - | 28,325 |
| 106 S. New Street | 12,216 | 500 |
| 108 S. New Street | 10,951 | 500 |
| 110 S. New Street | 11,893 | 500 |
| 112 S. New Street | 14,423 | 500 |
| 14 S. Queen Street | 2,405 | - |
| 18 S. Queen Street | 2,405 | - |
| 101 S. Queen Street | 1,653 | - |
| 245 West Street | 17,395 | - |
| | \$ 73,341 | \$ 88,015 |

NATIONAL COUNCIL ON AGRICULTURAL LIFE AND LABOR RESEARCH, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 20 ASSETS HELD FOR SALE (cont'd)

During the year, NCALL Research, Inc. sold its first two "held for sale" homes at a loss of (\$72,619). NCALL Research, Inc. received \$139,055 in grant revenue related to the projects to supplement the cost of the projects, which is included in grants and contract revenue in the statement of activities. The net result was a gain of \$66,436 on the sale of these two homes.

NOTE 21 RELATED PARTY TRANSACTIONS

Each year, the Board of Directors conducts a formal process of discerning, disclosing, and monitoring potential conflicts of interest between its members. This same process extends to its staff and contractors. NCALL Research, Inc.'s policies require any individual to recuse themselves from any matters regarding a potential conflict of interest.

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.

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 22 LINES OF CREDIT

In August 2016, NCALL Research, Inc. opened and maintained a secured line of credit with Wilmington Savings Fund Society in the amount of \$500,000. The line of credit is secured by the properties at 212 N. Governors Avenue, 231 N. Queen Street, 101 S. Queen Street, and the two properties that will be created from the three lots currently known as 14-16-18 S. Queen Street. Outstanding amounts against this line are charged a variable rate of interest at a minimum of four percent per year. As of September 30, 2017, the outstanding balance was \$0.

NATIONAL COUNCIL ON AGRICULTURAL LIFE AND LABOR RESEARCH, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 22 LINES OF CREDIT (cont'd)

In August 2017, NCALL Research, Inc. 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 23 SUBSEQUENT EVENTS

NCALL Research, Inc. has evaluated all subsequent events through January 24, 2018, the date the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

**NATIONAL COUNCIL ON AGRICULTURAL LIFE AND LABOR RESEARCH, INC.
SCHEDULE OF FINANCIAL POSITION - NEIGHBORWORKS[®] AMERICA CAPITAL FUND
SEPTEMBER 30, 2017**

| | |
|------------------------|--------------------------|
| ASSETS | |
| Loans receivable | <u>\$ 700,000</u> |
| TOTAL ASSETS | <u><u>\$ 700,000</u></u> |
| NET ASSETS | |
| Permanently restricted | <u>\$ 700,000</u> |
| TOTAL NET ASSETS | <u><u>\$ 700,000</u></u> |

**NATIONAL COUNCIL ON AGRICULTURAL LIFE AND LABOR RESEARCH, INC.
SCHEDULE OF ACTIVITIES - NEIGHBORWORKS[®] AMERICA CAPITAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

| | |
|--|--------------------------|
| Revenues, gains, other support and release of capital: | |
| Capital grant - NeighborWorks [®] America - beginning balance | <u>\$ 1,000,000</u> |
| Additions | - |
| Released - temporarily restricted | - |
| Released - unrestricted | <u>(300,000)</u> |
| Net assets at end of year | <u><u>\$ 700,000</u></u> |

SINGLE AUDIT INFORMATION

INDEPENDENT AUDITOR'S
REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

January 24, 2018

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of National Council on Agricultural Life and Labor ("NCALL") Research, Inc. (a nonprofit organization), which comprise the statement of financial position as of September 30, 2017, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 24, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered NCALL Research, Inc.'s internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of NCALL Research, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of NCALL's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of NCALL's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether NCALL Research, Inc.'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of NCALL Research, Inc.'s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering NCALL Research, Inc.'s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.


BARBACANE, THORNTON & COMPANY LLP

INDEPENDENT AUDITOR'S
REPORT ON COMPLIANCE FOR EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY
THE UNIFORM GUIDANCE

January 24, 2018

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

Report on Compliance for Major Federal Program

We have audited National Council on Agricultural Life and Labor ("NCALL") Research, Inc.'s compliance with the types of compliance requirements described in the OMB *Compliance Supplement* that could have a direct and material effect on NCALL Research, Inc.'s major federal program for the year ended September 30, 2017. NCALL Research, Inc.'s major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and recommendations.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for NCALL Research, Inc.'s major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about NCALL Research, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for its major federal program. However, our audit does not provide a legal determination of NCALL Research, Inc.'s compliance.

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

Opinion on Major Federal Program

In our opinion, NCALL Research, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended September 30, 2017.

Report on Internal Control Over Compliance

Management of NCALL Research, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered NCALL Research, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for its major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of NCALL Research, Inc.'s internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

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

**NATIONAL COUNCIL ON AGRICULTURAL LIFE AND LABOR RESEARCH, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

| FEDERAL GRANTOR/PROJECT TITLE | SOURCE CODES | PASS- THROUGH NO. | CFDA NUMBER | EXPENDITURES | PASSED THROUGH TO SUBRECIPIENTS |
|---|-----------------|-------------------------|----------------|---------------------|---------------------------------------|
| <u>U.S. Department of Agriculture Rural Development</u> | | | | | |
| Self-Help Housing Technical and Management Assistance | D | N/A | 10.420 | \$ 836,601 | \$ - |
| Rural Community Development Initiative | D | N/A | 10.446 | 53,652 | - |
| TOTAL U.S. DEPARTMENT OF AGRICULTURE | | | | <u>890,253</u> | <u>-</u> |
| <u>U.S. Department of Housing and Urban Development</u> | | | | | |
| <u>Passed through the City of Dover</u> | | | | | |
| Community Development Block Grant | I | N/A | 14.218 | 991 | - |
| <u>Passed through the Delaware State Housing Authority</u> | | | | | |
| Housing Counseling Grant | I | N/A | 14.169 | 151,977 | - |
| TOTAL U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT | | | | <u>152,968</u> | <u>-</u> |
| <u>U.S. Department of Labor</u> | | | | | |
| <u>Passed through Florida Non-Profit Housing, Inc.</u> | | | | | |
| National Farmworkers Job Program | I | N/A | 17.264 | 117,295 | - |
| TOTAL U.S. DEPARTMENT OF LABOR | | | | <u>117,295</u> | <u>-</u> |
| <u>U.S. Department of the Treasury</u> | | | | | |
| <u>Passed through Neighborhood Reinvestment Corporation</u> | | | | | |
| National Foreclosure Mitigation Counseling Grant | I | N/A | 21.000 | 96,839 | - |
| Expendable Grant | I | N/A | 21.000 | 267,098 | - |
| Capital Grant | I | N/A | 21.000 | 190,000 | - |
| Total CFDA #21.000 | | | | <u>553,937</u> | <u>-</u> |
| <u>Passed through Community Development Financial Institutions Fund</u> | | | | | |
| Community Development Financial Institutions Program | I | N/A | 21.020 | 980,000 | - |
| TOTAL U.S. DEPARTMENT OF THE TREASURY | | | | <u>1,533,937</u> | <u>-</u> |
| TOTAL FEDERAL EXPENDITURES | | | | <u>\$ 2,694,453</u> | <u>\$ -</u> |

SOURCE CODES:

- D - Direct Funding
- I - Indirect Funding

NATIONAL COUNCIL ON AGRICULTURAL LIFE AND LABOR RESEARCH, INC.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE A BASIS OF ACCOUNTING

All expenditures included in the schedule of expenditures of federal awards are presented on the basis that expenditures are reported to the respective federal grantor agencies. Accordingly, expenditures are recorded when the federal obligation is determined.

NOTE B FEDERAL EXPENDITURES

The schedule of expenditures of federal awards reflects federal expenditures for all individual grants which were active during the fiscal year.

NOTE C INDIRECT COST RATE

NCALL, Research, Inc. did not use the federal de minimis indirect cost rate of 10 percent on their federal grants for the year ended September 30, 2017.

**SCHEDULE OF
FINDINGS AND RECOMMENDATIONS**

NATIONAL COUNCIL ON AGRICULTURAL LIFE AND LABOR RESEARCH, INC.

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

PART A - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued [*unmodified, qualified, adverse, or disclaimer*]:

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified? Yes None reported
- Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified? Yes None reported

Type of auditor's report issued on compliance for major programs [*unmodified, qualified, adverse, or disclaimer*]:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance?

Yes No

Identification of major program:

CFDA Number

Name of Federal Program or Cluster

21.020

Community Development Financial Institutions Program

Dollar threshold used to distinguish between Type A and Type B programs:

\$750,000

Auditee qualified as low-risk auditee?

Yes No

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SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONT'D)

PART B - FINDINGS RELATED TO FINANCIAL STATEMENTS

STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS

None.

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

None.

PART C - FINDINGS RELATED TO FEDERAL AWARDS

STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS

None.

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

None.