

NORTHERN CALIFORNIA  
COMMUNITY LOAN FUND

SEPTEMBER 30, 2014 AND 2013

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SINGLE AUDIT REPORT

# Northern California Community Loan Fund

## Single Audit Report

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**Independent Auditors' Report**

THE BOARD OF DIRECTORS  
NORTHERN CALIFORNIA COMMUNITY LOAN FUND  
San Francisco, California

**Report on the Financial Statements**

We have audited the accompanying financial statements of **NORTHERN CALIFORNIA COMMUNITY LOAN FUND (NCCLF)**, which comprise the statements of financial position as of September 30, 2014 and 2013, and the related statements of activities, functional expenses and cash flows for the years 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.

**Auditors’ 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.

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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 NCCLF as of September 30, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### **Other Matters**

#### *Supplementary Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, 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 14, 2015 on our consideration of NCCLF'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 NCCLF's internal control over financial reporting and compliance.

Hood & Strong LLP

San Francisco, California  
January 14, 2015

# Northern California Community Loan Fund

## Statement of Financial Position

September 30, 2014 and 2013

	2014			2013		
	General Fund	Loan Fund	Total	General Fund	Loan Fund	Total
<b>Assets</b>						
<b>Current Assets:</b>						
Cash and cash equivalents (Note 3)	\$ 1,479,223	\$ 6,610,650	\$ 8,089,873	\$ 2,108,468	\$ 4,987,551	\$ 7,096,019
Funds held in trust (Note 4)	1,026,386		1,026,386	1,397,319		1,397,319
Contributions receivable	100,000		100,000	-		-
Accrued interest and other receivables	477,779		477,779	334,110		334,110
Prepaid expenses	126,397		126,397	93,078		93,078
Investments (Notes 3 and 5)	4,285,600	14,007,819	18,293,419	3,189,417	11,450,698	14,640,115
Loans receivable - current portion, net of allowance for loan loss of \$767,543 and \$1,284,583 (Note 7)		5,688,987	5,688,987		4,379,480	4,379,480
Total current assets	7,495,385	26,307,456	33,802,841	7,122,392	20,817,729	27,940,121
Loans Receivable - long-term portion, net of allowance for loan loss of \$1,801,889 and \$1,158,899 (Note 7)		19,573,095	19,573,095		18,587,567	18,587,567
Deposits	13,691		13,691	14,191		14,191
Properties Held for Sale (Note 12)		435,939	435,939		435,939	435,939
Property and Equipment, net	33,412		33,412	36,815		36,815
Total assets	\$ 7,542,488	\$ 46,316,490	\$ 53,858,978	\$ 7,173,398	\$ 39,841,235	\$ 47,014,633
<b>Liabilities and Net Assets</b>						
<b>Current Liabilities:</b>						
Accounts payable and accrued expenses	\$ 308,596	\$ 5,525	\$ 314,121	\$ 294,551	\$ 5,505	\$ 300,056
Accrued interest payable	261,176	420	261,596	237,435	457	237,892
Deferred revenue	695,204		695,204	385,167		385,167
Funds held in trust (Note 4)	1,026,386		1,026,386	1,397,319		1,397,319
Notes payable - current portion (Note 8)		7,309,071	7,309,071		6,845,169	6,845,169
Total current liabilities	2,291,362	7,315,016	9,606,378	2,314,472	6,851,131	9,165,603
Notes Payable, net of current portion (Note 8)		25,865,640	25,865,640		20,532,041	20,532,041
Subordinate Notes Payable (Note 8)		1,600,000	1,600,000		2,100,000	2,100,000
Total liabilities	2,291,362	34,780,656	37,072,018	2,314,472	29,483,172	31,797,644
<b>Net Assets:</b>						
Unrestricted:						
Board designated (Note 10)	2,375,000	750,000	3,125,000	2,000,000	750,000	2,750,000
Undesignated	2,603,540	10,785,834	13,389,374	2,769,123	9,608,063	12,377,186
Total unrestricted	4,978,540	11,535,834	16,514,374	4,769,123	10,358,063	15,127,186
Temporarily restricted (Note 11)	272,586		272,586	89,803		89,803
Total net assets	5,251,126	11,535,834	16,786,960	4,858,926	10,358,063	15,216,989
Total liabilities and net assets	\$ 7,542,488	\$ 46,316,490	\$ 53,858,978	\$ 7,173,398	\$ 39,841,235	\$ 47,014,633

The accompanying notes are an integral part of this statement.

# Northern California Community Loan Fund

## Statement of Activities

Years Ended September 30, 2014 and 2013

	2014			2013		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
<b>Support and Revenue:</b>						
Contributions	\$ 737,050	\$ 335,000	\$ 1,072,050	\$ 251,244	\$ 155,000	\$ 406,244
Government awards	1,143,368		1,143,368	1,682,734		1,682,734
Interest and investment income, net of interest expense of \$773,522 and \$643,157 (Note 5)	1,365,016		1,365,016	1,258,330		1,258,330
Special event income - net of direct costs of \$12,411 and \$31,806	42,769		42,769	31,644		31,644
Net realized and unrealized (loss) gain on investments (Note 5)	240,407		240,407	(104,201)		(104,201)
Loan fees	117,760		117,760	307,234		307,234
New market tax credit program fees (Note 15)	769,767		769,767	455,667		455,667
Consulting and contract fees	644,150		644,150	275,924		275,924
In-kind contributions	152,286		152,286	232,642		232,642
Net assets released from restrictions (Note 11)	152,217	(152,217)	-	293,279	(293,279)	-
<b>Total support and revenue</b>	<b>5,364,790</b>	<b>182,783</b>	<b>5,547,573</b>	<b>4,684,497</b>	<b>(138,279)</b>	<b>4,546,218</b>
<b>Expenses:</b>						
Program services:						
Direct lending	1,194,378		1,194,378	1,498,691		1,498,691
New markets tax credits	468,841		468,841	320,664		320,664
Consulting and training	1,345,347		1,345,347	1,051,752		1,051,752
New program development	140,458		140,458	182,403		182,403
Capitalization	368,934		368,934	385,709		385,709
<b>Total program services</b>	<b>3,517,958</b>	<b>-</b>	<b>3,517,958</b>	<b>3,439,219</b>	<b>-</b>	<b>3,439,219</b>
Supporting services:						
Management and general	200,908		200,908	196,931		196,931
Fundraising	258,736		258,736	246,909		246,909
<b>Total supporting services</b>	<b>459,644</b>	<b>-</b>	<b>459,644</b>	<b>443,840</b>	<b>-</b>	<b>443,840</b>
<b>Total expenses</b>	<b>3,977,602</b>	<b>-</b>	<b>3,977,602</b>	<b>3,883,059</b>	<b>-</b>	<b>3,883,059</b>
<b>Change in Net Assets</b>	<b>1,387,188</b>	<b>182,783</b>	<b>1,569,971</b>	<b>801,438</b>	<b>(138,279)</b>	<b>663,159</b>
<b>Net Assets, beginning of year</b>	<b>15,127,186</b>	<b>89,803</b>	<b>15,216,989</b>	<b>14,325,748</b>	<b>228,082</b>	<b>14,553,830</b>
<b>Net Assets, end of year</b>	<b>\$ 16,514,374</b>	<b>\$ 272,586</b>	<b>\$ 16,786,960</b>	<b>\$ 15,127,186</b>	<b>\$ 89,803</b>	<b>\$ 15,216,989</b>

The accompanying notes are an integral part of this statement.

## Northern California Community Loan Fund

### Statement of Functional Expenses

*Year Ended September 30, 2014*

	Program Services					Supporting Services			Total
	Direct Lending	New Markets Tax Credits	Consulting and Training	New Program Development	Capitalization	Program Services Total	Management and General	Fundraising	
<b>Operating Expenses:</b>									
Salaries and benefits	\$ 780,063	\$ 346,112	\$ 927,019	\$ 117,207	\$ 282,990	\$ 2,453,391	\$ 139,327	\$ 203,172	\$ 2,795,890
Consultants and legal	37,985	39,767	252,479	2,162	8,618	341,011	18,801	5,197	365,009
Office	28,059	40,633	38,689	2,421	12,458	122,260	14,370	6,716	143,346
Rent (Note 9)	57,927	25,715	72,885	7,335	22,329	186,191	11,009	16,616	213,816
Travel and training	23,484	1,113	14,587	6,059	1,344	46,587	10,792	8,260	65,639
Outreach and marketing	28,938	3,713	11,955	1,575	3,780	49,961	1,986	11,899	63,846
License and fees	4,425	3,163	3,287	1,239	8,141	20,255	930	1,303	22,488
<b>Total operating expenses</b>	<b>960,881</b>	<b>460,216</b>	<b>1,320,901</b>	<b>137,998</b>	<b>339,660</b>	<b>3,219,656</b>	<b>197,215</b>	<b>253,163</b>	<b>3,670,034</b>
<b>Other Expenses:</b>									
Depreciation	4,958	2,201	6,239	628	1,911	15,937	943	1,422	18,302
Provision for loan losses	125,950					125,950			125,950
Property tax	11,030					11,030			11,030
In-kind legal and technological services	91,559	6,424	18,207	1,832	27,363	145,385	2,750	4,151	152,286
<b>Total expenses</b>	<b>\$ 1,194,378</b>	<b>\$ 468,841</b>	<b>\$ 1,345,347</b>	<b>\$ 140,458</b>	<b>\$ 368,934</b>	<b>\$ 3,517,958</b>	<b>\$ 200,908</b>	<b>\$ 258,736</b>	<b>\$ 3,977,602</b>

The accompanying notes are an integral part of this statement.

## Northern California Community Loan Fund

### Statement of Functional Expenses

*Year Ended September 30, 2013*

	Program Services					Supporting Services			Total
	Direct Lending	New Markets Tax Credits	Consulting and Training	New Program Development	Capitalization	Program Services Total	Management and General	Fundraising	
<b>Operating Expenses:</b>									
Salaries and benefits	\$ 799,603	\$ 221,649	\$ 820,985	\$ 88,490	\$ 239,633	\$ 2,170,360	\$ 128,943	\$ 184,338	\$ 2,483,641
Consultants and legal	40,508	29,686	71,093	73,968	26,785	242,040	27,606	5,463	275,109
Office	28,648	34,971	29,575	2,077	10,298	105,569	13,778	6,931	126,278
Rent (Note 9)	66,135	16,305	67,928	6,222	19,870	176,460	11,383	15,752	203,595
Travel and training	26,072	1,356	17,238	5,518	2,668	52,852	8,405	7,859	69,116
Outreach and marketing	18,302	3,464	15,241	2,608	11,154	50,769	2,193	16,176	69,138
License and fees	5,535	7,796	7,143	1,445	10,480	32,399	1,181	1,395	34,975
<b>Total operating expenses</b>	<b>984,803</b>	<b>315,227</b>	<b>1,029,203</b>	<b>180,328</b>	<b>320,888</b>	<b>2,830,449</b>	<b>193,489</b>	<b>237,914</b>	<b>3,261,852</b>
<b>Other Expenses:</b>									
Depreciation	6,762	1,667	6,914	636	2,032	18,011	1,055	1,593	20,659
Provision for loan losses	357,094					357,094			357,094
Property tax	10,812					10,812			10,812
In-kind legal and technological services	139,220	3,770	15,635	1,439	62,789	222,853	2,387	7,402	232,642
<b>Total expenses</b>	<b>\$ 1,498,691</b>	<b>\$ 320,664</b>	<b>\$ 1,051,752</b>	<b>\$ 182,403</b>	<b>\$ 385,709</b>	<b>\$ 3,439,219</b>	<b>\$ 196,931</b>	<b>\$ 246,909</b>	<b>\$ 3,883,059</b>

The accompanying notes are an integral part of this statement.



# Northern California Community Loan Fund

## Statement of Cash Flows

<i>Years Ended September 30,</i>	2014	2013
<b>Cash Flows from Operating Activities:</b>		
Change in net assets	\$ 1,569,971	\$ 663,159
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	18,302	20,659
Allowance for loan losses	125,950	357,094
Realized and unrealized (gains) losses on investments	(240,407)	104,201
Noncash contribution of notes payable	(500,500)	(1,000)
Changes in operating assets and liabilities:		
Contributions receivable	(100,000)	75,000
Accrued interest and other receivables	(143,669)	(23,894)
Prepaid expenses and deposits	(32,819)	(25,391)
Accounts payable and accrued expenses	14,065	(42,456)
Accrued interest payable	23,704	6,924
Funds held in trust	(370,933)	(77,162)
Deferred revenue and other liabilities	310,037	(213,965)
Net cash provided by operating activities	673,701	843,169
<b>Cash Flows from Investing Activities:</b>		
Purchases of investments	(11,261,791)	(7,448,329)
Proceeds from sale of investments	8,219,827	7,250,015
Loan disbursements to borrowers	(7,665,447)	(14,632,430)
Loan principal payments from borrowers	5,244,462	10,017,208
Acquisition of property and equipment	(14,899)	(21,338)
Net cash used in investing activities	(5,477,848)	(4,834,874)
<b>Cash Flows from Financing Activities:</b>		
Proceeds from notes payable	7,779,996	3,303,486
Repayments of notes payable	(1,981,995)	(1,667,339)
Net cash provided by financing activities	5,798,001	1,636,147
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	993,854	(2,355,558)
<b>Cash and Cash Equivalents, beginning of year</b>	7,096,019	9,451,577
<b>Cash and Cash Equivalents, end of year</b>	\$ 8,089,873	\$ 7,096,019
<b>Supplemental Cash Flow Information:</b>		
Cash paid for interest during the year	\$ 750,494	\$ 636,233
<b>Noncash Information:</b>		
Notes payable converted to contributions	\$ 500,500	\$ 1,000

The accompanying notes are an integral part of this statement.

# Northern California Community Loan Fund

## Notes to Financial Statements

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### Note 1 - Nature of Organization:

Northern California Community Loan Fund (NCCLF) was formed as a California nonprofit corporation in 1987. As a certified Community Development Financial Institution (CDFI), NCCLF's mission is to revitalize communities throughout northern California by providing financing and expertise that strengthen low-income neighborhoods and enable disadvantaged people to build a better future. The following is a summary of NCCLF's programs:

#### Programs

*Direct Lending:* NCCLF provides flexible and creative financing to support nonprofits and enterprises that benefit low-income communities. NCCLF provides financing in four primary sectors: affordable housing, community facilities, human services and economic development. Integral to our lending, NCCLF also provides technical assistance to its borrowers as needed to help them understand their financial position and appropriate use of debt financing.

*New Markets Tax Credit:* NCCLF is certified by the U. S. Department of Treasury - Community Development Financial Institutions Fund (CDFI Fund) as a Community Development Entity (CDE) for the purpose of participating in its New Market Tax Credit (NMTC) Program. NCCLF uses tax credit allocations to generate new equity capital investments to support real estate projects that benefit low-income communities including multi-tenant nonprofit centers, nonprofit community facilities and mixed-use affordable housing developments. During fiscal year 2014, NCCLF received an NMTC allocation of \$33,000,000.

*Consulting and Training:* NCCLF provides technical expertise and training to nonprofit organizations serving low-income communities. NCCLF offers consulting services which help community organizations build their financial-management and facility-acquisition and facility-management capacity:

*Financial Consulting Program* strengthens nonprofits by delivering technical assistance in financial management.

*Real Estate Consulting Program* provides technical assistance to nonprofits that are facing decisions regarding current facilities or are planning for new or renovated facilities.

In addition, NCCLF's also manages several different grant and loan programs for private foundations, local government agencies, and other third parties.

# Northern California Community Loan Fund

## Notes to Financial Statements

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*Capitalization:* NCCLF is a socially responsible investment opportunity for individuals and organizations interested in putting their capital to work in low-income communities in Northern California. NCCLF uses loans and contributions to capitalize its revolving loan fund. NCCLF's investors and contributors include individuals, trusts, foundations, nonprofit organizations, religious organizations, health organizations, corporations and financial institutions.

### Note 2 - Summary of Significant Accounting Policies:

a. Accounting Method

NCCLF uses the accrual method of accounting in accordance with generally accepted accounting principles in the United States of America, which recognizes income in the period earned and expenses when incurred, regardless of the timing of payments.

b. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

c. Basis of Presentation

NCCLF reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted.

#### **Description of Net Assets**

*Unrestricted Net Assets* - the portion of net assets that is neither temporarily nor permanently restricted by donor - imposed stipulations. These net assets are intended for use of management and the Board of Directors for general operating support and also consist of a revolving loan fund and a board designated operating reserve fund.

*Temporarily Restricted Net Assets* - the portion of net assets of which use by NCCLF is limited by donor - imposed stipulations that either can be fulfilled and removed by actions of NCCLF or expire by passage of time.

*Permanently Restricted Net Assets* - the portion of net assets that are restricted to investments in perpetuity and of which use by NCCLF is limited by donor-imposed stipulations that neither can be removed by actions of NCCLF nor otherwise expire by passage of time. NCCLF has no permanently restricted net assets at September 30, 2014 and 2013, respectively.

# Northern California Community Loan Fund

## Notes to Financial Statements

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### d. Revenue Recognition

- Contributions and pledges are recognized at their fair value when received. Contributions that are restricted by the donor are reported as increases in temporarily restricted or permanently restricted net assets depending upon the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.
- Contributions receivable represent amounts committed by donors that have not been received by NCCLF. The contribution receivable at September 30, 2014 and 2013, was \$100,000 and \$0, respectively.

At September 30, 2014, NCCLF has conditional grants receivable of \$360,000. These grants require NCCLF to meet certain performance criteria to receive the funds and therefore have not been recognized in the financial statements.

NCCLF uses the allowance method to account for uncollectible contributions based on historical experience and an evaluation of the outstanding receivables at the end of the year. At September 30, 2014, management determined that no allowance is deemed necessary.

- Government awards are recognized as revenue when allowable activities or expenditures under the respective awards are substantially completed or incurred.
- NCCLF receives in-kind donations of software and technological services as well as pro bono legal services for work on commercial real estate transactions, annual application for the securities permit, and general corporate work. NCCLF's contributed services are stated at their estimated fair market value, if they are ordinarily purchased and are of a specialized nature. The value of these services for 2014 and 2013 was \$152,286 and \$232,642, respectively.

### e. Cash and Cash Equivalents

Cash is defined as cash in demand deposits accounts as well as cash on hand. Cash equivalents are highly liquid investments that are readily convertible to known amounts of cash. Generally, only investments with original maturities of three months or less qualify as cash equivalents. NCCLF maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. NCCLF has not experienced any losses in such accounts. Management believes that NCCLF is not exposed to any significant cash credit risk.

### f. Loans Receivable

Loans receivable are reported at their outstanding principal balances adjusted for charge-offs, allowance for loan losses, and unearned interest, if any.

# Northern California Community Loan Fund

## Notes to Financial Statements

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Interest income is accrued on principal loan balances. NCCLF accrues interest on past due loans at the regular rate of interest or at the default rate of interest for loans that are in default. Loans may be placed on nonaccrual status when any portion of the principal or interest is ninety days past due or earlier when concern exists as to the ultimate collectability of principal or interest, as evaluated at least quarterly. NCCLF makes every effort to collect all interest payments from the borrower even after loans are placed on nonaccrual status for accounting purposes.

Loans return to accrual status when principal and interest become current and are anticipated to be fully collectible. Payments received on nonaccrual loans receivable are first applied to outstanding principal or interest depending on the circumstances of each particular loan.

Loan origination fees are recognized immediately, which management has determined is not materially different from generally accepted accounting principles. Management has the intent and ability to hold these loans until maturity or payoff.

g. Allowance for Loan Losses

Management's determination of the level of allowance for loan losses rests upon various judgments and assumptions, including current and projected economic conditions, prior loan loss experience, the value of the underlying collateral, continuing review of the portfolio of loan and commitments, and evaluation of credit risk related to certain individual borrowers. Management considers the allowance for loan losses adequate to cover losses inherent in loans and loan commitments. However, because of uncertainties associated with these judgments and assumptions, it is reasonably possible that management's estimate of credit losses inherent in the loan portfolio and the related allowance may change materially in the near-term. The allowance is increased or decreased by the provision (recapture) for loan losses, which is charged to expense and reduced by charge-offs, net of recoveries. The loan loss reserve was estimated at 9.23% and 9.62% as of September 30, 2014 and 2013, respectively.

The allowance for loan losses is reported separately for current and non-current portions of the loans receivable based on a pro-rata allocation made using the ratio of the corresponding outstanding principal balances of the respective notes receivable.

h. Investments

Investments in marketable securities are carried at fair values based on quoted market prices. Investments in limited liability companies are stated at fair value based on management's estimate.

Investment purchases and sales are accounted for on a trade-date basis. Realized gains and losses are calculated based upon the underlying cost of individual lots. Interest income is recorded when earned and dividends are recorded on the ex-dividend date.

# Northern California Community Loan Fund

## Notes to Financial Statements

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Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain long-term investments, it is reasonably possible that changes in the values of these investments will occur in the near term and that such changes could materially affect the amounts reported in the statements of financial position.

i. Fair Value Measurements

NCCLF classifies its assets and liabilities measured at fair value on a recurring basis based on a fair value hierarchy with three levels of inputs. Level 1 values are based on unadjusted quoted prices in active markets for identical securities. Level 2 values are based on significant observable market inputs, such as quoted prices for similar securities and quoted prices in inactive markets. Level 3 values are based on significant unobservable inputs that reflect NCCLF's determination of assumptions that market participants might reasonably use in valuing the securities. The valuation levels are not necessarily an indication of the risk or liquidity associated with the assets and liabilities measured at fair value.

j. Properties Held For Sale

Real property held for sale can be acquired either via foreclosure proceedings or via the borrower's signing over the deed to the property. These properties are recorded at the lower of the adjusted carrying amount at the time the property is acquired or fair value. Fair value is determined based upon the estimated net realizable value of the underlying collateral less the estimated costs to sell.

k. Property and Equipment

Property and equipment are stated at cost, if purchased, or, at approximate fair value, if donated. Depreciation is computed using the straight-line method, over the estimated useful lives of the assets, which range from three to five years. Depreciation expense during 2014 and 2013 was \$18,302 and \$20,659, respectively.

l. Subordinate Notes Payable

Subordinate notes payable are subordinated promissory notes with a rolling term (maturity) feature that lenders are classifying as Equity Equivalent Investments (EQ2). EQ2's are unique to the CDFI industry. They were created as a mechanism for not-for-profit CDFI's to acquire equity-like capital.

m. Below Market Interest Rate Loans

Accounting principles generally accepted in the United States of America require not-for-profit organizations to record interest expense (income) and contribution revenue (expense) in connection with loans that are interest free or that have below market interest rates. The Loan Fund believes there is no material difference between prevailing community development finance market rates and the stated rates of loans receivable in its portfolios, notes payable or other liabilities. Consequently, no adjustments have been made to the financial statements to reflect rate differentials.

# Northern California Community Loan Fund

## Notes to Financial Statements

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n. Income Taxes

NCCLF is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and the related California code sections.

With few exceptions, NCCLF continues to remain subject to examination by U.S. Federal authorities for tax years 2011 through 2013 and for California state authorities for tax years 2010 through 2013.

o. Functional Expenses Allocation

The costs of providing program services and supporting services are summarized on a functional basis in the Statement of Activities and Statement of Functional Expenses. Accordingly, certain costs are allocated among program services and supporting services based on the estimates of employees' time incurred and on usage of resources.

p. Funds Held in Trust

NCCLF receives and distributes assets under certain intermediary arrangements. NCCLF holds such funds as funds held in trust. Distributions of such funds are managed by NCCLF according to the guidelines of the specific programs. These funds are invested in money market accounts.

q. Recent Accounting Pronouncements

*Adopted*

In October 2012, the Financial Accounting Standards Board (FASB) issued the Accounting Standards Update (ASU) No. 2012-05 – Statement of Cash Flows (Topic 230) *Not-for-Profit Entities – Classifications of the Sale Proceeds of Donated Financial Assets in the Statement of Cash Flows*. The update requires a not-for-profit entity to classify sale proceeds of donated financial assets consistent with cash donations as an operating activity, if such assets were converted nearly immediately into cash, unless the donor restricted the use of the proceeds to long-term purposes, in which case those cash receipts should be classified as a financing activity. If those assets were not immediately converted to cash, the proceeds upon sale should be classified as an investing activity. This guidance is effective prospectively for annual periods, beginning after June 15, 2013.

# Northern California Community Loan Fund

## Notes to Financial Statements

In April 2013, the FASB issued ASU No. 2013-06, *Not-for-Profit Entities (Topic 958) - Services Received from Personnel of an Affiliate*. The amendments in this ASU require a recipient not-for-profit entity to recognize all services received from personnel of an affiliate that directly benefit the recipient not-for-profit entity. Those services should be measured at the cost recognized by the affiliate for the personnel providing those services. However, if measuring a service received from personnel of an affiliate at cost will significantly overstate or understate the value of the service received, the recipient not-for-profit entity may elect to recognize that service received at either: (a) the cost recognized by the affiliate for the personnel providing that service or; (b) the fair value of that service. This guidance is effective prospectively for annual periods, beginning after June 15, 2014.

NCCLF does not believe that the adoption of this update will have a material impact on its financial statements.

r. Subsequent Events:

Management has evaluated events and transactions for the period of time from September 30, 2014 through January 14, 2015, the date the financial statements were available to be issued, and has determined that, with the exception of a matter discussed below there were no material subsequent events that required recognition or disclosure.

### Note 3 - Cash and Cash Equivalents and Investments - Loan Fund:

Cash and cash equivalents and investments at September 30, are designated for the following purposes:

	2014	2013
Undisbursed to closed loans (Note 7)	\$ 1,561,436	\$ 4,507,837
Committed loans (Note 7)	4,575,000	2,650,000
Liquidity reserves	6,954,942	5,895,443
Available for lending	7,527,091	3,384,969
	<hr/>	<hr/>
	\$ 20,618,469	\$ 16,438,249

	2014	2013
Cash and cash equivalents	\$ 6,610,650	\$ 4,987,551
Investments	14,007,819	11,450,698
	<hr/>	<hr/>
	\$ 20,618,469	\$ 16,438,249



# Northern California Community Loan Fund

## Notes to Financial Statements

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### Note 4 - Funds Held In Trust:

*Greater Oakland Fund* consists of funds from foundation sources. It makes both grants and loans to nonprofit affordable housing developers and nonprofit organizations engaging in projects that aim to revitalize targeted low-income neighborhoods in Oakland. The fund provides both non-recoverable site characterization grants and recoverable pre-development grants to enable the organizations to explore the project feasibility. If a project proceeds with construction, the recoverable pre-development grant is repaid through construction financing and returned to the grant pool for use in future projects.

NCCLF manages other small targeted grant pools for varying purposes. NCCLF underwrites grants for these pools in accordance with the conditions imposed by the original source of the funds. NCCLF also disburses, monitors and reports on these grants.

A summary of activity in these programs at September 30, is as follows:

	2014	2013
Funds held in trust, beginning of year	\$ 1,397,319	\$ 1,474,481
Grant funds recovered		7,500
Grants disbursed	(371,569)	(50,000)
Interest income	636	709
Program administration		(35,371)
<u>Funds held in trust, end of year</u>	<u>\$ 1,026,386</u>	<u>\$ 1,397,319</u>

# Northern California Community Loan Fund

## Notes to Financial Statements

**Note 5 - Investments:**

At September 30, investments are stated at fair value and consist of the following:

	2014		2013	
	Cost	Fair Value	Cost	Fair Value
Certificates of deposit	\$ 703,623	\$ 703,623	\$ 700,260	\$ 700,260
Equity mutual funds	5,447,821	5,491,495	1,950,000	2,687,517
Fixed Income mutual funds	1,860,404	1,847,276	1,690,715	1,674,082
U.S Treasury notes and bonds	1,419,163	1,396,849	2,083,712	2,063,998
Government-sponsored securities	3,089,500	2,962,978	2,481,775	2,245,426
Corporate bonds	4,504,417	4,388,548	3,037,711	3,002,591
Mortgage backed securities	1,248,940	1,272,059	2,265,060	2,259,198
Investment in limited liability companies	13,100	8,405	7,100	7,043
Federal Home Loan Bank Stock	215,400	222,186		
	<b>\$ 18,502,368</b>	<b>\$ 18,293,419</b>	<b>\$ 14,216,333</b>	<b>\$ 14,640,115</b>

For the year ended September 30, interest and investment income consist of the following:

	2014	2013
Interest and dividends - investments	\$ 493,049	\$ 448,926
Interest from loans receivable	1,645,489	1,452,561
	2,138,538	1,901,487
Less interest expense on loans payable	(773,522)	(643,157)
	1,365,016	1,258,330
Net realized (loss) gain	(40,965)	73,929
Net unrealized gain (loss)	281,372	(178,130)
	<b>\$ 1,605,423</b>	<b>\$ 1,154,129</b>

NCCLF's investments are made in accordance with an investment policy that has been approved by the Board of Directors. The Finance Committee monitors the investment strategy and portfolio performance on an ongoing basis and provides regular updates to the Board of Directors.

# Northern California Community Loan Fund

## Notes to Financial Statements

**Note 6 - Fair Value of Measurements:**

The table below summarizes NCCLF's assets measured at fair value at September 30, 2014 on a recurring basis:

	Level 1	Level 2	Level 3	Total
Investments (Note 5):				
Certificates of deposit	\$ 703,623			\$ 703,623
Equity mutual funds:				
Domestic	4,425,850			4,425,850
International	1,065,645			1,065,645
Fixed Income Mutual Funds	1,847,276			1,847,276
U.S. Treasury notes and bonds	1,396,849			1,396,849
Government-sponsored				
Securities	2,962,978			2,962,978
Corporate bonds:				
High grade	4,388,548			4,388,548
Mortgage backed securities:				
Fixed rate securities	1,256,800			1,256,800
Variable rate securities	15,259			15,259
Investment in limited liability				
companies			\$ 8,405	8,405
Federal Home Loan Bank				
Stock			222,186	222,186
Funds held in trust (Note 4):				
Money market funds	1,026,386			1,026,386
Properties held for sale (Note 12)		\$ 435,939		435,939
	\$ 19,089,214	\$ 435,939	\$ 230,591	\$ 19,755,744

# Northern California Community Loan Fund

## Notes to Financial Statements

The table below summarizes NCCLF's assets measured at fair value at September 30, 2013 on a recurring basis:

	Level 1	Level 2	Level 3	Total
Investments (Note 5):				
Certificates of deposit	\$ 700,260			\$ 700,260
Equity mutual funds:				
Domestic	1,385,714			1,385,714
International	1,301,803			1,301,803
Fixed Income Mutual Funds	1,674,082			1,674,082
U.S. Treasury notes and bonds	2,063,998			2,063,998
Government-sponsored				
Securities	2,245,426			2,245,426
Corporate bonds:				
High grade	3,002,591			3,002,591
Mortgage backed securities:				
Fixed rate securities	2,124,901			2,124,901
Variable rate securities	134,297			134,297
Investment in limited liability				
companies			\$ 7,043	7,043
Funds held in trust (Note 4):	1,397,319			1,397,319
Money market funds				
Properties held for sale (Note 12)		\$ 435,939		435,939
	\$ 16,030,391	\$ 435,939	\$ 7,043	\$ 16,473,373

# Northern California Community Loan Fund

## Notes to Financial Statements

The changes in investments classified as Level 3 are as follows for the year ended September 30:

2014	<u>Beginning Balance</u>	<u>Purchase</u>	<u>Change in Value</u>	<u>Ending Balance</u>
<b>Assets:</b>				
Investment in limited liability companies	\$ 7,043	\$ 6,100	\$ (4,738)	\$ 8,405
Federal home loan bank stock	-	217,459	4,728	222,186
	<u>\$ 7,043</u>	<u>\$223,558</u>	<u>\$ (10)</u>	<u>\$ 230,591</u>
2013	<u>Beginning Balance</u>	<u>Purchase</u>	<u>Change in Value</u>	<u>Ending Balance</u>
<b>Assets:</b>				
Investment in limited liability companies	\$ 6,488	\$ 600	\$ (45)	\$ 7,043
	<u>\$ 6,488</u>	<u>\$ 600</u>	<u>\$ (45)</u>	<u>\$ 7,043</u>

### Other Financial Instruments

Financial instruments included in NCCLF's Statement of Financial Position as of September 30, 2014 and 2013 which are not required to be measured at fair value on a recurring basis include cash and cash equivalents, contributions and other receivables, accounts payable and accrued expenses including accrued interest payable and liability for the funds held in trust. The carrying values of these instruments approximate their fair value due to the short maturity of these instruments.

Management believes that the carrying values of the loans receivable and notes payable including related receivable and payable for accrued interest are not materially different from estimates of the corresponding fair values.

# Northern California Community Loan Fund

## Notes to Financial Statements

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### Note 7 - Loans Receivable and Allowance for Loan Losses:

Loans receivable at September 30, are summarized as follows:

	2014	2013
Total loans receivable	\$ 27,831,514	\$ 25,410,529
Less allowance for loan losses	(2,569,432)	(2,443,482)
<hr/>		
	25,262,082	22,967,047
Less current portion, net of allowance for loan losses	(5,688,987)	(4,379,480)
<hr/>		
Long-term portion, net of allowance for loan losses	\$ 19,573,095	\$ 18,587,567

At September 30, 2014, loans receivables, net of allowance for loan losses, consist of secured and unsecured notes with interest rates ranging from 3% to 8%.

Annual maturities of notes receivable are as follows:

Year ending	
September 30,	
2015	\$ 6,456,530
2016	3,784,539
2017	1,987,621
2018	4,569,167
2019	2,903,721
Thereafter	8,102,936
<hr/>	
	\$ 27,831,514

# Northern California Community Loan Fund

## Notes to Financial Statements

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	2014	2013
Loans by type:		
Affordable/supportive housing	\$ 7,091,757	\$ 7,149,317
Community facilities	20,323,011	17,713,837
Economic development	416,746	547,375
	<hr/>	<hr/>
	\$ 27,831,514	\$ 25,410,529

### Loan Origination/Risk Management

NCCLF has certain lending policies and procedures in place that are designed to provide financing capital within an acceptable level of risk. Management reviews these policies and procedures on a regular basis. The Board of Directors and the Loan Committee approve any changes to these policies. A reporting system supplements the review process by providing management and board members with frequent reports related to loan quality, concentrations of credit, loan delinquencies, and non-performing and potential problem loans. Diversification in the loan portfolio is a means of managing risk associated with fluctuations in economic conditions.

### Age Analysis of Past Due Loans

The following table represents an aging of loans as of September 30, respectively:

	2014	2013
30 – 59 days past due	\$ -	\$ -
60 – 89 days past due	-	-
90+ days past due and still accruing	-	102,842
Non-accrual	905,809	905,809
	<hr/>	<hr/>
Total past due	905,809	1,008,651
Current	26,925,705	24,401,878
	<hr/>	<hr/>
Total loans	\$ 27,831,514	\$ 25,410,529

# Northern California Community Loan Fund

## Notes to Financial Statements

### Credit Quality

As part of the on-going monitoring of the credit quality of NCCLF's portfolio, management classifies loans into risk categories based on relevant information about the ability of borrowers to service their debt and comply with various terms of their loan agreements. NCCLF considers current financial information, historical payment experience, collateral value, credit documentation, public information and current economic trends. All loans are reviewed each quarter and more frequently if necessary in order to monitor and adjust, if necessary, the loan's risk profile.

The following definitions summarize the basis for each classification:

**Strong/Acceptable** – The loan is adequately protected by the current worth and paying capacity of the borrower (or guarantors, if any) or by the fair value, less cost to acquire and sell, of any collateral in a timely manner.

**Watch** – A loan that has potential weaknesses and requires closer monitoring by management. If left uncorrected, performance may result in deterioration of the repayment prospects for the loan or in NCCLF's credit position at some future date. Watch loans are not adversely classified and do not expose NCCLF to sufficient risk to warrant adverse classification.

**Substandard** – A loan with definite weaknesses puts that repayment at risk. These loans may be inadequately protected by the current sound worth and paying capacity of the borrower or of the collateral pledged. These loans are characterized by the possibility that NCCLF will sustain some loss or principal and/or interest if the risks are not addressed.

**Doubtful** – A loan that has weaknesses similar to the substandard category with the added risk that the weaknesses make collection in full, on the basis of currently known facts, conditions and values, highly questionable and improbable. The possibility of loss is extremely likely, but it is not identified presently due to pending factors.

The following table summarizes the loan portfolio and the internally assigned credit quality ratings for those categories at September 30, respectively.

	2014	2013
Strong/acceptable	\$ 25,812,577	\$ 23,293,377
Watch	1,113,128	1,211,343
Substandard		734,074
Doubtful	905,809	171,735
<b>Total loans</b>	<b>\$ 27,831,514</b>	<b>\$ 25,410,529</b>



# Northern California Community Loan Fund

## Notes to Financial Statements

### Allowance for loan losses

Changes in the allowance for loan losses for the years ended September 30, are as follows:

	2014	2013
Beginning balance	\$ 2,443,482	\$ 2,086,388
Provision for loan losses	125,950	357,094
<u>Ending Balance</u>	<u>\$ 2,569,432</u>	<u>\$ 2,443,482</u>

Information about nonaccrual loans as of and for the years ended September 30, is summarized as follows:

	2014	2013
Loans on non-accrual status	\$ 905,809	\$ 905,809
Allowance related to loans on non-accrual status	(905,809)	(722,291)
<u>Net investment in loans on non-accrual status</u>	<u>\$ -</u>	<u>\$ 183,518</u>

As of September 30, 2014 and 2013, these loans were on non-accrual status while NCCLF partnered with the respective borrowers on plans to bring the loans current.

### Troubled Debt Restructuring

A troubled debt restructuring is a loan where NCCLF granted a concession that we would not otherwise consider but for the borrower's financial difficulties. Once a loan is modified as a troubled debt restructure it remains in that category until such time as it is repaid or charged-off.

Troubled debt restructures during the years ended September 30, 2014 and September 30, 2013 were \$662,265 and \$0, respectively.

# Northern California Community Loan Fund

## Notes to Financial Statements

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Information about troubled debt restructures as of and for the years ended September 30, 2014 and 2013 is summarized as follows:

	2014	2013
<u>Balance of loans restructured during previous years</u>	<u>\$ 1,875,863</u>	<u>\$ 1,380,079</u>

### Commitments to Extend Credit

In the normal course of business to meet the financing needs of its borrowers NCCLF is a party to commitments to extend credit. Those instruments involve, to varying degrees, elements of credit, liquidity and interest rate risk in excess of the amount recognized in the accompanying statement of financial position. NCCLF uses the same credit policies in making commitments to extend credit as it does for extension of credits reflected on the statement of financial position. NCCLF's exposure to credit loss in the event of nonperformance by the other party for commitments to extend credit is represented by the contractual amount of those instruments. Commitments to extend credit include new loan commitments, line of credit and construction loan agreements to lend to a borrower as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses. Since some of the commitments may expire without being fully drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

At September 30, 2014, NCCLF had a total of \$6,136,436 in loan commitments that had not yet been disbursed. These undisbursed loan commitments included four revolving lines of credit with a total undrawn balance of \$422,873 and thirteen predevelopment, acquisition, construction or equipment loans (or interest reserves related thereto) totaling \$1,138,563.

NCCLF evaluates each borrower's creditworthiness on a case-by-case basis. The amount of collateral obtained, if any, is based on management's credit evaluation of the borrower.

# Northern California Community Loan Fund

## Notes to Financial Statements

### Note 8 - Notes Payable:

Notes payable at September 30, 2014 and 2013 are as follows:

	2014	2013
To public and private foundations, at annual interest rates of 1% to 3%, unsecured notes mature in 2015 to 2021.	\$ 6,174,666	\$ 5,943,000
To health system organizations, at annual interest rates of 2.25% to 3%, unsecured, notes mature in 2015 to 2019.	4,450,000	4,450,000
To financial institutions, at annual interest rates of 0% to 3%, unsecured, notes mature in 2015 to 2023.	13,525,000	10,541,661
To other organizations, at annual interest rates of 0% to 2.75%, unsecured, notes mature in 2015 to 2019.	693,000	365,000
To religious organizations, at annual interest rates of 0% to 3%, unsecured, notes mature in 2015 to 2020.	2,420,000	1,675,000
To individuals and trusts, at annual interest rates of 0% to 3.75%, unsecured, notes mature in 2015 to 2024.	7,262,045	6,252,549
To government entity at a rate of 2% unsecured, note matures in 2016.	250,000	250,000
	34,774,711	29,477,210
Less subordinate notes payable	(1,600,000)	(2,100,000)
Less current portion	(7,309,071)	(6,845,169)
Notes payable, net of current portion	\$ 25,865,640	\$ 20,532,041

# Northern California Community Loan Fund

## Notes to Financial Statements

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Annual maturities of notes payable are as follows:

Year ending	
September 30,	
2015	\$ 7,309,071
2016	8,509,050
2017	3,772,946
2018	3,158,820
2019	4,518,324
Thereafter	7,506,500
	<hr/>
	\$ 34,744,711

Certain loan agreements contain restrictive financial covenants that require, among other things, maintenance of minimum amounts and ratios of liquidity, net assets, net income, delinquent loans and loss reserves. There are also various reporting requirements. As of September 30, 2014, NCCLF was in compliance with all financial covenants to which it was subject.

At September 30, 2014, NCCLF had a total of \$2,750,000 of available and committed funds that had not yet been borrowed. These commitments included notes payable agreements with two financial institutions and a private foundation.

Subordinate notes payable to financial institutions have an indeterminate maturity, as long as no default event occurs as described in the agreements. The notes bear interest from 0% to 2% per annum, and are unsecured and subordinate to all other liabilities.

### Note 9 - Lease Commitment:

NCCLF leases its office facility under a non-cancellable operating lease, which expires on November 30, 2019. The following represents the future minimum lease payments:

Year ending	
September 30,	
2015	\$ 255,113
2016	268,192
2017	276,092
2018	312,038
2019	326,240
2020	54,616
	<hr/>
	\$ 1,492,291

# Northern California Community Loan Fund

## Notes to Financial Statements

Rental expense for the year ended September 30, 2014 and 2013 amounted to \$213,816 and \$203,595, respectively.

### Note 10 - Unrestricted Net Assets Set Aside by Board of Directors:

As of September 30, 2014, the Board of Directors of NCCLF has designated \$2,375,000 of unrestricted net assets to be earmarked for six-month operating reserves and future program development. The Board of Directors has also designated \$750,000 of unrestricted net assets to increase the capital reserve for the loan fund.

### Note 11 - Temporarily Restricted Net Assets:

For the year ended September 30, NCCLF received temporarily restricted contributions for the following purposes:

	2014	2013
Consulting	\$ 255,000	\$ 80,000
Lending	10,000	20,000
Flexible leadership awards	-	-
General operations	-	-
New program development	70,000	55,000
	<hr/>	<hr/>
	\$ 335,000	\$ 155,000

Net assets were released from restrictions by incurring expenditures satisfying the restricted purposes, or by occurrences of other events specified by donors, as follows:

	2014	2013
Consulting	\$ 69,167	\$ 175,000
Lending	-	30,000
Flexible leadership awards	8,050	18,279
General operations	-	-
New program development	75,000	70,000
	<hr/>	<hr/>
	\$ 152,217	\$ 293,279

# Northern California Community Loan Fund

## Notes to Financial Statements

Temporarily restricted net assets at September 30, 2014 and 2013 were available for the following purposes:

	2014	2013
Consulting	\$ 194,166	\$ 8,333
Lending	10,000	-
Flexible leadership awards	18,420	26,470
General operations	-	-
New Program Development	50,000	55,000
	<hr/>	<hr/>
	\$ 272,586	\$ 89,803

### Note 12 - Real Property Held for Sale:

In 2008, NCCLF received a parcel of land from a borrower as a settlement for outstanding amounts owed to NCCLF in a foreclosure. Upon receipt of the title to the land, NCCLF relieved the borrower of \$567,877 of outstanding principal and interest. During 2009, NCCLF adjusted the carrying amount of land to reflect the present value of expected cash flows and recognized \$131,938 of impairment loss. There was no further impairment in the value of the land. Accordingly, at September 30, 2014 and 2013, this land is valued at \$435,939.

### Note 13 - Retirement Plan:

NCCLF's employees participate in a 403(b) defined contribution plan (the "Plan"). Employees are eligible to contribute to the Plan on their dates of hire. NCCLF's contributions, which cover employees who complete six months of service, are discretionary. Employees' contributions are fully vested at all times, whereas NCCLF's contributions vest in three years. NCCLF contributed \$100,620 and \$87,448 for the years ended September 30, 2014 and 2013, respectively.

### Note 14 - Related Party Transactions:

NCCLF operates a revolving loan fund that provides socially motivated investors with an opportunity to be part of the NCCLF's mission to help nonprofit organizations provide affordable housing, essential community facilities and vital human services. Qualified institutions and individuals invest in the form of fixed rate loans. NCCLF aggregates these loans into a capital pool which NCCLF uses to finance appropriate community and economic development projects.

# Northern California Community Loan Fund

## Notes to Financial Statements

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The president and several members of the board of directors chose to support NCCLF's mission by lending money to the organization's capital pool, which are included in notes payable in the accompanying financial statements. These loans were accepted on terms that conform to NCCLF's standard policies for accepting loans into the investment pool.

The total outstanding loans that were received from board members, advisory board members and institutions with which they are affiliated are \$3,614,000 and \$2,505,661 as of September 30, 2014 and 2013, respectively.

The loans extended by NCCLF from the capital pool to finance appropriate community and economic development projects include loans to organizations that have connections with the members of the Board of Directors. These loans were made on terms that conform to NCCLF's standard lending policies.

The total outstanding loans that were made to organizations with which board members or advisory board members are affiliated are \$0 and \$1,401,443 as of September 30, 2014 and 2013, respectively.

Such transactions are subject to NCCLF's conflict of interest policy and each loan received or made by the NCCLF is reviewed in advance for any potential conflict of interest or legal issues. As such, Board members are required to disclose potential conflicts of interest annually and throughout the year as circumstances change. Board members are also required to recuse themselves from voting on transactions on which they may be potentially conflicted.

### **Note 15 - New Markets Tax Credit Program:**

As of September 30, 2014, NCCLF had received New Market Tax Credit Program (Program) allocations totaling \$113,000,000 of which \$33,000,000 was received during the fiscal year 2014. The Program is administered by the Community Development Financial Institutions (CDFI) Fund pursuant to Section 45D of the Internal Revenue Code. In accordance with the terms of the Program, NCCLF formed 12 for-profit entities to obtain Qualified Equity Investments (QEIs) from investors to make qualified investments into Qualified Active Low-Income Community Businesses (QALICBs).

During 2014, NCCLF NMTC Sub-allocated \$8,500,000 of its allocation to Northern California Community Loan Fund NMTC Sub-CDE VII, LLC (NCCLF NMTC Sub-CDE VII), and the operating agreement of NCCLF NMTC Sub-CDE VII was amended to admit an investor member making a \$8,500,000 QEI. NCCLF serves as the Managing Member with a .01% interest and the Investor Member has a 99.99% interest. On March 12, 2014, NCCLF NMTC Sub-CDE VII used substantially all of the proceeds of the QEI to make a loan to one QALICB in the amount of \$8,245,000.

# Northern California Community Loan Fund

## Notes to Financial Statements

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During 2014, NCCLF NMTC Sub-allocated \$5,500,000 of its allocation to Northern California Community Loan Fund NMTC Sub-CDE VIII, LLC (NCCLF NMTC Sub-CDE VIII), and the operating agreement of NCCLF NMTC Sub-CDE VIII was amended to admit an investor member making a \$5,500,000 QEI. NCCLF serves as the Managing Member with a .01% interest and the Investor Member has a 99.99% interest. On December 18, 2013, NCCLF NMTC Sub-CDE VIII used substantially all of the proceeds of the QEI to make a loan to one QALICB in the amount of \$5,335,000.

During 2013, NCCLF NMTC Sub-allocated \$6,000,000 of its allocation to Northern California Community Loan Fund NMTC Sub-CDE VI, LLC (NCCLF NMTC Sub-CDE VI), and the operating agreement of NCCLF NMTC Sub-CDE VI was amended to admit an investor member making a \$6,000,000 QEI. NCCLF serves as the Managing Member with a .01% interest and the Investor Member has a 99.99% interest. On September 17, 2013, NCCLF NMTC Sub-CDE VI used substantially all of the proceeds of the QEI to make a loan to one QALICB in the amount of \$5,820,000.

NCCLF Sub-CDE I, II, III, IV, V, VI, VII & VIII have been identified as variable interest entities (VIEs) in accordance with the FASB ASC Topic 810-10-05, *Consolidation of Variable Interests Entities* (ASC 810). VIEs are defined as entities with a level of invested equity that is not sufficient to fund future activities to permit them to operate on a stand-alone basis or whose equity holders lack certain characteristics of a controlling financial interest. ASC 810 sets forth a module to evaluate potential consolidation based on an assessment of which party to the VIE, if any, bears a majority of the exposure to expected losses, or stands to gain from a majority of its expected returns. Additionally, NCCLF has determined that it is not the primary beneficiary of the NCCLF Sub-CDEs I, II, III, IV, V, VI, VII & VIII; and, accordingly, has not consolidated these entities. For its participation in establishing and managing NCCLF Sub-CDEs I, II, III, IV, V, VI, VII & VIII NCCLF earned upfront fees of approximately \$769,767 and \$455,667 for the years ended September 30, 2014 and 2013, respectively.

Terms of the operating agreements require NCCLF to maintain certain covenants to avoid recapture of New Markets Tax Credits (NMTC). At September 30, 2014 and 2013, NCCLF has been in compliance with all covenants that would cause a recapture of NMTC and management expects NCCLF to be in compliance throughout the seven-year life of each NMTC.



# Northern California Community Loan Fund

## Schedule of Expenditures of Federal Awards

*Year Ended September 30, 2014*

Federal Grantor/Pass-through Grantor Program Title	Federal CFDA Number	Agency or Pass-through Grantor's Identifying Number	Federal Expenditures
<b>Direct Federal Program Assistance-</b>			
<b><u>U.S. Department of Treasury:</u></b>			
Community Development Financial Institution Institution Financial Assistance	21.020	131FA011512	\$ 1,010,250
Community Development Financial Institution Institution Financial Assistance	21.020	111FA010159	133,117
Total U.S. Department of Treasury			1,143,367
<b><u>U.S. Department of Housing and Urban Development:</u></b>			
Community Development Block Grants (CDBG): Passed through: City of San Francisco, Mayor's Office of Housing	14.218	35603	40,252
Passed through: City of San Francisco Mayor's Office of Housing	14.218	35795	95,228
Total U.S. Department of Housing and Urban Development:			135,480
Total Federal Assistance			\$ 1,278,847

**Note 1 - Basis of Presentation:**

The Schedule of Expenditures of Federal Awards includes federal grant activity of Northern California Community Loan Fund and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

**Note 2 - Loans Deployed in Prior Years for which Continuing Compliance is Required:**

As of September 30, 2014 NCCLF had made two loans totalling \$1,660,851 for which continuing compliance is required through the years ending September 30, 2015 and September 30, 2016.



**Independent Auditors' 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***

THE BOARD OF DIRECTORS  
NORTHERN CALIFORNIA COMMUNITY LOAN FUND  
San Francisco, California

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 **NORTHERN CALIFORNIA COMMUNITY LOAN FUND (NCCLF)**, which comprise the statement of financial position as of September 30, 2014 and 2013, and the related statements of activities and changes in net assets, functional expenses and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated January 14, 2015.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered NCCLF'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 NCCLF's internal control. Accordingly, we do not express an opinion on the effectiveness of NCCLF'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 the entity'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.

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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.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether NCCLF's financial statements are free of 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 the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Hood & Strong LLP

San Francisco, California  
January 14, 2015



**Independent Auditors' Report  
on Compliance with Each Major Program; Report on Internal Control  
over Compliance in Accordance with OMB Circular A-133**

THE BOARD OF DIRECTORS  
NORTHERN CALIFORNIA COMMUNITY LOAN FUND  
San Francisco, California

**Report on Compliance for Each Major Federal Program**

We have audited the **NORTHERN CALIFORNIA COMMUNITY LOAN FUND's (NCCLF)** compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of NCCLF's major federal programs for the year ended September 30, 2014. NCCLF's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of NCCLF's major federal programs 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 OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 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 NCCLF'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 each major federal program. However, our audit does not provide a legal determination of NCCLF's compliance.

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## **Opinion on Each Major Federal Program**

In our opinion, NCCLF complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2014.

## **Report on Internal Control Over Compliance**

Management of NCCLF 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 NCCLF's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 NCCLF'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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*Hood & Strong LLP*

San Francisco, California  
January 14, 2015

# Northern California Community Loan Fund

## Schedule of Findings and Questioned Costs Year Ended September 30, 2014

### I. SUMMARY OF INDEPENDENT AUDITORS' RESULTS

#### Financial Statements

Type of auditors' report issued: *Unmodified*

	Yes	No
Internal control over financial reporting:		
Material weakness(es) identified?		X
Significant deficiency(ies) identified that are not considered to be a material weakness?	None reported	
Noncompliance material to financial statements noted?		X

#### Federal Awards

Internal control over major programs:

Material weakness(es) identified?		X
Significant deficiency(ies) identified that are not considered to be a material weakness(es)?	None reported	

Type of auditors' report issued on compliance for major programs: *Unmodified*

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?		X
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Identification of major program:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
21.020	U.S. Department of Treasury – Community Development Financial Institution – Financial Assistance Grants

Dollar threshold used to distinguish between type A and type B programs: *\$300,000*

Auditee qualified as low-risk auditee?		X
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# **Northern California Community Loan Fund**

## **Schedule of Findings and Questioned Costs Year Ended September 30, 2014**

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### **II. FINANCIAL STATEMENT FINDINGS**

None.

### **III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

None.

# **Northern California Community Loan Fund**

## **Summary Schedule of Prior Audit Findings Year Ended September 30, 2013**

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There were no findings or questioned costs for the year ended September 30, 2013.