

NORTHERN CALIFORNIA  
COMMUNITY LOAN FUND

SEPTEMBER 30, 2015 AND 2014

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INDEPENDENT AUDITORS' REPORT

AND

FINANCIAL STATEMENTS

# Northern California Community Loan Fund

## Independent Auditors' Report and Financial Statements

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<b>Independent Auditors' Report</b>	1 - 2
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### **Financial Statements**

Statement of Financial Position	3
Statement of Activities	4
Statement of Functional Expenses	5 - 6
Statement of Cash Flows	7
Notes to Financial Statements	8 - 29

## **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, 2015 and 2014, 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. 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 NCCLF'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, 2015 and 2014, 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.

Hood & Strong LLP

San Francisco, California  
January 19, 2016

# Northern California Community Loan Fund

## Statement of Financial Position

September 30, 2015 and 2014

	2015			2014		
	General Fund	Loan Fund	Total	General Fund	Loan Fund	Total
<b>Assets</b>						
<b>Current Assets:</b>						
Cash and cash equivalents (Note 3)	\$ 2,370,263	\$ 7,993,370	\$ 10,363,633	\$ 1,512,846	\$ 6,610,650	\$ 8,123,496
Funds held in trust (Note 4)	1,259,243		1,259,243	1,026,386		1,026,386
Contributions receivable	50,000		50,000	100,000		100,000
Accrued interest and other receivables	528,588		528,588	477,779		477,779
Prepaid expenses	117,000		117,000	126,397		126,397
Investments (Notes 3 and 5)	3,554,705	15,033,302	18,588,007	4,251,977	14,007,819	18,259,796
Loans receivable - current portion, net of allowance for loan loss of \$489,610 and \$767,543 (Note 7)		6,027,552	6,027,552		5,688,987	5,688,987
Total current assets	7,879,799	29,054,224	36,934,023	7,495,385	26,307,456	33,802,841
<b>Loans Receivable</b> - long-term portion, net of allowance for loan loss of \$2,698,695 and \$1,801,889 (Note 7)		21,914,935	21,914,935		19,573,095	19,573,095
<b>Deposits</b>	22,619		22,619	13,691		13,691
<b>Properties Held for Sale</b> (Note 12)		435,939	435,939		435,939	435,939
<b>Property and Equipment, net</b>	48,477		48,477	33,412		33,412
Total assets	\$ 7,950,895	\$ 51,405,098	\$ 59,355,993	\$ 7,542,488	\$ 46,316,490	\$ 53,858,978
<b>Liabilities and Net Assets</b>						
<b>Current Liabilities:</b>						
Accounts payable and accrued expenses	\$ 454,904	\$ 115,952	\$ 570,856	\$ 308,596	\$ 5,525	\$ 314,121
Accrued interest payable	282,232	248	282,480	261,176	420	261,596
Deferred revenue and other liabilities	411,750		411,750	695,204		695,204
Funds held in trust (Note 4)	1,259,243		1,259,243	1,026,386		1,026,386
Notes payable - current portion (Note 8)		10,172,504	10,172,504		7,309,071	7,309,071
Total current liabilities	2,408,129	10,288,704	12,696,833	2,291,362	7,315,016	9,606,378
<b>Notes Payable</b> , net of current portion (Note 8)		26,501,594	26,501,594		25,865,640	25,865,640
<b>Subordinate Notes Payable</b> (Note 8)		2,600,000	2,600,000		1,600,000	1,600,000
Total liabilities	2,408,129	39,390,298	41,798,427	2,291,362	34,780,656	37,072,018
<b>Net Assets:</b>						
Unrestricted:						
Board designated (Note 10)	2,650,000	750,000	3,400,000	2,375,000	750,000	3,125,000
Undesignated	2,726,100	11,264,800	13,990,900	2,603,540	10,785,834	13,389,374
Total unrestricted	5,376,100	12,014,800	17,390,900	4,978,540	11,535,834	16,514,374
Temporarily restricted (Note 11)	166,666		166,666	272,586		272,586
Total net assets	5,542,766	12,014,800	17,557,566	5,251,126	11,535,834	16,786,960
Total liabilities and net assets	\$ 7,950,895	\$ 51,405,098	\$ 59,355,993	\$ 7,542,488	\$ 46,316,490	\$ 53,858,978

See accompanying notes to financial statements.

# Northern California Community Loan Fund

## Statement of Activities

*Years Ended September 30, 2015 and 2014*

	2015			2014		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
<b>Support and Revenue:</b>						
Contributions	\$ 1,487,813	\$ 165,000	\$ 1,652,813	\$ 737,050	\$ 335,000	\$ 1,072,050
Government awards	212,954		212,954	1,143,368		1,143,368
Interest and investment income, net of interest expense of \$790,079 and \$773,522 (Note 5)	1,740,026		1,740,026	1,365,016		1,365,016
Special event income - net of direct costs of \$0 and \$12,411			-	42,769		42,769
Net realized and unrealized (loss) gain on investments (Note 5)	(595,863)		(595,863)	240,407		240,407
Loan fees	297,664		297,664	117,760		117,760
New market tax credit program fees (Note 15)	1,476,463		1,476,463	769,767		769,767
Consulting and contract fees	1,099,719		1,099,719	644,150		644,150
In-kind contributions	201,517		201,517	152,286		152,286
Net assets released from restrictions (Note 11)	270,920	(270,920)	-	152,217	(152,217)	-
<b>Total support and revenue</b>	<b>6,191,213</b>	<b>(105,920)</b>	<b>6,085,293</b>	<b>5,364,790</b>	<b>182,783</b>	<b>5,547,573</b>
<b>Expenses:</b>						
Program services:						
Direct lending	1,984,147		1,984,147	1,194,378		1,194,378
New markets tax credits	510,136		510,136	468,841		468,841
Consulting and training	1,698,201		1,698,201	1,345,347		1,345,347
New program development	200,880		200,880	140,458		140,458
Capitalization	338,676		338,676	368,934		368,934
<b>Total program services</b>	<b>4,732,040</b>	<b>-</b>	<b>4,732,040</b>	<b>3,517,958</b>	<b>-</b>	<b>3,517,958</b>
Supporting services:						
Management and general	319,584		319,584	200,908		200,908
Fundraising	263,063		263,063	258,736		258,736
<b>Total supporting services</b>	<b>582,647</b>	<b>-</b>	<b>582,647</b>	<b>459,644</b>	<b>-</b>	<b>459,644</b>
<b>Total expenses</b>	<b>5,314,687</b>	<b>-</b>	<b>5,314,687</b>	<b>3,977,602</b>	<b>-</b>	<b>3,977,602</b>
<b>Change in Net Assets</b>	<b>876,526</b>	<b>(105,920)</b>	<b>770,606</b>	<b>1,387,188</b>	<b>182,783</b>	<b>1,569,971</b>
<b>Net Assets, beginning 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>
<b>Net Assets, end of year</b>	<b>\$ 17,390,900</b>	<b>\$ 166,666</b>	<b>\$ 17,557,566</b>	<b>\$ 16,514,374</b>	<b>\$ 272,586</b>	<b>\$ 16,786,960</b>

See accompanying notes to financial statements.

## Northern California Community Loan Fund

### Statement of Functional Expenses

*Year Ended September 30, 2015*

	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	\$ 834,901	\$ 365,830	\$ 1,209,525	\$ 131,931	\$ 209,563	\$ 2,751,750	\$ 205,349	\$ 213,609	\$ 3,170,708
Consultants and legal	159,261	44,968	248,273	44,956	9,675	507,133	43,692	4,820	555,645
Office	36,770	48,919	41,453	2,449	7,015	136,606	21,231	6,410	164,247
Rent (Note 9)	69,056	29,375	100,880	8,966	16,262	224,539	18,899	17,599	261,037
Travel and training	22,822	1,873	27,152	5,944	1,095	58,886	15,179	7,456	81,521
Outreach and marketing	15,868	3,081	14,746	1,094	3,706	38,495	4,232	3,407	46,134
License and fees	5,756	927	4,096	914	16,767	28,460	1,246	677	30,383
<b>Total operating expenses</b>	<b>1,144,434</b>	<b>494,973</b>	<b>1,646,125</b>	<b>196,254</b>	<b>264,083</b>	<b>3,745,869</b>	<b>309,828</b>	<b>253,978</b>	<b>4,309,675</b>
<b>Other Expenses:</b>									
Depreciation	6,207	2,640	9,069	803	1,462	20,181	1,699	1,582	23,462
Provision for loan losses	618,873					618,873			618,873
Property tax	11,160					11,160			11,160
Grants to other organizations	150,000					150,000			150,000
In-kind legal and technological services	53,473	12,523	43,007	3,823	73,131	185,957	8,057	7,503	201,517
<b>Total expenses</b>	<b>\$ 1,984,147</b>	<b>\$ 510,136</b>	<b>\$ 1,698,201</b>	<b>\$ 200,880</b>	<b>\$ 338,676</b>	<b>\$ 4,732,040</b>	<b>\$ 319,584</b>	<b>\$ 263,063</b>	<b>\$ 5,314,687</b>

See accompanying notes to financial statements.

## 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 Office	37,985	39,767	252,479	2,162	8,618	341,011	18,801	5,197	365,009
Rent (Note 9)	28,059	40,633	38,689	2,421	12,458	122,260	14,370	6,716	143,346
Travel and training	57,927	25,715	72,885	7,335	22,329	186,191	11,009	16,616	213,816
Outreach and marketing	23,484	1,113	14,587	6,059	1,344	46,587	10,792	8,260	65,639
License and fees	28,938	3,713	11,955	1,575	3,780	49,961	1,986	11,899	63,846
	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>

See accompanying notes to financial statements.

# Northern California Community Loan Fund

## Statement of Cash Flows

<i>Years Ended September 30,</i>	2015	2014
<b>Cash Flows from Operating Activities:</b>		
Change in net assets	\$ 770,606	\$ 1,569,971
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	23,462	18,302
Allowance for loan losses	618,872	125,950
Realized and unrealized losses (gains) on investments	595,863	(240,407)
Noncash contribution of notes payable		(500,500)
Changes in operating assets and liabilities:		
Contributions receivable	50,000	(100,000)
Accrued interest and other receivables	(50,809)	(143,669)
Prepaid expenses and deposits	469	(32,819)
Accounts payable and accrued expenses	256,735	14,065
Accrued interest payable	20,884	23,704
Funds held in trust	232,857	(370,933)
Deferred revenue and other liabilities	(283,454)	310,037
<b>Net cash provided by operating activities</b>	<b>2,235,485</b>	<b>673,701</b>
<b>Cash Flows from Investing Activities:</b>		
Purchases of investments	(4,313,295)	(11,228,168)
Proceeds from sale of investments	3,389,221	8,219,827
Loan disbursements to borrowers	(16,706,994)	(7,665,447)
Loan principal payments from borrowers	13,174,860	5,244,462
Acquisition of property and equipment	(38,527)	(14,899)
<b>Net cash used in investing activities</b>	<b>(4,494,735)</b>	<b>(5,444,225)</b>
<b>Cash Flows from Financing Activities:</b>		
Proceeds from notes payable	8,503,557	7,779,996
Repayments of notes payable	(4,004,170)	(1,981,995)
<b>Net cash provided by financing activities</b>	<b>4,499,387</b>	<b>5,798,001</b>
<b>Net Increase in Cash and Cash Equivalents</b>	<b>2,240,137</b>	<b>1,027,477</b>
<b>Cash and Cash Equivalents, beginning of year</b>	<b>8,123,496</b>	<b>7,096,019</b>
<b>Cash and Cash Equivalents, end of year</b>	<b>\$ 10,363,633</b>	<b>\$ 8,123,496</b>
<b>Supplemental Cash Flow Information:</b>		
Cash paid for interest during the year	\$ 769,023	\$ 750,494
<b>Noncash Information:</b>		
Notes payable converted to contributions	\$ -	\$ 500,500

See accompanying notes to financial statements.

# 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 promote economic justice and alleviate poverty by increasing the financial resilience and sustainability of community-based nonprofits and enterprises. Through flexible financial products and sound advice, we create opportunities to make socially responsible investments that revitalize Northern California communities. 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 five primary sectors: affordable housing, community facilities, human services, food enterprises, 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 Markets 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 2015, NCCLF received an NMTC allocation of \$45,000,000, as discussed in Note 15.

*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 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, 2015 and 2014, 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, 2015 and 2014, was \$50,000 and \$100,000, respectively.

At September 30, 2015 and 2014, NCCLF has conditional grants receivable of \$135,000 and \$360,000, respectively. 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, 2015, 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 2015 and 2014 was \$201,517 and \$152,286, 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 10.24% and 9.23% as of September 30, 2015 and 2014, 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 are stated at fair value, and the net unrealized appreciation or depreciation on investments is included in the change in net assets in the accompanying statement of activities. The values of debt and equity securities and mutual funds are based on their quoted market prices. Gains and losses that result from market fluctuations are recognized in the statement of activities in the period such fluctuations occur. Dividend and interest income are accrued when earned.

# Northern California Community Loan Fund

## Notes to Financial Statements

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i. Fair Value Measurements

NCCLF carries certain assets and liabilities at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

NCCLF classifies its financial assets and liabilities according to three levels, and maximizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value.

- Level 1 - Quoted market prices (unadjusted) in active markets for identical assets or liabilities that the entity has the ability to access at the measurement date.
- Level 2 - Observable inputs other than quoted prices included within Level 1 for the asset or liability, either directly or indirectly.
- Level 3 - Unobservable inputs for the asset or liability that are not corroborated by market data.

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 2015 and 2014 was \$23,462 and \$18,302, respectively.

# Northern California Community Loan Fund

## Notes to Financial Statements

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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). EQ2s are unique to the CDFI industry. They were created as a mechanism for not-for-profit CDFIs 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.

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 2012 through 2014 and for California state authorities for tax years 2011 through 2014.

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

*Pronouncements effective in the future*

In May 2015, the FASB issued ASU 2015-07, Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent). The amendments in this Update apply to reporting entities that elect to measure the fair value of an investment using the net asset value per share (or its equivalent) as a practical expedient.

# Northern California Community Loan Fund

## Notes to Financial Statements

Under Topic 820, a reporting entity is permitted, as a practical expedient, to estimate the fair value of certain investments using those investments' NAV per share. Prior to ASU 2015-07, these investments were categorized in the fair value hierarchy based on whether the investment was redeemable with the investee at net asset value on measurement date, never redeemable with the investee at net asset value, or redeemable with the investee at net asset value at a future date.

These criteria were different from the criteria used for all other investments. All other investments are categorized based on inputs to the fair value.

To alleviate inconsistencies in the categorization of investments within the hierarchy, ASU 2015-07 removes the requirement to categorize all investments for which fair value is measured using the net asset value per share practical expedient. The amendments also clarify that certain disclosure requirements are limited to investments for which the entity has elected to measure fair value using that practical expedient, and not all investments eligible to be measured at fair value using the practical expedient. The amendments in this update will generally be effective for fiscal periods beginning after December 15, 2016, for non-public entities, however early application is permitted. The adoption of this guidance is not expected to have a material effect on NCCLF's financial statements.

r. Subsequent Events:

NCCLF evaluated subsequent events from September 30, 2015 through January 19, 2016, the date these financial statements were available to be issued. Except as disclosed in Note 7, there were no material subsequent events that required recognition or additional disclosures in these financial statements.

**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:

	2015	2014
Undisbursed to closed loans (Note 7)	\$ 5,263,073	\$ 1,561,436
Committed loans (Note 7)	4,747,761	4,575,000
Liquidity reserves	7,854,820	6,954,942
Available for lending	5,161,018	7,527,091
	<hr/>	<hr/>
	\$ 23,026,672	\$ 20,618,469

# Northern California Community Loan Fund

## Notes to Financial Statements

	2015	2014
Cash and cash equivalents	\$ 7,993,370	\$ 6,610,650
Investments	15,033,302	14,007,819
	<u>\$ 23,026,672</u>	<u>\$ 20,618,469</u>

### 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.

*Nonprofit Displacement Mitigation Fund* consists of grant funds from two agencies of the City and County of San Francisco intended to support arts, cultural, and social service organizations in San Francisco at risk of displacement or subject to lease renewals at substantially higher rates amidst a volatile real estate market. Financial assistance awards may be used for professional services; rent stipends; moving expenses; tenant improvements; and furnishing, fixtures, and equipment.

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.

On occasion, NCCLF also includes reserve funds for various transactions where NCCLF is authorized to release the funds based on the terms of the transaction.

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

	2015	2014
Funds held in trust, beginning of year	\$ 1,026,386	\$ 1,397,319
Reserve funds received	51,480	
Grant funds received	933,164	
Grant funds recovered	200,000	
Grants disbursed	(952,334)	(371,569)
Interest income	547	636
	<u>\$ 1,259,243</u>	<u>\$ 1,026,386</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:

	2015		2014	
	Cost	Fair Value	Cost	Fair Value
Equity mutual funds	\$ 6,332,744	\$ 5,961,634	\$ 5,447,821	\$ 5,491,495
Fixed Income mutual funds	1,940,620	1,746,174	1,860,404	1,847,276
U.S Treasury notes and bonds	1,051,798	1,019,825	1,419,163	1,396,849
Government-sponsored securities	3,085,788	3,037,507	3,089,500	2,962,978
Corporate bonds	5,338,460	5,190,013	4,504,417	4,388,548
Mortgage backed securities	662,495	694,786	1,248,940	1,272,059
Investment in limited liability companies	16,400	11,668	13,100	8,405
Federal Home Loan Bank Stock	256,400	256,400	215,400	222,186
<b>Subtotal</b>	<b>18,684,705</b>	<b>17,918,007</b>	<b>17,798,745</b>	<b>17,589,796</b>
Certificates of deposit	670,000	670,000	670,000	670,000
<b>Total</b>	<b>\$ 19,354,705</b>	<b>\$ 18,588,007</b>	<b>\$ 18,468,745</b>	<b>\$ 18,259,796</b>

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

	2015	2014
Interest and dividends - investments	\$ 643,842	\$ 493,049
Interest from loans receivable	1,886,263	1,645,489
<b>Less interest expense on loans payable</b>	<b>2,530,105</b>	<b>2,138,538</b>
	<b>(790,079)</b>	<b>(773,522)</b>
	1,740,026	1,365,016
Net realized (loss)	(56,631)	(40,965)
Net unrealized (loss) gain	(539,232)	281,372
	<b>\$ 1,144,163</b>	<b>\$ 1,605,423</b>

# Northern California Community Loan Fund

## Notes to Financial Statements

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.

### Note 6 - Fair Value of Measurements:

The table below summarizes NCCLF's assets measured at fair value at September 30, 2015 on a recurring basis:

	Level 1	Level 2	Level 3	Total
Investments (Note 5):				
Mutual funds:				
Equity	\$ 5,961,634			\$ 5,961,634
Fixed Income	1,746,174			1,746,174
U.S. Treasury notes and bonds	1,019,825			1,019,825
Government-sponsored				
Securities	3,037,507			3,037,507
Corporate bonds	5,190,013			5,190,013
Mortgage backed securities:				
Fixed rate securities	694,786			694,786
Investment in limited liability				
companies			11,668	11,668
Federal Home Loan Bank				
Stock			256,400	256,400
Funds held in trust (Note 4):				
Money market funds	1,259,243			1,259,243
Properties held for sale (Note 12)		435,939		435,939
	\$ 18,909,182	\$ 435,939	\$ 268,068	\$ 19,613,189

# Northern California Community Loan Fund

## Notes to Financial Statements

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):				
Mutual funds:				
Equity	\$ 4,425,850			\$ 4,425,850
Fixed Income	1,847,276			1,847,276
International	1,065,645			1,065,645
U.S. Treasury notes and bonds	1,396,849			1,396,849
Government-sponsored				
Securities	2,962,978			2,962,978
Corporate bonds	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
	\$ 19,055,591	\$ 435,939	\$ 230,591	\$ 19,052,121

Certificates of deposit are excluded from fair value measurements as they do not meet the definition of an equity security.

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

2015	Beginning Balance	Purchase	Change in Value	Ending Balance
<b>Assets:</b>				
Investment in limited				
liability companies	\$ 8,405	\$ 3,300	\$ (37)	\$ 11,668
Federal home loan bank				
stock	222,186	34,219	(5)	256,400
	\$ 230,591	\$ 37,519	\$ (42)	\$ 268,068

# Northern California Community Loan Fund

## Notes to Financial Statements

2014	<u>Balance</u>	<u>Beginning 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
	\$ 7,043	\$223,459	\$ (10)	\$ 230,591

### Other Financial Instruments

Financial instruments included in NCCLF's Statement of Financial Position as of September 30, 2015 and 2014 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.

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

Loans receivable at September 30, are summarized as follows:

	2015	2014
Total loans receivable	\$ 31,130,792	\$ 27,831,514
Less allowance for loan losses	(3,188,305)	(2,569,432)
	<u>27,942,487</u>	<u>25,262,082</u>
Less current portion, net of allowance for loan losses	(6,027,552)	(5,688,987)
	<u>\$ 21,914,935</u>	<u>\$ 19,573,095</u>

At September 30, 2015, loans receivables, net of allowance for loan losses, consist of secured and unsecured notes with interest rates ranging from 4% to 7.75%.

# Northern California Community Loan Fund

## Notes to Financial Statements

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Annual maturities of notes receivable are as follows:

Year ending	
September 30,	
2016	\$ 6,517,162
2017	4,644,694
2018	3,271,100
2019	2,888,202
2020	2,598,880
Thereafter	11,210,754
	<hr/>
	\$ 31,130,792

	2015	2014
Loans by type:		
Affordable/supportive housing	\$ 9,226,327	\$ 7,091,757
Community facilities	20,587,379	20,323,011
Food financing	294,143	
Economic development	1,022,943	416,746
	<hr/>	<hr/>
	\$ 31,130,792	\$ 27,831,514

### 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.

# Northern California Community Loan Fund

## Notes to Financial Statements

### Age Analysis of Past Due Loans

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

	2015	2014
30 – 59 days past due	\$ -	\$ -
60 – 89 days past due	-	-
90+ days past due and still accruing	-	-
Non-accrual	1,142,089	905,809
Total past due	1,142,089	905,809
Current	29,988,702	26,925,705
Total loans	\$ 31,130,791	\$ 27,831,514

### 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.

# Northern California Community Loan Fund

## Notes to Financial Statements

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.

	2015	2014
Strong/acceptable	\$ 28,423,916	\$ 25,812,577
Watch	1,564,787	1,113,128
Doubtful	1,142,089	905,809
<b>Total loans</b>	<b>\$ 31,130,792</b>	<b>\$ 27,831,514</b>

### Allowance for loan losses

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

	2015	2014
Beginning balance	\$ 2,569,432	\$ 2,443,482
Provision for loan losses	618,873	125,950
<b>Ending Balance</b>	<b>\$ 3,188,305</b>	<b>\$ 2,569,432</b>

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

	2015	2014
Loans on non-accrual status	\$ 1,142,089	\$ 905,809
Allowance related to loans on non-accrual status	(1,133,065)	(905,809)
<b>Net investment in loans on non-accrual status</b>	<b>\$ 9,024</b>	<b>\$ -</b>

As of September 30, 2015 and 2014, these loans were on non-accrual status while NCCLF partnered with the respective borrowers on plans to bring the loans current. In cases where this is not possible NCCLF is pursuing other remedies.

# Northern California Community Loan Fund

## Notes to Financial Statements

In October 2015, one of the non-accrual loans totaling \$171,735 was charged-off when NCCLF agreed to a short sale of the underlying collateral. There was no recovery. In December 2015, another of these non-accrual loans totaling \$934,258 was charged-off when NCCLF agreed to a short sale of the underlying collateral. NCCLF was able to recover \$495,195 for a net loss of \$439,063. Both loans had been reserved at 100% as of September 30, 2015.

### 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, 2015 and September 30, 2014 were \$0 and \$662,265, respectively.

Information about troubled debt restructures as of and for the years ended September 30, 2015 and 2014 is summarized as follows:

	2015	2014
<u>Balance of loans restructured during previous years</u>	<u>\$ 947,680</u>	<u>\$ 1,875,863</u>

During 2015, NCCLF received \$928,183 in repayment on loans that had been restructured in previous years.

### 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, 2015, NCCLF had a total of \$10,010,746 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 \$1,670,000 and fourteen pre-development, acquisition, construction or equipment loans (or interest reserves related thereto) totaling \$3,593,073.

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, 2015 and 2014 are as follows:

	2015	2014
To public and private foundations, at annual interest rates of 1% to 3%, unsecured notes mature in 2016 to 2021.	\$ 6,160,041	\$ 6,174,666
To health system organizations, at annual interest rates of 2.25% to 3%, unsecured, notes mature in 2016 to 2020.	3,450,000	4,450,000
To financial institutions, at annual interest rates of 0% to 3%, unsecured, notes mature in 2016 to 2025.	15,175,000	13,525,000
To other organizations, at annual interest rates of 0% to 2.75%, unsecured, notes mature in 2018 to 2019.	3,730,000	693,000
To religious organizations, at annual interest rates of 0% to 3%, unsecured, notes mature in 2016 to 2020.	2,075,000	2,420,000
To individuals and trusts, at annual interest rates of 0% to 3.75%, unsecured, notes mature in 2015 to 2025.	7,934,057	7,262,045
To government entities at rates of 2% to 2.75% unsecured, notes matures in 2016 to 2019.	750,000	250,000
	39,274,098	34,774,711
Less subordinate notes payable	(2,600,000)	(1,600,000)
Less current portion	(10,172,504)	(7,309,071)
	\$ 26,501,594	\$ 25,865,640

# 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,	
2016	\$ 10,172,504
2017	4,488,194
2018	4,624,500
2019	5,206,400
2020	5,357,500
Thereafter	9,425,000
	<hr/>
	\$ 39,274,098

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, 2015, NCCLF was in compliance with all financial covenants to which it was subject.

At September 30, 2015, NCCLF had a total of \$3,500,000 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,	
2016	\$ 280,156
2017	288,056
2018	312,038
2019	326,240
2020	54,616
	<hr/>
	\$ 1,261,106

# Northern California Community Loan Fund

## Notes to Financial Statements

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Rental expense for the year ended September 30, 2015 and 2014 amounted to \$261,037 and \$213,816, respectively.

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

As of September 30, 2015, the Board of Directors of NCCLF has designated \$2,650,000 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:

	2015	2014
Consulting	\$ 47,500	\$ 255,000
Lending	117,500	10,000
New program development		70,000
	<hr/>	<hr/>
	\$ 165,000	\$ 335,000

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

	2015	2014
Consulting	\$ 140,000	\$ 69,167
Lending	80,000	-
Flexible leadership awards	18,420	8,050
New program development	32,500	75,000
	<hr/>	<hr/>
	\$ 270,920	\$ 152,217

# Northern California Community Loan Fund

## Notes to Financial Statements

Temporarily restricted net assets at September 30, 2015 and 2014 were available for the following purposes:

	2015	2014
Consulting	\$ 101,666	\$ 194,166
Lending	47,500	10,000
Flexible leadership awards	-	18,420
New Program Development	17,500	50,000
	<hr/>	<hr/>
	\$ 166,666	\$ 272,586

### 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, 2015 and 2014, 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 \$107,901 and \$100,620 for the years ended September 30, 2015 and 2014, respectively.

### Note 14 - Related Party Transactions:

NCCLF operates a revolving loan fund that provides socially motivated investors with an opportunity to be part of 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 as of September 30, 2015 and 2014, each 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 \$791,257 and \$0 as of September 30, 2015 and 2014, 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, 2015, NCCLF had received New Market Tax Credit Program (Program) allocations totaling \$158,000,000 (accumulatively) of which \$45,000,000 and \$33,000,000 were allocated during 2015 and 2014 respectively. 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 18 for-profit entities to obtain Qualified Equity Investments (QEIs) from investors to make qualified investments into Qualified Active Low-Income Community Businesses (QALICBs).

During 2015, NCCLF NMTC Sub-allocated \$8,600,000 of its allocation to Northern California Community Loan Fund NMTC Sub-CDE IX, LLC (NCCLF NMTC Sub-CDE IX), and the operating agreement of NCCLF NMTC Sub-CDE IX was amended to admit an investor member making a \$8,600,000 QEI. NCCLF serves as the Managing Member with a .01% interest and the Investor Member has a 99.99% interest. On May 8, 2015 NCCLF NMTC Sub-CDE IX used substantially all of the proceeds of the QEI to make a loan to one QALICB in the amount of \$8,342,000.

# Northern California Community Loan Fund

## Notes to Financial Statements

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During 2015, NCCLF NMTC Sub-allocated \$8,600,000 of its allocation to Northern California Community Loan Fund NMTC Sub-CDE X, LLC (NCCLF NMTC Sub-CDE X), and the operating agreement of NCCLF NMTC Sub-CDE X was amended to admit an investor member making a \$8,600,000 QEI. NCCLF serves as the Managing Member with a .01% interest and the Investor Member has a 99.99% interest. On February 4, 2015 NCCLF NMTC Sub-CDE X used substantially all of the proceeds of the QEI to make a loan to one QALICB in the amount of \$8,342,000.

During 2015, NCCLF NMTC Sub-allocated \$8,300,000 of its allocation to Northern California Community Loan Fund NMTC Sub-CDE XI, LLC (NCCLF NMTC Sub-CDE XI), and the operating agreement of NCCLF NMTC Sub-CDE XI was amended to admit an investor member making a \$8,300,000 QEI. NCCLF serves as the Managing Member with a .01% interest and the Investor Member has a 99.99% interest. On January 28, 2015 NCCLF NMTC Sub-CDE XI used substantially all of the proceeds of the QEI to make a loan to one QALICB in the amount of \$8,051,000.

During 2015, NCCLF NMTC Sub-allocated \$7,500,000 of its allocation to Northern California Community Loan Fund NMTC Sub-CDE XII, LLC (NCCLF NMTC Sub-CDE XII), and the operating agreement of NCCLF NMTC Sub-CDE IX was amended to admit an investor member making a \$7,500,000 QEI. NCCLF serves as the Managing Member with a .01% interest and the Investor Member has a 99.99% interest. On February 23, 2015 NCCLF NMTC Sub-CDE XII used substantially all of the proceeds of the QEI to make a loan to one QALICB in the amount of \$7,275,000.

NCCLF Sub-CDE I, II, III, IV, V, VI, VII, VIII, IX, X, XI & XII 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, IX, X, XI & XII NCCLF earned upfront fees of approximately \$1,476,420 and \$769,767 for the years ended September 30, 2015 and 2014, respectively.

Terms of the operating agreements require NCCLF to maintain certain covenants to avoid recapture of New Markets Tax Credits (NMTC). At September 30, 2015 and 2014, 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.