

NORTHERN CALIFORNIA
COMMUNITY LOAN FUND

SEPTEMBER 30, 2016 AND 2015

INDEPENDENT AUDITORS' REPORT

AND

FINANCIAL STATEMENTS

Northern California Community Loan Fund

Independent Auditors' Report and Financial Statements

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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 statement of financial position as of September 30, 2016 and 2015, 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 audits. We conducted our audits 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 NCCLF'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.

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, 2016 and 2015, 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 11, 2017

Northern California Community Loan Fund

Statement of Financial Position

September 30, 2016 and 2015

	2016			2015		
	General Fund	Loan Fund	Total	General Fund	Loan Fund	Total
Assets						
Current Assets:						
Cash and cash equivalents (Note 4)	\$ 2,448,217	\$ 2,908,366	\$ 5,356,583	\$ 1,811,476	\$ 7,993,370	\$ 9,804,846
Contributions receivable	58,750		58,750	50,000		50,000
Accrued interest and other receivables	589,524	2,073	591,597	528,588		528,588
Prepaid expenses	130,941		130,941	117,000		117,000
Investments (Notes 4)	4,932,474	15,054,917	19,987,391	4,113,492	15,033,302	19,146,794
Funds held in trust (Note 3)	1,577,720		1,577,720	1,259,243		1,259,243
Loans receivable - current portion, net of allowance for loan loss of \$861,136 and \$489,610 (Note 6)		8,039,908	8,039,908		6,027,552	6,027,552
Total current assets	9,737,626	26,005,264	35,742,890	7,879,799	29,054,224	36,934,023
Loans Receivable - long-term portion, net of allowance for loan loss of \$1,942,346 and \$2,698,695 (Note 6)		25,949,566	25,949,566		21,914,935	21,914,935
Program Related Investments - notes receivable (Note 2)	172,490		172,490			-
Deposits	25,712		25,712	22,619		22,619
Properties Held for Sale (Note 2)		435,939	435,939		435,939	435,939
Property and Equipment, net	47,378		47,378	48,477		48,477
Total assets	\$ 9,983,206	\$ 52,390,769	\$ 62,373,975	\$ 7,950,895	\$ 51,405,098	\$ 59,355,993
Liabilities and Net Assets						
Current Liabilities:						
Accounts payable and accrued expenses	\$ 588,335		\$ 588,335	\$ 454,904	\$ 115,952	\$ 570,856
Accrued interest payable	289,090	\$ 53	289,143	282,232	248	282,480
Deferred revenue and other liabilities	699,715		699,715	411,750		411,750
Funds held in trust (Note 3)	1,577,720		1,577,720	1,259,243		1,259,243
Notes payable - current portion (Note 7)		5,157,194	5,157,194		10,172,504	10,172,504
Total current liabilities	3,154,860	5,157,247	8,312,107	2,408,129	10,288,704	12,696,833
Notes Payable , net of current portion (Note 7)		31,598,794	31,598,794		26,501,594	26,501,594
Subordinate Notes Payable (Note 7)		3,500,000	3,500,000		2,600,000	2,600,000
Total liabilities	3,154,860	40,256,041	43,410,901	2,408,129	39,390,298	41,798,427
Net Assets:						
Unrestricted:						
Board designated (Note 2)	3,400,000	1,000,000	4,400,000	2,650,000	750,000	3,400,000
Undesignated	2,858,452	11,134,728	13,993,180	2,726,100	11,264,800	13,990,900
Total unrestricted	6,258,452	12,134,728	18,393,180	5,376,100	12,014,800	17,390,900
Temporarily restricted (Note 9)	569,894		569,894	166,666		166,666
Total net assets	6,828,346	12,134,728	18,963,074	5,542,766	12,014,800	17,557,566
Total liabilities and net assets	\$ 9,983,206	\$ 52,390,769	\$ 62,373,975	\$ 7,950,895	\$ 51,405,098	\$ 59,355,993

See accompanying notes to financial statements.

Northern California Community Loan Fund

Statement of Activities

Years Ended September 30, 2016 and 2015

	2016			2015		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Support and Revenue:						
Program fees:						
New market tax credit program fees (Note 12)	\$ 1,742,097		\$ 1,742,097	\$ 1,476,463		\$ 1,476,463
Consulting and contract fees	1,113,330		1,113,330	1,099,719		1,099,719
Loan fees	212,170		212,170	297,664		297,664
Grants and contributions	524,144	\$ 956,250	1,480,394	1,487,813	\$ 165,000	1,652,813
Government contract revenue	134,753		134,753	212,954		212,954
Special event income, net of direct expenses of \$31,076 for 2016	74,573		74,573			-
Interest and investment income, net of interest expense of \$757,010 and \$790,079 (Note 4)	1,872,334		1,872,334	1,740,026		1,740,026
Net realized and unrealized gain (loss) on investments (Note 4)	218,149		218,149	(595,863)		(595,863)
In-kind contributions	345,265		345,265	201,517		201,517
Net assets released from restrictions (Note 9)	553,022	(553,022)	-	270,920	(270,920)	-
Total support and revenue	6,789,837	403,228	7,193,065	6,191,213	(105,920)	6,085,293
Expenses:						
Program services:						
Direct lending	1,659,425		1,659,425	1,984,147		1,984,147
New markets tax credits	559,218		559,218	510,136		510,136
Consulting and training	1,926,759		1,926,759	1,698,201		1,698,201
New program development	480,591		480,591	200,880		200,880
Capitalization	410,364		410,364	338,676		338,676
Total program services	5,036,357	-	5,036,357	4,732,040	-	4,732,040
Supporting services:						
Management and general	346,899		346,899	319,584		319,584
Fundraising	404,301		404,301	263,063		263,063
Total supporting services	751,200	-	751,200	582,647	-	582,647
Total expenses	5,787,557	-	5,787,557	5,314,687	-	5,314,687
Change in Net Assets	1,002,280	403,228	1,405,508	876,526	(105,920)	770,606
Net Assets, beginning of year	17,390,900	166,666	17,557,566	16,514,374	272,586	16,786,960
Net Assets, end of year	\$ 18,393,180	\$ 569,894	\$ 18,963,074	\$ 17,390,900	\$ 166,666	\$ 17,557,566

See accompanying notes to financial statements.

Northern California Community Loan Fund

Statement of Functional Expenses

Year Ended September 30, 2016

	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
Operating Expenses:									
Salaries and benefits	\$ 1,049,765	\$ 440,375	\$ 1,348,065	\$ 168,991	\$ 250,197	\$ 3,257,393	\$ 222,388	\$ 333,021	\$ 3,812,802
Consultants and legal	23,759	31,938	309,228	281,144	23,277	669,346	47,916	2,882	720,144
Office expenses	50,315	24,963	60,615	3,724	7,743	147,360	28,381	12,393	188,134
Rent (Note 8)	77,468	32,259	107,276	11,014	19,235	247,252	17,558	27,471	292,281
Travel, outreach, and other	8,175	18,272	63,626	11,822	14,119	116,014	24,445	18,816	159,275
Total operating expenses	1,209,482	547,807	1,888,810	476,695	314,571	4,437,365	340,688	394,583	5,172,636
Other Expenses:									
Depreciation	7,141	2,973	9,888	1,015	1,773	22,790	1,618	2,532	26,940
Provision for loan losses	242,716					242,716			242,716
In-kind legal and technological services	200,086	8,438	28,061	2,881	94,020	333,486	4,593	7,186	345,265
Total expenses	\$ 1,659,425	\$ 559,218	\$ 1,926,759	\$ 480,591	\$ 410,364	\$ 5,036,357	\$ 346,899	\$ 404,301	\$ 5,787,557

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	
Operating Expenses:									
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 8)	69,056	29,375	100,880	8,966	16,262	224,539	18,899	17,599	261,037
Travel, outreach, and other	205,606	5,881	45,994	7,952	21,568	287,001	20,657	11,540	319,198
Total operating expenses	1,305,594	494,973	1,646,125	196,254	264,083	3,907,029	309,828	253,978	4,470,835
Other Expenses:									
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
In-kind legal and technological services	53,473	12,523	43,007	3,823	73,131	185,957	8,057	7,503	201,517
Total expenses	\$ 1,984,147	\$ 510,136	\$ 1,698,201	\$ 200,880	\$ 338,676	\$ 4,732,040	\$ 319,584	\$ 263,063	\$ 5,314,687

See accompanying notes to financial statements.

Northern California Community Loan Fund

Statement of Cash Flows

<i>Years Ended September 30,</i>	2016	2015
Cash Flows from Operating Activities:		
Change in net assets	\$ 1,405,508	\$ 770,606
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	26,941	23,462
Allowance for loan losses	746,204	618,872
Realized and unrealized (gains) losses on investments	(218,149)	595,863
Noncash contribution of notes payable		
Changes in operating assets and liabilities:		
Contributions receivable	(8,750)	50,000
Accrued interest and other receivables	(63,006)	(50,809)
Prepaid expenses and deposits	(17,034)	469
Accounts payable and accrued expenses	17,481	256,735
Accrued interest payable	6,664	20,884
Deferred revenue and other liabilities	287,965	(283,454)
Net cash provided by operating activities	2,183,824	2,002,628
Cash Flows from Investing Activities:		
Purchases of investments	(8,828,396)	(4,872,082)
Proceeds from sale of investments	8,205,949	3,389,221
Loan disbursements to borrowers	(13,084,729)	(16,706,994)
Loan principal payments from borrowers	6,119,042	13,407,717
Acquisition of property and equipment	(25,842)	(38,527)
Net cash used in investing activities	(7,613,976)	(4,820,665)
Cash Flows from Financing Activities:		
Proceeds from notes payable	7,068,084	8,503,557
Repayments of notes payable	(6,086,195)	(4,004,170)
Net cash provided by financing activities	981,889	4,499,387
Net Increase in Cash and Cash Equivalents	(4,448,263)	1,681,350
Cash and Cash Equivalents, beginning of year	9,804,846	8,123,496
Cash and Cash Equivalents, end of year	\$ 5,356,583	\$ 9,804,846
Supplemental Cash Flow Information:		
Cash paid for interest during the year	\$ 750,098	\$ 769,023
Noncash Information:		
Notes receivable charged off	\$ 627,528	\$ -

See accompanying notes to financial statements.

Northern California Community Loan Fund

Notes to Financial Statements

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 NCCLF's lending program, 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.

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

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. Basis of Presentation and Description of Net Assets

NCCLF reports using the accrual basis of accounting in accordance with generally accepted accounting principles in the United States of America, and provides information regarding its financial position and activities according to the three classes of net assets: unrestricted, temporarily restricted, and permanently restricted.

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 lending, as well as a board designated operating reserve fund.

The Board of Directors has designated \$4,400,000 in unrestricted net assets for the following purposes: \$2,900,000 for a six-month operating reserves and future program development, \$500,000 for the Community Catalyst Program Related Investments, and \$1,000,000 of unrestricted net assets to increase the capital reserve for the loan 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, 2016 and 2015, respectively.

b. Revenue Recognition

Contributions and pledges are recognized at their fair value when received or unconditionally promised. 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. Conditional promises are not included as support until such time as the conditions are substantially met. Conditional promises received in advance are recorded as deferred revenue until the conditions have been met.

Northern California Community Loan Fund

Notes to Financial Statements

At September 30, 2016 and 2015, NCCLF has conditional grants of \$468,977 and \$135,000, respectively. These grants require NCCLF to meet certain performance criteria to earn 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, 2016, 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, securities offerings, , 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 2016 and 2015 was \$345,265 and \$201,517, respectively.

c. 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. 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.

d. Loans Receivable

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

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.

Northern California Community Loan Fund

Notes to Financial Statements

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 7.62% and 10.24% as of September 30, 2016 and 2015, 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. Program Related Investments – Notes Receivable

Program related investments are investments that would not be made were it not for the relationship of the investment to NCCLF's programmatic mission. Although the underlying investments may or may not have a profit motive, that is not the primary focus of the investment by NCCLF.

Program related investments consist of loans to organizations which support NCCLF's mission. NCCLF records notes receivable at cost and are evaluated for impairment annually and written down when appropriate. Under this program NCCLF approved \$285,000 and \$120,000 in loans as of September 30, 2016 and 2015 respectively. Through September 30, 2016 NCCLF has funded \$172,490 of its \$405,000 commitment.

i. 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

j. 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.

k. Fair Value of Financial Instruments

Financial instruments included in NCCLF's Statement of Financial Position as of September 30, 2016 and 2015 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.

l. 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.

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. In 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, 2016 and 2015, this land is carried at \$435,939.

Northern California Community Loan Fund

Notes to Financial Statements

m. 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 2016 and 2015 was \$26,941 and \$23,462, respectively.

n. 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.

o. 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.

p. Income Taxes

NCCLF is exempt from federal income taxes on related income under Section 501(c)(3) of the Internal Revenue Code and from California franchise and/or income taxes under Section 23701(d) of the Revenue and Taxation Code.

NCCLF follows the guidance of Accounting for Uncertainty in Income Taxes issued by the Financial Accounting Standards Board. As of September 30, 2016, management evaluated NCCLF's tax positions and concluded that NCCLF had maintained its tax exempt status and had taken no uncertain tax positions that require adjustment to the financial statements.

q. 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.

Northern California Community Loan Fund

Notes to Financial Statements

r. 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.

s. 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.

t. Financial Statements and Reclassifications

Certain reclassifications have been made to the 2015 financial statements in order to conform to the 2016 presentation. These reclassifications had no impact on net assets or the change in net assets.

u. Recent Accounting Pronouncements

In August 2016, the FASB issued ASU 2016-14 – Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities. The amendments set forth the FASB's improvements to net asset classification requirements and the information presented about a not-for-profit entity's liquidity, financial performance, and cash flows. The amendments in the Update are effective for annual financial statements issued for fiscal years beginning after December 15, 2017, and for interim periods within fiscal years beginning after December 15, 2018. Application to interim financial statements is permitted but not required in the initial year of application. Early application of the amendments in the Update is permitted and applied retrospectively. NCCLF is currently evaluating the impact of this pronouncement on its financial statements.

In February 2016, the Financial Accounting Standards Board (FASB) issued authoritative guidance regarding Leases. The new standard will supersede much of the existing authoritative literature for leases. This guidance requires lessees, among other things, to recognize right-of-use assets and liabilities on their balance sheet for all leases with lease terms longer than twelve months. The standard will be effective for the Organization, since it is not deemed a public business entity, for its fiscal year beginning after December 15, 2019, and for interim periods beginning after December 15, 2020 with early application permitted. Entities are required to use modified retrospective application for leases that exist or are entered into after the beginning of the earliest comparative period in the financial statements with the option to elect certain transition reliefs. NCCLF is currently evaluating the guidance and we are not certain of the impact but are assessing its implications.

Northern California Community Loan Fund

Notes to Financial Statements

v. Subsequent Events:

NCCLF evaluated subsequent events from September 30, 2016 through January 11, 2017, the date these financial statements were available to be issued, and has determined that there were no material subsequent events that required recognition or additional disclosures in these financial statements.

Note 3 - 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:

	2016	2015
Funds held in trust, beginning of year	\$ 1,259,243	\$ 1,026,386
Reserve funds received		51,480
Grant funds received	2,641,023	933,164
Grant funds recovered		200,000
Grants disbursed	(2,273,627)	(952,334)
Interest income	1,093	547
Reserve funds released	(50,012)	
Funds held in trust, end of year	\$ 1,577,720	\$ 1,259,243

Northern California Community Loan Fund

Notes to Financial Statements

Note 4 - Investments:

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

	2016		2015	
	Cost	Fair Value	Cost	Fair Value
Cash and cash equivalents	\$ 2,686,189	\$ 2,686,189	\$ 543,351	\$ 543,351
Mutual and exchange traded funds	6,265,304	6,265,755	8,273,363	7,677,106
Fixed income	10,119,137	10,037,413	10,133,544	9,942,131
Privately held stock	290,398	279,319	272,800	268,068
	19,361,028	19,268,676	19,223,058	18,430,656
Certificates of deposit	718,715	718,715	716,138	716,138
Total	\$ 20,079,743	\$ 19,987,391	\$ 19,939,196	\$ 19,146,794

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.

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

	2016	2015
Interest and dividends from investments	\$ 643,855	\$ 643,842
Interest from loans receivable	1,985,489	1,886,263
	2,629,344	2,530,105
Less interest expense on loans payable	(757,010)	(790,079)
	\$ 1,872,334	\$ 1,740,026

Northern California Community Loan Fund

Notes to Financial Statements

For the year ended September 30, net realized and unrealized gain (loss) on investments consist of the following:

	2016	2015
Net realized (loss)	\$ (332,436)	\$ (56,631)
Net unrealized gain (loss)	550,585	(539,232)
	<hr/>	<hr/>
	\$ 218,149	\$ (595,863)

Investment balances include \$15,054,917 in the loan fund. This \$15,054,917, plus an additional \$2,908,366 in cash and cash equivalents, is designated for the following purposes:

	2016	2015
Undisbursed to closed loans (Note 7)	\$ 1,450,614	\$ 5,263,073
Committed loans (Note 7)	3,645,000	4,747,761
Liquidity reserves	6,038,398	7,854,820
Available for lending	6,829,271	5,161,018
	<hr/>	<hr/>
	\$ 17,963,283	\$ 23,026,672
Cash and cash equivalents	\$ 2,908,366	\$ 7,993,370
Investments	15,054,917	15,033,302
	<hr/>	<hr/>
	\$ 17,963,283	\$ 23,026,672

Northern California Community Loan Fund

Notes to Financial Statements

Note 5 - Fair Value of Measurements:

The table below summarizes NCCLF's assets measured at fair value at September 30, 2016 on a recurring basis:

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 2,686,189			\$ 2,686,189
Mutual and exchange traded funds:				
Equity	4,366,545			4,366,545
Fixed Income	1,899,210			1,899,210
Fixed income:				
U.S. Treasury notes and bonds	1,054,312			1,054,312
Government-sponsored securities	2,429,931			2,429,931
Corporate bonds		\$ 5,986,033		5,986,033
Fixed rate securities	567,137			567,137
Privately held stock:				
Investment in limited liability companies			\$ 15,319	15,319
Federal Home Loan Bank Stock			264,000	264,000
	13,003,324	5,986,033	279,319	19,268,676
Funds held in trust:				
Cash and cash equivalents (Note 3):	1,577,720			1,577,720
Total assets held at fair market value	\$ 14,581,044	\$ 5,986,033	\$ 279,319	\$ 20,846,396

The fair value schedule above does not include certificates of deposit. Certificates of deposit are excluded from fair value measurements as they do not meet the definition of an equity security.

Northern California Community Loan Fund

Notes to Financial Statements

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
Cash and cash equivalents	\$ 543,351			\$ 543,351
Mutual and exchange traded funds:				
Equity	5,930,931			5,930,931
Fixed Income	1,746,175			1,746,175
Fixed income:				
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
Fixed rate securities	694,786			694,786
Privately held stock:				
Investment in limited liability companies			\$ 11,668	11,668
Federal Home Loan Bank Stock			256,400	256,400
	12,972,575	5,190,013	268,068	18,430,656
Funds held in trust:				
Cash and cash equivalents (Note 3)	1,259,243			1,259,243
	\$ 14,231,818	\$ 5,190,013	\$ 268,068	\$ 19,689,899

The fair value schedule above does not include certificates of deposit. Certificates of deposit are excluded from fair value measurements as they do not meet the definition of an equity security.

Northern California Community Loan Fund

Notes to Financial Statements

Note 6 - Loans Receivable and Allowance for Loan Losses:

Loans receivable at September 30, are summarized as follows:

	2016	2015
Affordable/supportive housing	\$ 8,162,703	\$ 9,226,327
Community facilities	26,048,788	20,587,379
Food financing	1,647,607	294,143
Economic development	933,868	1,022,943
<hr/>		
Total loans receivable	36,792,966	31,130,792
Less allowance for loan losses	(2,803,492)	(3,188,305)
<hr/>		
Less current portion, net of allowance for loan losses	33,989,474	27,942,487
	(8,039,908)	(6,027,552)
<hr/>		
Long-term portion, net of allowance for loan losses	\$ 25,949,566	\$ 21,914,935

At September 30, 2016, loans receivables, net of allowance for loan losses, consist of secured and unsecured notes with interest rates ranging from 4% to 8.5%.

Annual maturities of notes receivable are as follows:

Year ending	
September 30,	
2017	\$ 8,901,054
2018	4,248,732
2019	7,439,726
2020	3,040,279
2021	3,557,863
Thereafter	9,605,312
<hr/>	
	\$ 36,792,966

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:

	2016	2015
30 – 59 days past due	\$ 113,491	
60 – 89 days past due		
90+ days past due and still accruing		
Non-accrual		\$ 1,142,089
<hr/>		
Total past due	113,491	1,142,089
Current	36,679,475	29,988,702
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Total loans	\$ 36,792,966	\$ 31,130,791

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. Loans are reviewed quarterly 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 that puts 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 of 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.

	2016	2015
Strong/acceptable	\$ 34,136,187	\$ 28,423,916
Watch	2,626,779	1,564,787
Doubtful		1,142,089
Total loans	\$ 36,762,966	\$ 31,130,792

Allowance for loan losses

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

	2016	2015
Beginning balance	\$ 3,188,305	\$ 2,569,432
Charge-offs	(1,131,016)	
Recoveries	503,487	
Provision for loan losses	242,716	618,873
Ending Balance	\$ 2,803,492	\$ 3,188,305

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

	2016	2015
Loans on non-accrual status	\$ -	\$ 1,142,089
Allowance related to loans on non-accrual status	-	(1,133,065)
Net investment in loans on non-accrual status	\$ -	\$ 9,024

During the year ending September 30, 2016, NCCLF charged off \$1,131,016 of the loans that had been on non-accrual status as of September 30, 2015. NCCLF received a partial recovery on those loans.

Northern California Community Loan Fund

Notes to Financial Statements

Troubled Debt Restructuring

A troubled debt restructuring is a loan where NCCLF granted a concession that would not otherwise have been considered 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.

There were no troubled debt restructures during the years ended September 30, 2016 and September 30, 2015.

Information about troubled debt restructures as of and for the years ended September 30, 2016 and 2015 is summarized as follows:

	2016	2015
<u>Balance of loans restructured during previous years</u>	<u>\$ 905,652</u>	<u>\$ 947,680</u>

During 2016, NCCLF received \$42,028 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, 2016, NCCLF had a total of \$5,095,614 in loan commitments that had not yet been disbursed. These undisbursed loan commitments included ten revolving lines of credit with a total undrawn balance of \$1,450,614 and six pre-development, acquisition, construction or equipment loans (or interest reserves related thereto) totaling \$3,645,000.

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 7 - Notes Payable:

Notes payable at September 30, 2016 and 2015 are as follows:

	2016	2015
To public and private foundations, at annual interest rates of 0.5% to 3.5%, unsecured notes mature in 2017 to 2025.	\$ 4,416,193	\$ 6,160,041
To health system organizations, at annual interest rates of 2% to 3%, unsecured, notes mature in 2017 to 2021.	2,950,000	3,450,000
To financial institutions, at annual interest rates of 0% to 3%, unsecured, notes mature in 2017 to 2026.	17,375,000	15,175,000
To other organizations, at annual interest rates of 0% to 2.75%, unsecured, notes mature in 2017 to 2021.	3,760,000	3,730,000
To religious organizations, at annual interest rates of 0.5% to 3%, unsecured, notes mature in 2017 to 2025.	2,325,000	2,075,000
To individuals and trusts, at annual interest rates of 0% to 3.75%, unsecured, notes mature in 2017 to 2026.	8,679,795	7,934,057
To government entities at rates of 1% to 2.75% unsecured, notes matures in 2017 to 2019.	750,000	750,000
	40,255,988	39,274,098
Less subordinate notes payable	(3,500,000)	(2,600,000)
Less current portion	(5,157,194)	(10,172,504)
<u>Notes payable, net of current portion</u>	<u>\$ 31,598,794</u>	<u>\$ 26,501,594</u>

Northern California Community Loan Fund

Notes to Financial Statements

Annual maturities of notes payable are as follows:

Year ending September 30,	
2017	\$ 5,157,194
2018	6,484,500
2019	5,950,447
2020	5,737,500
2021	7,959,347
Thereafter	8,967,000
	<hr/>
	\$ 40,255,988

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, 2016, NCCLF was in compliance with all financial covenants to which it was subject.

At September 30, 2016, NCCLF had a total of \$2,000,000 of available and committed funds from a financial institution that had not yet been borrowed.

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 8 - Lease Commitment:

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

Year ending September 30,	
2017	\$ 291,000
2018	312,000
2019	326,000
2020	55,000
	<hr/>
	\$ 984,000

Rental expense for the year ended September 30, 2016 and 2015 amounted to \$292,281 and \$261,037, respectively.

Northern California Community Loan Fund

Notes to Financial Statements

Note 9 - Temporarily Restricted Net Assets:

Temporarily restricted net assets at September 30, 2016 and 2015 were available for the following purposes:

	2016	2015
General Operations	\$ 850	
Consulting	142,166	\$ 101,666
Lending	12,450	47,500
New Program Development	414,428	17,500
	<hr/>	<hr/>
	\$ 569,894	\$ 166,666

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

	2016	2015
General Operations	\$ 34,150	\$ 140,000
Lending	45,050	80,000
Consulting	154,500	
Flexible leadership awards		18,420
New program development	319,322	32,500
	<hr/>	<hr/>
	\$ 553,022	\$ 270,920

Note 10 - 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 \$152,698 and \$107,901 for the years ended September 30, 2016 and 2015, respectively.

Northern California Community Loan Fund

Notes to Financial Statements

Note 11 - Related Party Transactions:

NCCLF operates a revolving loan fund that provides socially motivated investors with an opportunity to be part of NCCLF's mission of financing affordable housing, community facilities, food enterprises, 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.

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 \$78,000 and \$3,614,000 as of September 30, 2016 and 2015, 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 \$1,000,000 and \$791,257 as of September 30, 2016 and 2015, 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.

Northern California Community Loan Fund

Notes to Financial Statements

Note 12 - New Markets Tax Credit Program:

As of September 30, 2016, NCCLF had received New Market Tax Credit Program (Program) allocations totaling \$158,000,000 (accumulatively) of which \$0 and \$45,000,000 were received during 2016 and 2015 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 has formed 18 for-profit community development entities (collectively the CDE LLCs), the first 16 of which have been activated as of September 30, 2016:

Northern California Community Loan Fund NMTC Sub-CDE I, LLC
Northern California Community Loan Fund NMTC Sub-CDE II, LLC
Northern California Community Loan Fund NMTC Sub-CDE III, LLC
Northern California Community Loan Fund NMTC Sub-CDE IV, LLC
Northern California Community Loan Fund NMTC Sub-CDE V, LCC
Northern California Community Loan Fund NMTC Sub-CDE VI, LLC
Northern California Community Loan Fund NMTC Sub-CDE VII, LLC
Northern California Community Loan Fund NMTC Sub-CDE VIII, LLC
Northern California Community Loan Fund NMTC Sub-CDE IX, LLC
Northern California Community Loan Fund NMTC Sub-CDE X, LLC
Northern California Community Loan Fund NMTC Sub-CDE XI, LLC
Northern California Community Loan Fund NMTC Sub-CDE XII, LLC
NCCLF NMTC Sub-CDE 13, LLC
NCCLF NMTC Sub-CDE 14, LLC
NCCLF NMTC Sub-CDE 15, LLC
NCCLF NMTC Sub-CDE 16, LLC

The other two CDE LLCs have been formed for the NMTC allocations but have conducted no financial activity as of September 30, 2016.

The CDE LLCs were formed as California limited liability companies in which the Loan Fund will serve as the managing member with a 0.01% interest and unrelated investor members as regular members with a 99.99% interest. NCCLF does not consolidate these entities due to the rights granted to the investor members as defined in the respective operating agreements. The investor members' rights overcome the presumption of control of the managing member.

Northern California Community Loan Fund

Notes to Financial Statements

As of September 30, 2016 and 2015 the total amount of NCCLF's aggregated investment in all the CDE LLCs was \$15,319 and \$11,668 respectively. The fiscal year end for all the CDE LLCs is December 31, and each company has an annual audit performed by an independent auditor once it has been activated. Below is a summary of the unaudited interim financial information for these companies for the interim 9-month periods ended September 30:

	2016	2015
Total Assets	\$148,475,738	\$111,829,009
Total Liabilities	194,380	127,540
Total Members' Equity	148,281,358	111,701,469
Total Revenue	1,625,679	1,184,337
Total Expenses	1,061,842	815,223
Total Net Income	563,837	369,114

The active CDE LLCs have made qualified low-income community investments (QLICIs) within the meaning of the NMTC programs and IRC Section 45D. The Loan Fund entered into agreements with the Investor Members who provided approximately \$136,500,000 in cumulative qualified equity investments (QEIs) as of September 30, 2016 to make QLICIs from the active CDE LLCs. By making QLICIs, the CDE LLCs enable Investor Members to claim approximately \$53,235,000 of NMTC over a seven-year credit period. In connection with obtaining allocation, establishing the CDE LLCs, and making sub-allocation to the CDE LLCs, the Loan Fund earned upfront fees of \$1,109,400 and \$990,000 as of September 30, 2016 and 2015 respectively, which are included as a component of New Markets Tax Credit fees in the accompanying statements of activities.

Terms of the agreements with the Investor Members require the Loan Fund to maintain certain covenants to avoid recapture of NMTC and possible reimbursement of a portion of upfront fees it has received. At September 30, 2016, the Loan Fund is in compliance with all covenants that would cause a recapture of NMTC and management expects to maintain compliance throughout the seven-year life of each NMTC.