



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

**REPORT ON AUDIT
OF FINANCIAL STATEMENTS**

SEPTEMBER 30, 2020

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

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INDEPENDENT AUDITOR'S REPORT

February 4, 2021

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

Report on the Financial Statements

We have audited the accompanying financial statements of the National Council on Agricultural Life and Labor Research, Inc. ("NCALL") Loan Fund, (a division of NCALL, a nonprofit organization), which comprise the statement of financial position as of September 30, 2020, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate

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

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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the NCALL Loan Fund as of September 30, 2020, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the NCALL Loan Fund's September 30, 2019 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated February 12, 2020. In our opinion, the summarized comparative information presented herein as of and the for the year ended September 30, 2019 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matter

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

Barbacane, Thornton & Company LLP

BARBACANE, THORNTON & COMPANY LLP

NATIONAL COUNCIL ON AGRICULTURAL LIFE AND LABOR RESEARCH, INC. LOAN FUND
STATEMENTS OF FINANCIAL POSITION
SEPTEMBER 30, 2020 AND 2019

	2020	2019
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 8,108,927	\$ 5,828,531
Interest receivable	67,380	-
Investment	76,513	75,000
Loans receivable, net of allowance for loan losses of \$1,001,452 for 2020 and \$1,701,455 for 2019	7,316,351	14,008,106
Prepaid expense	21,076	-
Total Current Assets	15,590,247	19,911,637
NONCURRENT ASSETS:		
Property and equipment	9,250	9,250
Less: Accumulated depreciation	(6,475)	(4,625)
Other real estate owned property	1,541,707	1,111,088
Loans receivable, net of allowance for loan losses of \$1,305,734 for 2020 and \$639,045 for 2019	9,539,358	5,261,436
Total Noncurrent Assets	11,083,840	6,377,149
TOTAL ASSETS	\$26,674,087	\$26,288,786
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	\$ 24,106	\$ 31,890
Accrued interest	37,204	31,264
Deferred revenue	9,630	9,810
Notes payable	4,875,000	3,000,000
Total Current Liabilities	4,945,940	3,072,964
NONCURRENT LIABILITIES:		
Notes payable	12,750,000	14,325,000
Total Noncurrent Liabilities	12,750,000	14,325,000
TOTAL LIABILITIES	17,695,940	17,397,964
NET ASSETS:		
Without donor restriction	8,703,147	8,547,822
With donor restriction	275,000	343,000
TOTAL NET ASSETS	8,978,147	8,890,822
TOTAL LIABILITIES AND NET ASSETS	\$26,674,087	\$26,288,786

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

NATIONAL COUNCIL ON AGRICULTURAL LIFE AND LABOR RESEARCH, INC. LOAN FUND
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2020
(With Summarized Totals for 2019)

	Without Donor Restriction	With Donor Restriction	Totals	
			2020	2019
REVENUE AND PUBLIC SUPPORT				
Expendable grant - Neighborhood Reinvestment	\$ 155,000	\$ -	\$ 155,000	\$ 90,000
Other grants	925,117	275,000	1,200,117	1,085,000
Contributions	100,000	-	100,000	-
Interest - deposits	3,473	-	3,473	5,806
Interest - loans	1,053,888	-	1,053,888	1,201,322
Fee income	103,457	-	103,457	66,333
Net assets released from restriction	343,000	(343,000)	-	-
TOTAL REVENUE AND PUBLIC SUPPORT	2,683,935	(68,000)	2,615,935	2,448,461
EXPENSES				
Program services:				
Accounting and audit fees	8,825	-	8,825	7,895
Consultant fees	128,260	-	128,260	80,598
Consumables	386	-	386	1,913
Depreciation	1,850	-	1,850	1,850
Dues, registration, and training	15,317	-	15,317	22,335
Equipment and maintenance	831	-	831	3,342
Insurance	10,538	-	10,538	10,940
Interest expense	554,950	-	554,950	542,519
Internet and technical services	-	-	-	5,489
Legal expenses	34,549	-	34,549	13,755
Loan participation fees	2,067	-	2,067	21,121
Marketing	-	-	-	1,000
Miscellaneous	15,000	-	15,000	16,036
Office supplies	424	-	424	755
Occupancy	9,660	-	9,660	9,600
Printing and postage	349	-	349	607
Provision for loan losses	1,100,000	-	1,100,000	400,000
Salaries and benefits	475,965	-	475,965	472,765
Telephone	3,738	-	3,738	2,529
Travel and per diem	18,150	-	18,150	42,432
Total Program Services	2,380,859	-	2,380,859	1,657,481
Management and general	147,751	-	147,751	140,172
TOTAL EXPENSES	2,528,610	-	2,528,610	1,797,653
CHANGE IN NET ASSETS	155,325	(68,000)	87,325	650,808
NET ASSETS, BEGINNING OF YEAR	8,547,822	343,000	8,890,822	8,240,014
NET ASSETS, END OF YEAR	\$ 8,703,147	\$ 275,000	\$ 8,978,147	\$ 8,890,822

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

NATIONAL COUNCIL ON AGRICULTURAL LIFE AND LABOR RESEARCH, INC. LOAN FUND
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 87,325	\$ 650,808
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	1,850	1,850
Provision for loan losses	1,100,000	400,000
Increase in interest receivable	(67,380)	-
Decrease in fees receivable	-	300
Decrease in loans receivable	1,313,833	2,058,882
(Increase) Decrease in prepaid expense	(21,076)	10,940
Increase in other real estate owned property	(430,619)	(87,481)
(Decrease) Increase in accounts payable	(7,784)	27,116
Increase in accrued interest	5,940	-
Decrease in deferred revenue	(180)	(8,570)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>1,981,909</u>	<u>3,053,845</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(1,513)	(75,000)
NET CASH USED BY INVESTING ACTIVITIES	<u>(1,513)</u>	<u>(75,000)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from long-term debt	300,000	250,000
Repayment of long-term debt	-	(300,000)
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	<u>300,000</u>	<u>(50,000)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,280,396	2,928,845
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>5,828,531</u>	<u>2,899,686</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 8,108,927</u>	<u>\$ 5,828,531</u>
NONCASH INVESTING ACTIVITY:		
Repossession of other real estate owned property	<u>\$ -</u>	<u>\$ 1,023,607</u>
SUPPLEMENTAL INFORMATION:		
Interest paid	<u>\$ 549,010</u>	<u>\$ 542,519</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. LOAN FUND

NOTES TO FINANCIAL STATEMENTS

NOTE 1 ENTITY DESCRIPTION

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

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

"To promote affordable housing, improved communities, and sustainable development. To that end, we seek to:

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

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

NCALL is governed by a 15-member Board of Directors from NCALL's service area.

NCALL 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 May 2018 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 is one of only two organizations within Delaware with the NeighborWorks® designation.

NCALL was certified as a Community Development Financial Institution ("CDFI") during fiscal year 2005 by the U.S. Department of Treasury. As of September 30, 2020, this certification was in good standing.

As a CDFI, NCALL Research, Inc. participates in the Comprehensive Ratings for CDFI Investments (Aeris) annual review and rating process. The process is a positive experience and yields 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.

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

NOTES TO FINANCIAL STATEMENTS

NOTE 1 ENTITY DESCRIPTION (cont'd)

Business Operations of the Loan Fund

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

Management and Operations

NCALL Research, Inc.'s Board of Directors delegates the oversight authority of the Loan Fund to its Loan Fund Committee. The decision-making process, underwriting, risk rating, and capitalization operations are described in the loan policies that are reviewed and updated regularly. The loan policies were updated and reconfirmed in March 2017.

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

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

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

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

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

Products of the Loan Fund

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

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

NOTES TO FINANCIAL STATEMENTS

NOTE 1 ENTITY DESCRIPTION (cont'd)

The Loan Fund's current products are predevelopment and working capital loans, site development and acquisition loans, gap and bridge financing on multifamily projects, loan guarantees, and community-based facility loans. Each of these products fills a clear financing need that is not readily available from other sources. Each product helps to develop or preserve housing for low and very low-income households.

Capitalization

The Loan Fund has a capitalization strategy which guides the Loan Fund through its relationships with investors and participating lenders. There are three primary ways the Loan Fund raises capital; grants, debt, and participation loans to other lenders. Through its operations, regular financial and compliance reports are generated.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements of the Loan Fund have been prepared on the accrual basis of accounting as required by accounting principles generally accepted in the United States of America ("generally accepted accounting principles").

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, the Loan Fund is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restriction and net assets with donor restriction. In addition, the Loan Fund is required to present a statement of cash flows.

Contributions

In accordance with the FASB ASC section regarding accounting for contributions received and contributions made, contributions received are recorded without donor restriction or with donor restriction, depending on the existence and/or nature of any donor restrictions.

Cash and Cash Equivalents

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

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

NOTES TO FINANCIAL STATEMENTS

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

Investment

The Loan Fund's investment is 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.

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'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.

Loans Receivable

Loans receivable represent funds advanced to qualified organizations that have a primary mission of affordable housing and/or community development. Loans are stated at unpaid principal balances less an allowance for loan losses. The allowance for loan losses is estimated to be a minimum of five percent of the outstanding loan balance plus any amounts known to be uncollectible, and additional amounts determined by management based on the loan's internal risk rating. Past due status is determined based on contractual terms. Loans are considered impaired if full principal or interest payments are not anticipated in accordance with the contractual terms. Loans are written off as a charge to the allowance for loan loss accounts when, in management's estimation, it is probable that the receivable is worthless. Loan security is outlined in the promissory notes.

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

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

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

NOTES TO FINANCIAL STATEMENTS

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

Property and Equipment

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

The estimated service life for equipment is five to ten years. Expenditures for maintenance, repairs, minor renewals, and betterments which do not improve or extend the useful life of the respective asset are expensed.

Other Real Estate Owned

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

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

Income Taxes

NCALL 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'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's tax returns. Management has determined that NCALL 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's tax returns will not be challenged by the taxing authorities and that NCALL will not be subject to additional tax, penalties, and interest as a result of such challenge.

Allocation of Functional Expenses

The costs of providing the programs and other activities have been summarized on a functional basis in the statement of activities. Whenever possible, costs are directly assigned to the

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

NOTES TO FINANCIAL STATEMENTS

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

program functions using the direct identification method based on the nature of the expense. Accordingly, certain costs have been allocated among the functions utilizing NCALL's indirect cost rate.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Prior Year Financial Statements

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Loan Fund's financial statements for the year ended September 30, 2019, from which the summarized information was derived.

NOTE 3 INVESTMENT

Investments consist of a certificate of deposit with an original maturity of more than three months. The fair value of these investments using Level 2 inputs as of September 30, 2020 amounted to \$76,513.

NOTE 4 ALLOWANCE FOR LOAN LOSSES

For the year ended September 30, 2020, the change in the allowance for loan losses is as follows:

	<u>Beginning Allowance for Loan Losses</u>	<u>Reclassify</u>	<u>Provision for Loan Losses</u>	<u>Charge-offs</u>	<u>Ending Allowance for Loan Losses</u>
Affordable Housing	\$ 1,186,686	\$ 56,065	\$ 146,907	\$(1,133,314)	\$ 256,344
Community Facilities	454,278	(7,208)	-	-	447,070
Commercial/Revitalization	250,679	-	953,093	-	1,203,772
Other Real Estate Owned	448,857	(48,857)	-	-	400,000
Total Allowance	<u>\$ 2,340,500</u>	<u>\$ -</u>	<u>\$ 1,100,000</u>	<u>\$(1,133,314)</u>	<u>\$ 2,307,186</u>

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

NOTES TO FINANCIAL STATEMENTS

NOTE 4 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 the Loan Fund's method of estimating the allowance for loan losses.

NOTE 5 CREDIT QUALITY OF LOANS RECEIVABLE

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

Each loan is risk rated when approved. The risk rating is reviewed annually after approval and closing. Loans will be reviewed more frequently if they are/become rated below Adequate or have performance issues. The risk ratings are consistent with community development lending standards and are: Good, Standard, Adequate, Watch, Sub-standard, and Doubtful/OREO. The Loan Fund's standard Allowance for Loan Losses ("ALL") 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. An additional allowance is not required for this rating, but additional performance measures may be recommended that are not allowance related.

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

NOTES TO FINANCIAL STATEMENTS

NOTE 5 CREDIT QUALITY OF LOANS RECEIVABLE (cont'd)

Watch

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

Sub-Standard

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

Doubtful/Other Real Estate Owned ("OREO")

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

The information used to internally rate loans receivable was updated as of September 30, 2020.

As of September 30, 2020, loans were split between the following portfolio segments:

Affordable Housing	\$ 5,126,881
Community Facilities	8,941,399
Commercial/Revitalization	<u>5,094,615</u>
Total Loans Receivable, Gross	19,162,895
Allowance for Loan Losses	<u>(2,307,186)</u>
TOTAL	<u>\$ 16,855,709</u>

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

NOTES TO FINANCIAL STATEMENTS

NOTE 5 CREDIT QUALITY OF LOANS RECEIVABLE (cont'd)

As of September 30, 2020, the loan ratings and amounts by portfolio segment were as follows:

	<u>Good</u>	<u>Standard</u>	<u>Adequate</u>	<u>Watch</u>	<u>Sub-Standard</u>	<u>Total</u>
Affordable Housing	\$ -	\$ -	\$ 4,717,821	\$ 309,060	\$ 100,000	\$ 5,126,881
Community Facilities	-	-	8,941,399	-	-	8,941,399
Commercial/Revitalization	-	-	1,769,540	500,000	2,825,075	5,094,615
Total Loans Receivable, Gross	<u>\$ -</u>	<u>\$ -</u>	<u>\$15,428,760</u>	<u>\$ 809,060</u>	<u>\$2,925,075</u>	<u>\$19,162,895</u>

As of September 30, 2020, the loan aging by portfolio segment was as follows:

	<u>Current</u>	<u>31-60 Days Past Due</u>	<u>61-90 Days Past Due</u>	<u>91+ Days Past Due</u>	<u>Total</u>
Affordable Housing	\$ 5,026,881	\$ -	\$ -	\$ 100,000	\$ 5,126,881
Community Facilities	8,941,399	-	-	-	8,941,399
Commercial/Revitalization	2,269,540	-	-	2,825,075	5,094,615
Total Loans Receivable, Gross	<u>\$16,237,820</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,925,075</u>	<u>\$ 19,162,895</u>

The \$2,925,075 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.

NOTE 6 LOANS RECEIVABLE SOLD WITH AND WITHOUT RECOURSE

The Loan Fund has sold loans receivable to financial institutions with no recourse to the Organization. The outstanding balance of the no-recourse loans at September 30, 2020 was \$8,342,610.

The Loan Fund sold a loan participation in the amount of \$2,500,000 (\$2,345,349 balance at September 30, 2020) to Barclays Bank Delaware and Deutsche Bank Trust Company Delaware (total loan amount of \$3,500,000), of which the Loan Fund agrees to take first loss of \$350,000 in the event of default. The loan matures on December 1, 2020.

The Loan Fund sold a loan participation in the amount of \$1,425,000 (\$914,427 balance at September 30, 2020) to Enterprise Community Loan Fund (total loan amount of \$1,900,000). The loan matures on February 2, 2024, but the Loan Fund agrees to repay the participant its entire outstanding balance no later than January 31, 2023.

The Loan Fund sold a loan participation in the amount of \$686,034 (\$685,765 balance at September 30, 2020) to The Bank of Delmarva. The Loan Fund agrees to take first loss of \$175,000 in the event of default. The loan matures on February 1, 2025.

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

NOTES TO FINANCIAL STATEMENTS

NOTE 6 LOANS RECEIVABLE SOLD WITH AND WITHOUT RECOURSE (cont'd)

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

NOTE 7 NET ASSETS WITH DONOR RESTRICTION

NeighborWorks® America capital grants are restricted for making loans and for capital projects. The capital grants are restricted in perpetuity although proceeds on capital projects, or interest earned, over and above the corpus may be transferred to net assets without donor restriction for furthering NCALL's mission. However, should NCALL become defunct, all remaining grant funds, interest earnings, capital projects proceeds, and the loan and capital projects portfolios representing the use of these funds will revert to NeighborWorks® America.

In 2020, NeighborWorks® America released the remaining \$343,000 from restriction in grant funds previously classified as restricted in perpetuity by the Loan Fund. Accordingly, this amount has been shown as net assets released from restriction in the statement of activities.

As of September 30, 2020, the Loan Fund had \$275,000 that was restricted for the purpose of providing sub-grants to nonprofit developers and community development corporations. The Loan Fund is providing on-on-one development-level technical assistance to increase the capacity of these organizations to serve as implementers of neighborhood revitalization in Wilmington, Delaware. The sub-grants will be provided to these organizations for their viable affordable housing and community facility projects.

NOTE 8 CONCENTRATIONS

The Loan Fund received 22 percent of its total revenue and public support from Community Development Financial Institutions Treasury during the year ended September 30, 2020.

The Loan Fund received 23 percent of its total revenue and public support from JP Morgan Chase during the year ended September 30, 2020.

NOTE 9 LONG-TERM DEBT

In December 2005, the Loan Fund entered into an unsecured note agreement with the 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, 2020, the outstanding balance on this note was \$350,000.

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

NOTES TO FINANCIAL STATEMENTS

NOTE 9 LONG-TERM DEBT (cont'd)

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

In September 2011, the Loan Fund entered into an unsecured note agreement with PNC Bank in the amount of \$1,250,000. In December 2016, the note amount was increased to \$2,500,000. The note bears interest at a fixed rate of 3.25 percent. Accrued interest is payable on March 1, June 1, September 1, and December 1 of each year, with the entire unpaid principal balance due in full on December 20, 2021. As of September 30, 2020, the outstanding amount of this note was \$2,500,000.

In March 2012, the Loan Fund entered into an unsecured note agreement with AIG Federal Savings Bank (this loan is now held by Artisans' Bank; all terms and conditions remain the same) in the amount of \$350,000. In March 2017, the note amount was increased to \$500,000. The note bears interest at a fixed rate of 3.0 percent. Accrued interest is payable on January 1, April 1, July 1, and October 1 of each year, with the entire unpaid principal balance due in full on March 28, 2021 (previously March 28, 2018). As of September 30, 2020, the outstanding amount of this note was \$500,000.

In April 2012, the Loan Fund entered into an unsecured note agreement with Barclays Bank Delaware in the amount of \$1,250,000. The loan was increased by \$1,250,000 to \$2,500,000 during 2016. The note bears interest at a fixed rate of 3.25 percent. Accrued interest is due on January 1, April 1, July 1, and October 1 of each year, with the entire unpaid principal balance due in full on March 11, 2023. As of September 30, 2020, the outstanding amount of this note was \$2,500,000.

In July 2012, the Loan Fund entered into an equity equivalent ("EQ2") investment agreement with Wells Fargo Community Investment Holdings in the amount of \$600,000. The agreement bears interest at a fixed rate of 2.0 percent. Accrued interest is payable on January 15, April 15, July 15, and October 15 of each year with the entire unpaid principal balance due in full on August 9, 2022. As of September 30, 2020, the outstanding amount of this note was \$600,000.

In August 2012, the Loan Fund entered into an unsecured note agreement with HSBC Bank USA in the amount of \$2,000,000. The note was increased by \$500,000 to \$2,500,000 in 2018. The note bears interest at a fixed rate of 2.35 percent on the first \$2,000,000 and will accrue at a fixed rate of 3.10 percent on any additional funds. 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, 2023 (previously August 31, 2021). As of September 30, 2020, the outstanding amount of this note was \$2,000,000.

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

NOTES TO FINANCIAL STATEMENTS

NOTE 9 LONG-TERM DEBT (cont'd)

In August 2012, the Loan Fund entered into an unsecured note agreement with TD Bank in the amount of \$1,000,000; and in 2014, 2017 and 2020, the note was amended to increase the available amount to \$1,500,000, \$3,000,000, and \$3,500,000, respectively. The note bears interest at a fixed rate of 3.75 percent. Accrued interest is payable quarterly with the entire unpaid principal balance due in full on July 31, 2022 (previously July 31, 2020). As of September 30, 2020, the outstanding amount of this note was \$3,000,000.

In July 2014, the Loan Fund entered into an unsecured line of credit agreement with the Jessie Ball DuPont Religious, Charitable, and Educational Fund in the amount of \$1,500,000. Any outstanding balance against this line of credit will bear interest at a fixed rate of 1.5 percent. Accrued interest is payable on June 30 and December 31 of each year, with the entire unpaid principal balance due in full on July 29, 2021. As of September 30, 2020, the outstanding amount of this note was \$1,500,000.

In August 2014, the Loan Fund entered into an unsecured line of credit agreement with Capital One, National Association in the amount of \$1,000,000. Any outstanding balance against this line of credit will bear interest at a fixed rate of 1.0 percent. Accrued interest is payable on January 1, April 1, July 1, and October 1 of each year, with the entire unpaid principal balance due in full on July 1, 2024. As of September 30, 2020, the outstanding amount of this note was \$1,000,000.

In September 2014, the Loan Fund entered into an unsecured note agreement with Wilmington Savings Fund Society in the amount of \$750,000. The note was renewed and increased by \$250,000 to \$1,000,000 in 2018. The note bears interest at a fixed rate of 5.41 percent. Accrued interest is payable quarterly with the entire unpaid principal balance due in full on January 30, 2021. As of September 30, 2020, the outstanding amount of this note was \$1,000,000.

In June 2015, the Loan Fund entered into an unsecured note agreement with the Opportunity Finance Network in the amount of \$1,000,000. The note was renewed and increased by \$500,000 to \$1,500,000 in 2018. 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, 2021. As of September 30, 2020, the outstanding amount of this note was \$1,500,000.

In December 2016, the Loan Fund entered into an unsecured note agreement with the United States Department of Agriculture in the amount of \$5,000,000. The note bears interest at a fixed rate of 2.375 percent. Accrued interest is paid in monthly installments on the last day of each month, and the principal is amortized over the life of the note with a maturity date of December 20, 2056. The note requires an Irrevocable Letter of Credit for an outside institution as collateral in the minimum amount equal to the principal and interest installments due during the first five years. The note bears interest at a fixed rate of 1.00 percent. Accrued interest is

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

NOTES TO FINANCIAL STATEMENTS

NOTE 9 LONG-TERM DEBT (cont'd)

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, 2020, NCALL has not drawn down on these loans.

In August 2017, the Loan Fund entered into an equity equivalent ("EQ2") investment agreement with 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 September 30, 2027. As of September 30, 2020, the outstanding amount of this note was \$250,000.

In July 2019, the Loan Fund entered into an unsecured note agreement with Woodforest National Bank in the amount of \$250,000. The note bears interest at a fixed rate of 4.0 percent. Accrued interest is due monthly, with the entire unpaid principal balance due in full on July 9, 2022. As of September 30, 2020, the outstanding amount of this note was \$250,000.

In February 2020, the Loan Fund entered into an unsecured note agreement with 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 3.0 percent. Accrued interest is due quarterly, with the entire unpaid principal balance due in full on March 31, 2023. As of September 30, 2020, the outstanding amount of this note was \$300,000.

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

Year Ending September 30,

2021	\$ 4,875,000
2022	6,350,000
2023	2,800,000
2024	3,000,000
2025	-
Thereafter	<u>600,000</u>
	<u>\$ 17,625,000</u>

NOTE 10 COMMITMENTS

Loans closed but not disbursed as of September 30, 2020 were as follows:

<u>Loan Amount</u>	<u>Disbursed at 09/30/2020</u>	<u>Undisbursed</u>
<u>\$ 4,564,219</u>	<u>\$ 1,851,756</u>	<u>\$ 2,712,453</u>

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

NOTES TO FINANCIAL STATEMENTS

NOTE 10 COMMITMENTS (cont'd)

As of September 30, 2020, the Loan Fund issued commitment letters to six potential borrowers for loans totaling \$2,520,000. All six loans are expected to close in the next fiscal year.

NCALL issued a line of credit to the Loan Fund in the amount of \$2,000,000. The initial term of the line shall be three years, expiring September 30, 2021. Advances under the line shall be repaid to NCALL without interest. However, the Loan Fund must pay NCALL an annual fee of .5 percent of the amount of the line of credit. As of September 30, 2020, there were no advances against the line of credit.

On October 24, 2019, the Loan Fund issued a letter of credit in favor of Delaware State Housing Authority as beneficiary at the request of Herring Ridge, L.P. for a construction contract completion guarantee in an amount not to exceed \$150,984. The letter of credit expires on September 24, 2021. As of September 30, 2020, the Loan Fund has not been notified of non-completion of the construction contract.

On July 28, 2020, the Loan Fund issued a letter of credit in favor of Delaware State Housing Authority as beneficiary at the request of Quaker Arts, LLC for a construction contract completion guarantee in an amount not to exceed \$313,139. The letter of credit expires on June 27, 2022. As of September 30, 2020, the Loan Fund has not been notified of non-completion of the construction contract.

NOTE 11 CONCENTRATION OF CREDIT RISK

The Loan Fund maintains cash balances at three financial institutions which may at times exceed the Federal Deposit Insurance Corporation ("FDIC") limit of \$250,000 per depositor. The amount that exceeded the FDIC limit as of September 30, 2020 was \$8,108,804. The Loan Fund has not experienced any losses in such accounts. Management of the Loan Fund believes it is not exposed to any significant credit risk on its cash balances.

NOTE 12 RELATED PARTY TRANSACTIONS

The Loan Fund representatives at the committee and staff level adhere to a disclosure and conflict-of-interest policy in the event a customer or loan request comes in wherever there may be involvement with a loan fund committee member. The Loan Fund's policies require any individual to recuse themselves from any matters regarding a potential conflict of interest.

As of September 30, 2020, the Loan Fund had outstanding loans totaling \$1,041,429 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.

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

NOTES TO FINANCIAL STATEMENTS

NOTE 12 RELATED PARTY TRANSACTIONS (cont'd)

As of September 30, 2020, the Loan Fund had outstanding loans totaling \$614,035 to Solid Rock Baptist Church. The Pastor of Solid Rock Baptist Church is an employee of NCALL Research, Inc.

As of September 30, 2020, NCALL had participation agreements with Partners for the Common Good in the amount of \$1,140,144. An employee of NCALL is a member of the Board of Directors of Partners for the Common Good. Additionally, an employee of Partners for the Common Good is a member of NCALL's Loan Fund Committee.

NOTE 13 LIQUIDITY AND AVAILABILITY OF RESOURCES

The Loan Fund's financial assets consist of cash and cash equivalents, investments, and the current portion of loans receivable.

The following reflects the Loan Fund's financial assets as of September 30, 2020, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the balance sheet date. Amounts not available include amounts set aside by the Board that could be drawn upon if the governing board decides to approve such action.

Financial assets, at year end	\$ 15,569,171
Less unavailable for general expenses within one year due to:	
Restricted due to purpose	<u>275,000</u>
Financial assets available to meet cash needs for general expenses within one year	<u>\$ 15,294,171</u>

The Loan Fund maintains a policy of structuring its financial assets to be available as its general expenditures, liabilities, and other obligations come due. As described in Note 14, the Loan Fund also has an available line of credit in the amount of \$250,000, which it could draw upon in the event of an unanticipated liquidity need.

NOTE 14 LINE OF CREDIT

In August 2017, the Loan Fund entered into an unsecured line of credit agreement with Shore United Bank in the amount of \$250,000. Outstanding amounts against the line of credit are charged a variable rate which is based on the highest prime rate published in the Wall Street Journal (3.25 percent as of September 30, 2020). As of September 30, 2020, the outstanding balance was \$0.

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

NOTES TO FINANCIAL STATEMENTS

NOTE 15 UNCERTAINTIES

As a result of the spread of the COVID-19 coronavirus, economic uncertainties have arisen that may negatively impact the Loan Fund's income in fiscal year 2021. Other financial impact could occur though such potential impact is unknown at this time.

NOTE 16 SUBSEQUENT EVENTS

The Loan Fund has evaluated all subsequent events through February 4, 2021, the date the financial statements were available to be issued.