

Rural Community Assistance Corporation



**Consolidated Financial Statements
with Supplementary Information Including
Federal Government Reports and Findings**

September 30, 2019 and 2018

The Cover Story:

These water tanks serve the community of Home Valley, WA as part of the Home Valley Water District. This photo was taken in 2019 by Stevan Palmer, Assistant Director, Community & Environmental Services.

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MANN • URRUTIA • NELSON CPAs & ASSOCIATES, LLP
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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Rural Community Assistance Corporation
West Sacramento, California

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Rural Community Assistance Corporation as of September 30, 2019 and 2018, and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Rural Community Assistance Corporation as of September 30, 2019 and 2018, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 2, 2020, on our consideration of Rural Community Assistance Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Rural Community Assistance Corporation's internal control over financial reporting and compliance.

Mann, Ursutia, Nelson CPAs

Sacramento, California
January 2, 2020

Rural Community Assistance Corporation
Consolidated Balance Sheets
September 30, 2019 and 2018



Assets

	2019	2018
<u>Current assets:</u>		
Cash and cash equivalents Unrestricted (<i>Notes 2 & 3</i>)	\$ 7,457,323	\$ 12,405,596
Cash and cash equivalents Restricted (<i>Notes 2 & 3</i>)	15,469,668	13,231,396
Investments Unrestricted (<i>Note 3</i>)	318,601	1,512,568
Investments Restricted (<i>Note 3</i>)	884,761	1,015,332
Receivables, prepaids & deposits (<i>Note 7</i>)	8,993,656	4,961,046
Loans receivable - current portion (<i>Note 5</i>)	28,032,294	16,367,634
Allowance for loan loss - current (<i>Note 6</i>)	(1,435,000)	(1,004,000)
Land & property held for sale (<i>Note 8</i>)	225,000	225,000
	<hr/>	<hr/>
Total current assets	59,946,302	48,714,572
	<hr/>	<hr/>
<u>Non-current assets:</u>		
Loans receivable - non current portion (<i>Note 5</i>)	58,027,010	51,987,469
Allowance for loan loss - non current (<i>Note 6</i>)	(3,905,000)	(3,408,000)
Loans receivable - forgivable (<i>Note 5</i>)	1,223,824	765,879
Other non-current assets (<i>Notes 11 & 12</i>)	749,331	472,063
Land held for investment (<i>Note 8</i>)	1,900,000	2,320,000
Land, building, & equipment, net of accumulated depreciation (<i>Note 8</i>)	2,230,228	2,455,725
	<hr/>	<hr/>
Total non-current assets	60,225,393	54,593,136
	<hr/>	<hr/>
Total assets	\$ 120,171,696	\$ 103,307,708
	<hr/>	<hr/>

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



Rural Community Assistance Corporation
Consolidated Balance Sheets, continued
September 30, 2019 and 2018

Liabilities and Net Assets

	2019	2018
<u>Current liabilities:</u>		
Accounts payable and accrued expenses	\$ 3,141,157	\$ 2,450,806
Grants payable (Note 2)	1,586,350	320,881
Notes payable - current portion (Note 9)	6,490,541	10,940,389
	<hr/>	<hr/>
Total current liabilities	11,218,048	13,712,076
	<hr/>	<hr/>
Notes payable - less current portion (Note 9)	60,529,479	43,787,657
Bonds payable (Note 12)	2,030,000	2,030,000
Deferred Loans - forgivable (Note 5)	1,223,824	765,879
Other long-term liabilities (Notes 10 & 11)	362,101	415,085
	<hr/>	<hr/>
Total long-term liabilities	64,145,404	46,998,621
	<hr/>	<hr/>
Total liabilities	75,363,452	60,710,697
	<hr/>	<hr/>
<u>Net assets:</u>		
<u>Without donor restrictions:</u>		
General unrestricted net assets	3,428,577	2,971,173
Board designated fund (Note 13)	26,600,000	26,100,000
	<hr/>	<hr/>
Total net assets without donor restrictions	30,028,577	29,071,173
	<hr/>	<hr/>
<u>With donor restrictions:</u>		
Time restricted-lending capital (Note 13)	8,586,510	8,218,059
Purpose restricted-other (Note 13)	6,193,157	5,307,779
	<hr/>	<hr/>
Total net assets with donor restrictions	14,779,667	13,525,838
	<hr/>	<hr/>
Total net assets	44,808,244	42,597,011
	<hr/>	<hr/>
Total liabilities and net assets	<u>\$ 120,171,696</u>	<u>\$ 103,307,708</u>

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



Rural Community Assistance Corporation
Consolidated Statement of Activities and Changes in Net Assets
For the year ended September 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Totals
<u>Revenue:</u>			
Grants and contracts	\$ 16,654,043	\$ 2,036,569	\$ 18,690,612
Loan fees revenue	740,274	-	740,274
Loan servicing fees revenue	292,946	-	292,946
Interest on loans	2,667,064	1,052,517	3,719,581
Guarantee Fees Revenue	36,836	-	36,836
Revenue From Partnership	110,441	-	110,441
Investment income (<i>Note 3</i>)	105,923	338,297	444,220
Gain on Sale of Assets	75,000	-	75,000
Rental and other income	119,494	-	119,494
Net assets released from restrictions	2,173,554	(2,173,554)	-
	<hr/>	<hr/>	<hr/>
Total revenue	22,975,575	1,253,829	24,229,404
	<hr/>	<hr/>	<hr/>
<u>Expenses:</u>			
Program expenses:			
Loan fund	3,903,907	-	3,903,907
Housing	3,349,179	-	3,349,179
Community & Environmental	10,305,600	-	10,305,600
Other	728,672	-	728,672
	<hr/>	<hr/>	<hr/>
Total program expenses	18,287,358	-	18,287,358
	<hr/>	<hr/>	<hr/>
Fundraising	254,908	-	254,908
Management and general	3,323,232	-	3,323,232
Rental operations	152,673	-	152,673
	<hr/>	<hr/>	<hr/>
Total expenses	22,018,171	-	22,018,171
	<hr/>	<hr/>	<hr/>
Increase in net assets	957,404	1,253,829	2,211,233
	<hr/>	<hr/>	<hr/>
Net assets at September 30, 2018	29,071,173	13,525,838	42,597,011
	<hr/>	<hr/>	<hr/>
Net assets at September 30, 2019	<u>\$ 30,028,577</u>	<u>\$ 14,779,667</u>	<u>\$ 44,808,244</u>

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



Rural Community Assistance Corporation
Consolidated Statement of Activities and Changes in Net Assets
For the year ended September 30, 2018

	Without Donor Restrictions	With Donor Restrictions	Totals
<u>Revenue:</u>			
Grants and contracts	\$ 13,966,638	\$ 5,736,362	\$ 19,703,000
Loan fees revenue	635,112	-	635,112
Loan servicing fees revenue	304,250	-	304,250
Interest on loans	2,140,585	973,719	3,114,304
Investment income (<i>Note 3</i>)	159,122	304,219	463,341
Gain on Sale of Assets	5,111	-	5,111
Rental and other income	133,288	-	133,288
Net assets released from restrictions	2,332,164	(2,332,164)	-
	<hr/>	<hr/>	<hr/>
Total revenue	19,676,270	4,682,136	24,358,406
	<hr/>	<hr/>	<hr/>
<u>Expenses:</u>			
Program expenses:			
Loan fund	2,755,921	-	2,755,921
Housing	3,679,091	-	3,679,091
Community & Environmental	7,967,216	-	7,967,216
Other	1,128,583	-	1,128,583
	<hr/>	<hr/>	<hr/>
Total program expenses	15,530,811	-	15,530,811
	<hr/>	<hr/>	<hr/>
Fundraising	236,999	-	236,999
Management and general	2,825,380	-	2,825,380
Rental operations	151,584	-	151,584
	<hr/>	<hr/>	<hr/>
Total expenses	18,744,774	-	18,744,774
	<hr/>	<hr/>	<hr/>
Increase in net assets	931,496	4,682,136	5,613,632
	<hr/>	<hr/>	<hr/>
Net assets at September 30, 2017	28,139,677	8,843,702	36,983,379
	<hr/>	<hr/>	<hr/>
Net assets at September 30, 2018	\$ 29,071,173	\$ 13,525,838	\$ 42,597,011
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The accompanying notes are an integral part of these consolidated financial statements.

Rural Community Assistance Corporation
Consolidated Statement of Functional Expenses
For the year ended September 30, 2019



	Program Expenses				Fundraising	Management and General	Rental Operations	Total
	Loan Fund	Housing	Community & Environmental	Other				
Direct salaries (<i>Note 2</i>)	\$ 1,080,756	\$ 1,279,987	\$ 4,236,006	\$ 225,109	\$ 159,318	\$ 1,640,786	\$ 25,323	\$ 8,647,285
Fringe benefits	502,761	594,600	1,957,841	104,843	73,158	755,817	11,601	4,000,621
Project Specific Expense-Fringe Benefits	900	-	-	109	-	-	-	1,009
Consultants	97,426	62,969	217,813	107,402	-	175,287	-	660,897
Consumable supplies	25,571	31,053	105,426	5,680	4,875	39,388	790	212,783
Project specific expense-supplies	1,007	1,450	77,792	9,840	-	3,404	237	93,730
Telephone	19,609	23,357	78,254	3,956	3,792	29,981	477	159,426
Project specific expense - telephone	996	2,565	7,242	723	-	562	-	12,088
Postage	2,070	2,420	8,227	399	414	3,112	51	16,693
Project specific expense-postage	7,304	7,834	25,456	86	-	585	-	41,265
Office space (<i>Note 2</i>)	69,742	82,269	272,446	14,651	9,973	105,535	1,622	556,238
Equipment rental/maintenance	21,942	26,069	86,558	4,578	3,378	33,534	520	176,579
Printing and copying	1,326	12,222	60,796	1,695	-	2,633	-	78,672
Training costs	5,320	32,892	130,647	61,959	-	121,153	-	351,971
Travel	60,610	330,096	1,002,827	62,077	-	204,336	-	1,659,946
Interest and bond expense (<i>Note 11</i>)	958,747	-	-	-	-	-	81,426	1,040,173
Depreciation	-	-	-	-	-	89,774	242,080	331,854
Insurance	750	-	-	-	-	67,360	37,674	105,784
Dues and subscriptions	12,750	1,615	40,513	58,000	-	7,703	-	120,581
Conference registration and staff training	12,345	20,949	25,386	8,360	-	16,079	-	83,119
Provision for loan loss (<i>Note 5</i>)	941,786	-	-	-	-	-	-	941,786
Taxes, licenses and fees	63,463	3,721	6,118	7,890	-	4,164	3,860	89,216
Bank service charges	12,476	770	-	15,190	-	-	-	28,436
Recruitment and advertising	-	-	2,850	-	-	22,039	-	24,889
Grants and pass-through awards	-	755,604	1,947,742	7,396	-	-	-	2,710,742
Contributions	4,250	2,500	775	28,729	-	-	-	36,254
Scholarship	-	277,724	14,885	-	-	-	-	292,609
Capitalization of Eligible Development Costs	-	(203,487)	-	-	-	-	-	(203,487)
Other building management	-	-	-	-	-	-	150,369	150,369
Owner occupancy allocated to office space	-	-	-	-	-	-	(403,357)	(403,357)
Total expenses	3,903,907	3,349,179	10,305,600	728,672	254,908	3,323,232	152,673	22,018,171
Indirect expenses allocated to programs	494,008	738,706	2,139,728	170,387	63,396	(3,606,225)	-	-
Total expenses	\$ 4,397,915	\$ 4,087,885	\$ 12,445,328	\$ 899,059	\$ 318,304	\$ (282,993)	\$ 152,673	\$ 22,018,171

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

Rural Community Assistance Corporation
Consolidated Statement of Functional Expenses
For the year ended September 30, 2018



	Program Expenses					Management and	Rental	
	Loan Fund	Housing	Community & Environmental	Other	Fundraising	General	Operations	Total
Direct salaries (<i>Note 2</i>)	\$ 899,853	\$ 1,334,822	\$ 3,654,600	\$ 208,647	\$ 146,949	\$ 1,543,654	\$ 18,946	\$ 7,807,471
Fringe benefits	404,981	593,919	1,640,692	94,450	65,980	687,896	8,251	3,496,169
Project Specific Expense-Fringe Benefits	-	-	-	154,000	-	-	-	154,000
Consultants	93,261	322,041	133,593	112,115	-	140,971	-	801,981
Consumable supplies	26,239	38,561	107,091	7,579	5,349	-	557	185,376
Project specific expense-supplies	1,073	3,996	88,435	5,165	-	3,551	104	102,324
Telephone	25,770	37,993	104,928	6,279	4,261	-	536	179,767
Project specific expense - telephone	596	2,451	7,549	288	-	683	-	11,567
Postage	2,306	3,449	9,539	564	485	-	49	16,392
Project specific expense-postage	3,323	10,028	32,985	-	-	837	0	47,173
Office space (<i>Note 2</i>)	74,052	109,365	298,825	18,235	10,948	-	1,602	513,027
Equipment rental/maintenance	20,792	29,822	82,059	4,727	3,027	-	410	140,837
Printing and copying	2,946	24,477	51,881	164	-	3,054	-	82,522
Training costs	3,062	77,296	109,140	65,206	-	79,522	-	334,226
Travel	39,041	292,314	794,959	52,920	-	153,858	-	1,333,092
Interest and bond expense (<i>Note 11</i>)	746,034	-	-	-	-	-	75,387	821,421
Depreciation	3,348	3,349	3,349	-	-	98,279	230,983	339,308
Insurance	737	-	-	-	-	63,333	34,766	98,836
Dues and subscriptions	10,808	6,112	39,017	39,672	-	10,140	-	105,749
Conference registration and staff training	4,874	9,992	24,590	7,493	-	9,864	-	56,813
Provision for loan loss (<i>Note 5</i>)	340,321	-	-	-	-	-	-	340,321
Write Down of Asset Value	-	-	-	285,200	-	-	-	285,200
Taxes, licenses and fees	35,016	2,231	4,288	-	-	4,734	3,796	50,065
Bank service charges	10,906	992	132	13,521	-	-	-	25,551
Recruitment and advertising	-	-	2,481	-	-	25,004	-	27,485
Grants and pass-through awards	-	483,117	722,875	14,412	-	-	-	1,220,404
Contributions	2,800	-	-	31,350	-	-	-	34,150
Scholarship	-	411,196	51,916	6,596	-	-	-	469,708
Provision for bad debt	3,782	-	2,292	-	-	-	-	6,074
Capitalization of Eligible Development Costs	-	(118,432)	-	-	-	-	-	(118,432)
Other building management	-	-	-	-	-	-	149,775	149,775
Owner occupancy allocated to office space	-	-	-	-	-	-	(373,578)	(373,578)
Total expenses	2,755,921	3,679,091	7,967,216	1,128,583	236,999	2,825,380	151,584	18,744,774
Indirect expenses allocated to programs	410,039	781,125	1,841,908	196,963	58,942	(3,288,977)	-	-
Total expenses	<u>\$ 3,165,960</u>	<u>\$ 4,460,216</u>	<u>\$ 9,809,124</u>	<u>\$ 1,325,546</u>	<u>\$ 295,941</u>	<u>\$ (463,597)</u>	<u>\$ 151,584</u>	<u>\$ 18,744,774</u>

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



Rural Community Assistance Corporation
Consolidated Statements of Cash Flows
For the years ended September 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
<u>Cash flows from operating activities:</u>		
Cash received from grants and contracts	\$ 14,736,222	\$ 20,084,672
Interest and fees received	5,146,267	4,766,365
Cash received from partnership	110,441	-
Cash received from rental and other activities	119,494	133,288
Cash paid for operating expenses	(18,160,218)	(16,446,440)
Interest paid	(958,747)	(746,034)
Net cash provided by operating activities	<u>993,459</u>	<u>7,791,851</u>
<u>Cash flows from investing activities:</u>		
Loans made to borrowers	(54,568,635)	(36,767,281)
Principal receipts on loans receivable	36,850,648	32,303,539
Proceeds from sale of land held for sale	495,000	166,497
Purchases of investments	(16,422,522)	(24,024,658)
Proceeds from sale of investments	17,756,432	24,396,123
Purchases of property and equipment	(106,358)	(265,764)
Net cash used by investing activities	<u>(15,995,435)</u>	<u>(4,191,544)</u>
<u>Cash flows from financing activities:</u>		
Proceeds from notes payable	18,999,067	5,881,760
Principal payments on notes payable	(6,707,092)	(5,190,368)
Net cash provided by financing activities	<u>12,291,975</u>	<u>691,392</u>
Increase (decrease) in cash and cash equivalents	(2,710,001)	4,291,699
Cash and cash equivalents, beginning of year	<u>25,636,992</u>	<u>21,345,293</u>
Cash and cash equivalents, end of year	<u><u>\$ 22,926,991</u></u>	<u><u>\$ 25,636,992</u></u>
Cash and cash equivalents, unrestricted	\$ 7,457,323	\$ 12,405,596
Cash and cash equivalents, restricted	<u>15,469,668</u>	<u>\$ 13,231,396</u>
	<u><u>\$ 22,926,991</u></u>	<u><u>\$ 25,636,992</u></u>

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



Rural Community Assistance Corporation
Notes to the Consolidated Financial Statements
September 30, 2019 and 2018

Note 1: Organization:

Rural Community Assistance Corporation (RCAC) (Organization) is a nonprofit organization founded in 1978. RCAC is a tax-exempt organization formed under 501(c)(3) of the Internal Revenue Code and registered with the California Franchise Tax Board under Section 23701(d). RCAC has been classified as a public supported organization that is not a private foundation under Section 509(a) of the Internal Revenue Code. The U.S. Treasury has certified RCAC as a Community Development Financial Institution (CDFI).

RCAC's Mission Statement:

RCAC provides training, technical and financial resources and advocacy so rural communities can achieve their goals and visions.

Core Values:

- *Leadership* : identifies innovative strategies to further rural community and economic development and inspires partners to achieve great outcomes.
- *Collaboration* : achieves superior results by respectfully and inclusively identifying partners.
- *Commitment* : works with passion and dedication to improve rural communities and the lives of their low-income residents.
- *Quality*: produces exceptional work products to help our partners meet their goals.
- *Integrity* : practices the highest professional standards and cultural competency in our work.

RCAC's Strategic Directions:

To support our local partners, RCAC will pursue the following strategic directions:

- Form regional collaborations to achieve economies of scale and take advantage of new opportunities.
- Ensure communities, and especially schools, have access to and increase consumption of safe drinking water.
- Expand the quantity and types of training available to rural communities and organizations.
- Diversify local nonprofit services to build more sustainable organizations.
- Enhance the skills of organizations that provide infrastructure, housing and other essential services in Indian Country.
- Provide development services to increase housing opportunities in rural communities.
- Increase access to affordable mortgages for rural organizations and residents.
- Build partnerships with local economic development organizations to expand small business lending.

Our work builds rural community organizations' capacity; strengthens rural communities; expands affordable housing and community facility availability; protects rural community health and environment through improved infrastructure (water, wastewater and solid waste); promotes economic opportunity and job creation through our economic development and leadership activities; and provides financing for community and economic development projects.



Rural Community Assistance Corporation
Notes to the Consolidated Financial Statements
September 30, 2019 and 2018

Note 1: Organization, continued:

RCAC's major program areas are affordable housing, environmental infrastructure and lending. RCAC also offers programs in leadership development training and economic development. Core services are technical, managerial and financial assistance; development assistance; financial packaging; training; advocacy; and information exchange.

RCAC is a financial resource for rural communities. We work with rural water, wastewater and solid waste systems to make them sustainable. RCAC supports organizations that develop affordable single- and multifamily homes and operate programs that prepare rural residents for homeownership. RCAC also offers cross-cutting programs in leadership development training and economic development. Nearly all RCAC services are available to and have a priority to work with Tribes and Native communities. In addition, there are three programs designed specifically for Tribes.

RCAC serves rural communities in 13 western states and certain Pacific islands including Alaska, Arizona, California, Colorado, Hawaii, Idaho, Montana, Nevada, New Mexico, Oregon, Utah, Washington and Wyoming.

Related Organizations:

RCAC is a member of the GSAF, LLC. RCAC formed this consortium in March 2012, with three other nonprofit Community Development Financial Institutions (CDFIs). The State of California established the Golden State Acquisition Fund and will provide money to the fund through the Department of Housing and Community Development (HCD). The Golden State Acquisition Fund (state controlled) will provide \$23.25 million to GSAF, LLC. GSAF, LLC allows its members and other originating lenders to borrow funds for the purpose of making affordable housing loans through their respective loan funds. (Note 9). For the years ended September 30, 2019 and September 30, 2018, RCAC recognized \$13,307 and \$10,357, respectively, of interest expense to GSAF. No revenues were recognized in those two fiscal years.

RCAC is a sole member of Rural Quality, LLC (RQLLC), a limited liability company created in September 2012 to provide affordable housing to low-income communities in Hawaii. The Rural Quality, LLC financial statements balances and activities are incorporated into the RCAC consolidated financial statements. Rural Quality, LLC had no revenue and expenses of \$31,331 in the year ended September 30, 2019, and no revenue and expenses of \$143,894 in the year ended September 30, 2018.

RCAC is a sole member of Rural Integrity, LLC (RILLC), a limited liability company created in January 2015 to provide affordable housing to low-income communities in Montana. Rural Integrity, LLC had no revenue and expenses of \$76,241 in the year ended September 30, 2019 and no revenue and expenses of \$8,312 in the year ended September 30, 2018.

Principles of Consolidation:

The accompanying consolidated financial statements include the accounts of RCAC and the wholly owned entities Rural Quality, LLC and Rural Integrity, LLC for the years ended September 30, 2019 and 2018. All intercompany accounts and transactions have been eliminated.

Rural Community Assistance Corporation
Notes to the Consolidated Financial Statements, continued
September 30, 2019 and 2018



Note 2: Summary of Significant Accounting Policies:

Net Assets Presentation:

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles in the United States of America (GAAP). The net assets accounts of RCAC are maintained in accordance with the principles customary for non-profit organizations. This includes allocating resources for operational activities in accordance with specified activities or objectives as directed by donor or grantor requirements or as determined by the Board of Directors if not otherwise directed. For financial statement purposes, all financial transactions are reported by the following net asset categories as prescribed for non-profit organizations by the Financial Accounting Standards Board (FASB).

- Net assets without donor restrictions - Net assets that are not subject to donor-imposed restrictions and are available for general operations.
- Net assets with donor restrictions - Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature that may or will be met, either by actions of the Organization and/or the passage of time. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Revenue Recognition:

All contributions are considered available for RCAC's general programs unless specifically restricted by the donor. Amounts received that are designed for future periods or restricted by the donor are reported as revenue with donor restrictions and increase the respective class of net assets. Contributions received with donor restrictions that are met in the same reporting period are reported as increases in net assets without donor restrictions. Investments income that is limited to specific uses by donor restrictions is reported as increases in net assets without donor restrictions if the restrictions are met in the same reporting period as the income is recognized.

Contract and grant revenues are recognized as the related services are provided. Payments under such contracts are generally received on a cost-reimbursement basis. Donations and other revenues are recognized when received or unconditionally promised.

Accounting Method:

The financial statements of RCAC have been prepared using the accrual method of accounting wherein revenue is recognized when earned and expenses are recognized when incurred.

Cash and Cash Equivalents:

The Organization considers all financial instruments purchased with a maturity of three months or less to be cash equivalents.

Rural Community Assistance Corporation
Notes to the Consolidated Financial Statements, continued
September 30, 2019 and 2018



Note 2: Summary of Significant Accounting Policies, continued:

Investments:

Investments are classified into the following categories:

- Available-for-sale securities, reported at fair value, with unrealized gains and losses excluded from earnings and reported, net of taxes, as accumulated other comprehensive income (loss) within stockholders' equity.
- Held-to-maturity securities, which management has the positive intent and ability to hold to maturity, reported at amortized cost, adjusted for the accretion of discounts and amortization of premiums.

Management determines the appropriate classification of its investments at the time of purchase and may only change the classification in certain limited circumstances. All transfers between categories are accounted for at fair value in the period which the transfer occurs.

Gains or losses on the sale of investment securities are computed on the specific identification method.

An investment security is impaired when its carrying value is greater than its fair value. Investment securities that are impaired are evaluated on at least a quarterly basis and more frequently when economic or market conditions warrant such an evaluation to determine whether such a decline in their fair value is other than temporary. Management utilizes criteria such as the magnitude and duration of the decline and the intent and ability of RCAC to retain its investment in the securities for a period of time sufficient to allow for an anticipated recovery in fair value, in addition to the reasons underlying the decline, to determine whether the loss in value is other than temporary. The term "other than temporary" is not intended to indicate that the decline is permanent, but indicates that the prospect for a near-term recovery of value is not necessarily favorable, or that there is a lack of evidence to support a realizable value equal to or greater than the carrying value of the investment. Once a decline in value is determined to be other than temporary, and management does not intend to sell the security or it is more likely than not that RCAC will not be required to sell the security before recovery, for debt securities, only the portion of the impairment loss representing credit exposure is recognized as a charge to earnings, with the balance recognized as a charge to other comprehensive income. If management intends to sell the security or it is more likely than not that RCAC will be required to sell the security before recovering its forecasted cost, the entire impairment loss is recognized as a charge to earnings.

Building and Equipment:

The Organization records building and equipment at cost and depreciates cost over the estimated useful life of the related asset. The Organization follows the practice of capitalizing all expenditures for building and equipment in excess of \$5,000. Costs of repairs and maintenance are charged to expense. Upon retirement or disposal of property and equipment, the costs and related depreciation are removed from the accounts, and gains or losses, if any, are reflected in the earnings for financial and income tax reporting purposes. Depreciation is computed on the straight-line method for financial statement reporting purposes. Estimated useful lives are as follows:

Rural Community Assistance Corporation
Notes to the Consolidated Financial Statements, continued
September 30, 2019 and 2018



Note 2: Summary of Significant Accounting Policies, continued:

	<u>Useful Life</u>
Building	30 years
Office building improvements	3 to 23 years
Solar power production system	20 years
Office furniture, equipment, and software	3 to 10 years

Impairment of Long-Lived Assets:

The Organization reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Recoverability of these assets is determined by comparing the forecasted undiscounted net cash flows of the operation to which the assets relate to the carrying amount. If the Organization determines it is unable to recover the carrying amount of an asset, that asset is written down to fair value. Fair value is determined based on discounted cash flows or appraised values, depending on the nature of the assets. There were no impairment losses recognized for property and equipment for the years ended September 30, 2019 and 2018.

Functional Allocation of Expenses and Indirect Costs:

The costs of providing various programs and other activities have been summarized on a functional basis in the statement of functional expenses. Fringe benefits, consumable supplies, telephone, postage, office space, and equipment rental/maintenance were allocated based on monthly activity, based on salary expense.

Each funding source of direct expenses was charged its proportionate share of indirect costs based on adjusted direct costs. Adjusted direct costs were computed as total direct costs, less expenses for contributions, bank service charges, interest, provision for loan loss, rental operations, scholarships, and the portion of each sub-award in excess of \$25,000. Expenditures for capital items are not included in direct costs. RCAC's indirect cost rates based on this methodology were 23.26% and 21.56% for the years ending September 30, 2019 and 2018 respectively. RCAC negotiated an indirect Cost Negotiation Agreement with the U.S. Government. That agreement established a predetermined indirect cost recovery rate of 24.87% for both fiscal years.

Grants Payable:

Grants payable includes amounts owed as of September 30, 2019 and 2018 to grantees under the Homeownership Counseling Program and the State of California's Integrated Regional Water Management program. These funds will be disbursed to grantees based on progress made on their projects.

Direct Salaries:

The Direct Salaries as listed in the consolidated statement of functional expenses is the cost of salaries charged directly to revenue centers for activity performed. Salary expense incurred for Paid Time Off, including vacation and sick leave and paid holidays is included in the Fringe Benefit expense.

Rural Community Assistance Corporation
Notes to the Consolidated Financial Statements, continued
September 30, 2019 and 2018



Note 2: Summary of Significant Accounting Policies, continued:

Rental Operations:

RCAC owns the building that houses its corporate offices in West Sacramento. RCAC occupies the majority of the building space and leases the other portion to tenants. The expenses related to the ownership and management of the building are shown on the consolidated statement of functional expenses under the heading rental operations. The owner occupied portion of the building ownership and management expenses are subtracted from the total building expenses to arrive at the rental operation expense. The expense of providing office space to RCAC staff, whether through rental arrangements or through the owner occupied building, is reported as office space.

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 that affect the amounts reported in these financial statements and accompanying notes. The more significant areas requiring the use of management estimates relate to allowances for uncollectible receivables and loan losses and useful lives for depreciation. Actual results could differ from those estimates, although management does not believe that any differences would materially affect the Organization's financial position or reported results.

Loans:

RCAC loans are to finance projects that serve the population that is 80% or less of the area median household income, i.e., low income. All loans that RCAC has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at the principal balance outstanding, net of deferred loan fees and costs, and an allowance for loan losses. Interest will be calculated based on a 360-day year and actual days elapsed for interest only loans and on the basis of 30 days per month and 360 days per year for amortized loans. RCAC's fees include loan origination, document fee, real estate tax monitoring, loan commitment extension, loan extension, loan restructure fee and late payment penalty fee. Interest income is discontinued and the loan is moved to non-accrual status at the time the loan is 90 days delinquent unless the loan is well-secured and in the process of full collection. Past due status is based on the contractual terms of the loan. Payments received on non-accrual loans are first applied to reduce principal to the extent necessary to ensure collection. Loans are returned to accrual status when all the principal and accrued interest contractually due are brought current, future payments are reasonably assured and payments are maintained current for a minimum of six months.

Allowance for Loan Loss:

The allowance for loan loss is a valuation allowance for probable uncollectible loans. This allowance is established through a provision for loan loss which is charged to expense. Loans deemed uncollectable are charged against the allowance. Cash received on previously charged off amounts is recorded as a recovery to the allowance. The overall allowance consists of two primary components: specific reserves related to impaired loans and general reserves for non-impaired loans.

Rural Community Assistance Corporation
Notes to the Consolidated Financial Statements, continued
September 30, 2019 and 2018



Note 2: Summary of Significant Accounting Policies, continued:

The non-impaired portion of the allowance is calculated based on risk ratings assigned to each loan which is reviewed every quarter. The risk status and ratings are as follows:

Acceptable	0 - 4%
Special Mention	4 - 6%
Substandard	6 - 10%
Doubtful	10 - 25%
Default or Workout	25 - 100%
Loss	100%

A loan is considered to be impaired when, based on current information and events, it is probable that RCAC will be unable to collect all amounts due, including principal and interest, according to the contractual terms of the original agreement. Loans determined to be impaired are individually evaluated for impairment. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. When a loan is impaired, RCAC measures impairment based on the present value of expected future cash flows discounted at the loan's original contractual interest rate, except that as a practical expedient, it may measure impairment based on a loan's observable market price, or the fair value of the collateral if the loan is collateral dependent. A loan is collateral dependent if the repayment of the loan is expected to be provided solely through the sale of the underlying collateral.

Although management believes the allowance to be adequate, ultimate losses may vary from its estimate. At least quarterly, the Board of Directors reviews the adequacy of the allowance, including consideration of the relative risks in the loan portfolio, current economic conditions and other factors.

Below-Market Interest Rate Loans:

Accounting principles generally accepted in the United States of America require not-for-profit organizations to record interest expense and contribution revenue in connection with loans payable that are interest free or that have below-market interest rates. Likewise, money lent (loans receivable) at below-market interest rates should result in imputed interest revenue and contribution expense.

Interest rates on loans payable are disclosed in Note 9. Interest rates on loans receivable are disclosed in Note 5. The Organization believes the benefits derived from below-market-rate loans received are passed through to the borrowers via below-market-rate loans made. Therefore, RCAC does not recognize an imputed contribution for low interest loans received nor an imputed contribution expense for low interest loans made.

Loan Origination Revenue and Expense:

Accounting principles generally accepted in the United States of America require loan fees (revenue) charged in the lending process be deferred and recognized over the life of the loan as an adjustment of yield (interest revenue). Likewise, direct loan origination costs (expenses) shall be deferred and recognized as a reduction in the yield (revenue) of the loan. Loan origination fees and related direct loan origination costs for a given loan shall be offset and only the net amount shall be deferred and amortized.

Rural Community Assistance Corporation
Notes to the Consolidated Financial Statements, continued
September 30, 2019 and 2018



Note 2: Summary of Significant Accounting Policies, continued:

RCAC recognizes loan origination fees as revenue when the loan closes, usually defined as when loan proceeds are initially disbursed. RCAC recognizes loan origination costs as expenses as they are incurred.

This treatment approximates the effect of capitalizing and amortizing the net amount over the life of the loan, yet is less costly to administer. The Organization believes that any difference in the accounting treatment for loan origination fees and their related costs is not material to the financial statements.

Loan and Performance Guarantee Fees:

Revenue from loan guarantees and performance guarantees issued by RCAC is recognized over the original

Matching Funds:

In fiscal year 2019 and 2018, certain activities funded by the U.S. Department of Agriculture, the U.S. Department of Housing and Urban Development, the U.S. Department of the Treasury and the U.S. Environmental Protection Agency required cost sharing (matching funds) from other sources. RCAC is in compliance with matching requirements.

Uncertain Tax Positions:

Accounting guidance issued by Financial Accounting Standards Board (FASB) prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more-likely-than-not to be sustained upon examination by taxing authorities. The Organization did not have unrecognized tax benefits as of September 30, 2019 and 2018 and does not expect this to change significantly over the next twelve months. The Organization will recognize interest and penalties accrued on any unrecognized tax benefits as a component of income tax expense. As of September 30, 2019 and 2018, the Organization has not accrued interest or penalties related to uncertain tax positions. (The federal and state income tax returns of the Organization for 2018, 2017, and 2016, are subject to examination by the taxing authorities, generally for four years, after the due date).

Reclassifications:

Certain amounts in the prior year financial statements have been reclassified to conform with current year presentation.

Subsequent Events:

The Organization has evaluated all subsequent events through January 02, 2020, the date the consolidated financial statements were available to be issued.

Rural Community Assistance Corporation
Notes to the Consolidated Financial Statements, continued
September 30, 2019 and 2018



Note 2: Summary of Significant Accounting Policies, continued:

Recently Adopted Accounting Pronouncements:

ASU 2016-14 - Not-for-Profit Entities (Topic 958) Presentation of Financial Statements:

The purpose of this standard is to improve and simplify the manner in which a not-for-profit entity (NFP) classifies its net assets, as well as the information that it presents in financial statements and notes concerning liquidity, financial performance, and cash flows. ASU No. 2016-14 amends the requirements for financial statements and notes in Topic 958, Not-for-Profit Entities, and requires an NFP to, among other things, (1) present on the face of the statement of financial position amounts for two classes of net assets at the end of the period, rather than for the currently required three classes (i.e., an NFP will report amounts for both net assets with donor restrictions and net assets without donor restrictions, as well as the currently required amount for total net assets); (2) present on the face of the statement of activities the amount of the change in each of the two classes of net assets referenced above, rather than that of the currently required three classes (i.e., an NFP would continue to report the currently required amount of the change in total net assets for the period); and (3) continue to present on the face of the statement of cash flows the net amount for operating cash flows, using either the direct or the indirect method of reporting, but no longer require the presentation or disclosure of the indirect method (reconciliation) if using the direct method. The new requirements were adopted for RCAC's September 30, 2019 year-end.

Future Accounting Pronouncements:

ASU 2016-02 - Leases (Topic 842):

Under the new guidance, a lessee will be required to recognize assets and liabilities for leases with a term of more than 12 months. Unlike current GAAP, which requires only capital leases to be recognized on the balance sheet, ASU No. 2016-02 will require both operating and finance leases to be recognized on the balance sheet. Additionally, the ASU will require disclosures to help investors and other financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases, including qualitative and quantitative requirements. The new requirements are effective for the Organization's September 30, 2022 year-end. Management has not yet determined the impact of this accounting standard on the Organization's operations or cash flows.

ASU 2016-18 - Statement of Cash Flows (Topic 230) Restricted Cash:

This standard addresses the diversity in practice that exists regarding the classification and the presentation of changes in restricted cash on the statement of cash flows under Topic 230, Statement of Cash Flows. The standard requires cash flow statements to explain the changes during a reporting period of the totals for cash, cash equivalents, restricted cash and restricted cash equivalents. Amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and the end-of-period total amounts set forth on the statement of cash flows. The amendments in this ASU do not provide a definition of restricted cash or restricted cash equivalents. The new requirements are effective for the Organization's September 30, 2020 year-end. Management has not yet determined the impact of this accounting standard on the Organization's operations or cash flows.

Rural Community Assistance Corporation
Notes to the Consolidated Financial Statements, continued
September 30, 2019 and 2018



Note 2: Summary of Significant Accounting Policies, continued:

ASU 2018-08 - Not-for-Profit Entities (Topic 958) Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made:

The purpose of this standard is to clarify and improve current guidance about whether a transfer of assets (or the reduction, settlement, or cancellation of liabilities) is a contribution or an exchange transaction. The amendments clarify how an entity determines whether a resource provider is participating in an exchange transaction by evaluating whether the resource provider is receiving commensurate value in return for the resources transferred on the basis of the following: (1) A resource provider (including a foundation, a government agency, or other) is not synonymous with the general public. A benefit received by the public as a result of the assets transferred is not equivalent to commensurate value received by the resource provider. (2) Execution of a resource provider's mission or the positive sentiment from acting as a donor does not constitute commensurate value received by a resource provider for purposes of determining whether a transfer of assets is a contribution or an exchange. The amendments in this update likely will result in more grants and contracts being accounted for as either contributions or conditional contributions than observed in practice under current guidance. For transactions in which the Organization is a resource recipient, the new requirements are effective for the Organization's June 30, 2020 year-end. For transactions in which the Organization is a resource provider, the new requirements are effective for the Organization's September 30, 2021 year-end. Early adoption is permitted. Management has not yet determined the impact of this accounting standard on the Organization's operations or cash flows.

Rural Community Assistance Corporation
Notes to the Consolidated Financial Statements, continued
September 30, 2019 and 2018



Note 3: Cash, Cash Equivalents and Investments:

Cash, Cash Equivalents and Investments consist of the following at September 30, 2019 and 2018:

	2019		2018	
	Cost	Fair Value	Cost	Fair Value
Cash and Cash Equivalents	\$ 22,926,991	\$ 22,926,991	\$ 25,636,992	\$ 25,636,992
Investments:				
Certificates of deposit	318,829	318,829	1,474,239	1,474,239
U.S. Government and Agencies	2,418	9,257	1,975	5,443
Other Investments	343,037	875,275	522,125	1,048,218
Total Investments	664,284	1,203,361	1,998,339	2,527,900
Total of cash, cash equivalents and investments	\$ 23,591,275	\$ 24,130,352	\$ 27,635,331	\$ 28,164,892

Restrictions on Cash, Cash Equivalents and Investments:

Certain bank and investment accounts contain restrictions and access to the accounts require either the permission of other entities, or the funds are limited to specific uses. The controlling other entity and the account fair values at September 30, 2019 and 2018 are as follows:

	2019		2018	
	Cash	Investment	Cash	Investment
Union Bank (<i>Note 12</i>)	\$ 711,282	\$ -	\$ 486,549	\$ -
Compass Bank	5,428,586	-	-	-
California Endowment	1,661,625	329	2,531,818	105
Ford Foundation	946,423	202	856,040	10
Rasmuson Foundation	385,591	-	132,479	156,635
Joe Serna	-	883,635	-	858,274
CA State Water Resource Board	401,690	-	39,785	-
U.S. Small Business Administration	4,758	-	4,861	-
U.S. Department of Agriculture	2,997,354	595	4,616,340	298
U.S. Department of the Treasury	2,663,213	-	4,294,354	-
U.S. Department of Commerce	269,146	-	269,169	-
Total restricted cash, cash equivalents and investments	\$ 15,469,668	\$ 884,761	\$ 13,231,396	\$ 1,015,322

Rural Community Assistance Corporation
Notes to the Consolidated Financial Statements, continued
September 30, 2019 and 2018



Note 3: Cash, Cash Equivalents and Investments, continued:

Restrictions on Cash and Investments, continued:

In addition to the above restrictions on various bank and investment accounts, RCAC has obtained loans and has solicited charitable contributions for specific purposes. The cash and investments related to these loans and contributions are not formally restricted, but RCAC considers the use of such proceeds limited to the purpose for which they were obtained. Loans obtained for lending capital, as listed in Note 9, and charitable contributions that retain restrictions, as listed in Note 13, have such limited uses.

Total Return on Cash Balances and Investments:

For the years ended September 30, 2019 and 2018:

	2019	2018
Dividends and Interest		
Without donor restrictions	\$ 101,221	\$ 157,623
With donor restrictions	322,884	195,971
Total Dividends and Interest	424,105	353,594
Net Realized Gains (Losses)		
Without donor restrictions	5,211	(277)
With donor restrictions	5,388	(2,052)
Change in Unrealized Gains		
Without donor restrictions	(508)	1,798
With donor restrictions	10,025	110,277
Total return on cash and investments	<u>\$ 444,221</u>	<u>\$ 463,341</u>

Fair Value Measurement of Investments:

The Financial Accounting Standards Board establishes a framework for measuring fair value under accounting principles generally accepted in the United States of America. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value and specifies disclosure requirements for fair value measurement. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Level 2- Inputs to the valuation methodology include: quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Rural Community Assistance Corporation
Notes to the Consolidated Financial Statements, continued
September 30, 2019 and 2018



Note 3: Cash, Cash Equivalents and Investments, continued:

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value of measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at September 30, 2019 and 2018.

Level 1:

Commercial paper, corporate medium term notes, U.S. Government and agencies, and other investments. (Valued at lower of cost or market).

Other investments (*value based on comparable sales in active markets*).

Common stock shares in Urban Partnership Bank donated to RCAC were held in fiscal year 2018 and were liquidated in fiscal year 2019.

Level 2:

Certificate of deposits (*value based on investments measured at net asset value that are redeemable at the reporting date*).

Level 3:

Land held for investment and other investments (*value based on comparable investments in active markets discounted due to an inactive market*).

The methods described above may produce a fair value calculation that may not be as indicative of net realizable value or reflective of future fair values. Furthermore, while the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Rural Community Assistance Corporation
Notes to the Consolidated Financial Statements, continued
September 30, 2019 and 2018



Note 3: Cash, Cash Equivalents and Investments, continued:

The following table sets forth by level, within the fair value hierarchy, the Organization's investments at fair value as of September 30, 2019:

	Quoted Prices (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Certificates of deposit	\$ -	\$ 318,829	\$ -	\$ 318,829
Land held for investment	-	-	1,900,000	1,900,000
U.S. Government and Agencies	9,257	-	-	9,257
Other investments	875,275	-	-	875,275
Total investments at fair value	<u>\$ 884,532</u>	<u>\$ 318,829</u>	<u>\$ 1,900,000</u>	<u>\$ 3,103,361</u>

During the year ending September 30, 2019, RCAC sold \$420,000 in land and property held for sale.

The following table sets forth by level, within the fair value hierarchy, the Organization's investments at fair value as of September 30, 2018:

	Quoted Prices (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Certificates of deposit	\$ -	\$ 1,474,239	\$ -	\$ 1,474,239
Land held for investment	-	-	2,320,000	2,320,000
U.S. Government and Agencies	5,443	-	-	5,443
Other investments	853,418	-	194,800	1,048,218
Total investments at fair value	<u>\$ 858,861</u>	<u>\$ 1,474,239</u>	<u>\$ 2,514,800</u>	<u>\$ 4,847,900</u>

During the year ending September 30, 2018, RCAC sold \$161,386 in land and property held for sale and reclassified \$225,000 in land held for investment to land held for sale. In addition, the value of \$285,200 was written down from the Other investments.



Rural Community Assistance Corporation
Notes to the Consolidated Financial Statements continued
September 30, 2019 and 2018

Note 4: Liquidity and Availability

The following tables show the total financial assets held by RCAC and the amounts of those financial assets could readily be made available within one year of the balance sheet date to meet general expenditures:

Financial assets at year-end	FY 19	FY 18
Cash and cash equivalents	\$ 22,926,991	\$ 25,636,992
Accounts receivable, net	738,840	359,438
Grants & Contracts receivables, net	7,684,575	4,135,522
Interest receivable	405,471	327,251
Investments convertible to cash in the next 12 months	1,203,361	2,527,900
Total financial assets at year-end	<u>\$ 32,959,238</u>	<u>\$ 32,987,103</u>

Financial assets available to meet general expenditures over the next 12 months:

Cash and equivalents	\$ 6,449,120	\$ 5,279,954
Accounts receivable, net	738,840	359,438
Grants & Contracts receivables	7,684,575	4,135,522
Interest receivable	405,471	327,251
Investments not encumbered by donor or board restrictions	1,202,236	1,472,522
Total financial assets available within one year of the balance sheet date	<u>\$ 16,480,242</u>	<u>\$ 11,574,687</u>

RCAC regularly monitors the availability of resources required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. The Organization strives to maintain liquid financial assets to cover 90 days expenditures. Financial assets in excess of daily cash requirements are invested according to the Organization's investment policy.

RCAC also has a line of credit available to meet short-term needs. See Note 9 for information about this arrangement.

Rural Community Assistance Corporation
Notes to the Consolidated Financial Statements, continued
September 30, 2019 and 2018



Note 5: Loans Receivable

Loans receivable represent short-term and long-term loans made to non-profit organizations, small businesses, individuals and governmental entities including Native American tribal entities. Loans support the development of affordable housing; community facilities; water, wastewater, and solid waste systems; small businesses and non-profit operating lines of credit.

Loans receivable as of September 30, 2019 and 2018 were composed of the following:

		2019		2018	
		Number of Loans	Loans Receivable	Number of Loans	Loans Receivable
Grouped by Principal Due Dates					
Current assets					
	Loans more than 90 days past due	5	\$ 37,081	2	\$ 11,661
	Other loans due within 12 months	41	25,789,442	31	14,531,346
	Current portion of amortizing loans		2,205,771		1,824,627
	Loans receivable current portion	46	28,032,294	33	16,367,634
Non-current assets					
	<u>Non-amortizing</u>				
	Loans due in one to five years	32	19,828,171	29	17,920,594
	Loans due, more than five, less than ten years	-	-	2	2,490,411
	Loans due in more than ten years	1	100,000	1	100,000
	<u>Amortizing</u>	264		254	
	Principal due in one to five years		15,128,992		7,136,998
	Principal due in five to ten years		9,555,149		10,064,375
	Principal due in more than ten years		13,414,698		14,275,090
	Loans receivable non-current portion	297	58,027,010	286	51,987,469
Total loans receivable		343	\$ 86,059,304	319	\$ 68,355,103
Weighted Average Maturity (months)			88		99
		2019		2018	
		Number of Loans	Loans Receivable	Number of Loans	Loans Receivable
Grouped by Type of Project and Security					
	Low income housing - real estate secured	46	\$ 35,857,489	41	\$ 25,252,931
	Low income housing - other security	5	2,246,194	7	4,293,449
	Community facilities - real estate secured	31	21,889,532	31	19,896,531
	Community facilities - other security	8	410,010	9	473,363
	Water/wastewater/solid waste systems	216	6,837,384	197	4,338,901
	Small business loans	35	18,818,695	32	14,007,708
	Nonprofit operating lines of credit	2	-	2	92,220
Total loans receivable		343	\$ 86,059,304	319	\$ 68,355,103

Rural Community Assistance Corporation
Notes to the Consolidated Financial Statements, continued
September 30, 2019 and 2018



Note 5: Loans Receivable, continued:

Grouped by Interest Rate	2019		2018	
	Number of Loans	Loans Receivable	Number of Loans	Loans Receivable
Interest Free	7	\$ 1,844,225	9	\$ 1,855,958
1%	134	7,353,511	125	7,952,476
2.00%-2.99%	3	270,941	2	23,597
3.00%-3.99%	28	165,785	28	158,113
4.00%-4.99%	15	11,045,570	13	12,791,813
5.00%-5.99%	128	57,421,522	110	39,772,929
6.00%-6.99%	13	6,428,989	15	4,823,085
7.00%-9.50%	15	1,528,761	17	977,133
Total loans receivable	343	\$ 86,059,304	319	\$ 68,355,103
Weighted Average Interest Rate		4.82%		4.59%

A portion of the above portfolio has been identified as loans that need to be monitored more frequently for signs of deterioration in respect to RCAC loan standards. The Criticized Asset loans are grouped into the following four categories:

	2019		2018	
	Number of Loans	Loans Receivable	Number of Loans	Loans Receivable
Doubtful	2	\$ 1,962,973	2	\$ 1,962,973
Substandard	5	1,203,281	7	1,644,435
Special Mention	1	5,367,655	1	5,367,655
Total criticized asset loans	8	8,533,909	10	\$ 8,975,064
Percent of total loan receivable portfolio		10%		13%
Related allowance for loan loss		\$ 1,477,806		\$ 1,421,206
Total allowance for loan loss		\$ 5,340,000		\$ 4,412,000
Percent of total allowance for loan loss		28%		32%

Non Accrual Loans:

As of September 30, 2019 and September 30, 2018, the Organization had no loans on non-accrual status.

During the year ended September 30, 2019, the Organization had no interest income foregone from loans on non-accrual status. There was \$19,147 of interest income foregone from loans on non-accrual status during the year ended September 30, 2019.

Rural Community Assistance Corporation
Notes to the Consolidated Financial Statements, continued
September 30, 2019 and 2018



Note 5: Loans Receivable-Forgivable

RCAC has provided grants to individual households experiencing drought-related drinking water emergencies or threatened emergencies, and septic system emergencies. They will have access to clean drinking water and adequate sanitation to protect public health. The conditions of these grants requires that ownership of a real estate is continued by specific parties for a period of 10 years. When possible, RCAC secures performance via a grant lien on real estate. The liens enable RCAC to recover the amount of the grant if the use of the real estate is altered or ownership is transferred. RCAC expects the grant recipients to perform per the conditions of the grant. The grants will be forgiven each 20% per year after the first five years. The amounts of outstanding forgivable loans as of September 30 were:

	2019		2018	
	Number of Forgivable Loans	Amount	Number of Forgivable Loans	Amount
Forgivable loans	64	\$ 1,223,824	42	\$ 765,879
Total	64	\$ 1,223,824	42	\$ 765,879

Rural Community Assistance Corporation
Notes to the Consolidated Financial Statements, continued
September 30, 2019 and 2018



Note 6: Allowance for Loan Loss:

An allowance for loan loss is increased by charges to income and decreased by charge-offs (net of recoveries). Management assigns a risk rating in every outstanding loan at loan origination. The rating is reviewed and, if necessary, adjusted not less than quarterly. Based on the risk rating, each loan is assigned a percentage based on loan loss experience and the perceived future risk of loan loss. The percentage is applied to the outstanding loan balance and their product is used to determine the appropriate level of the allowance.

Allowance for loan loss as of September 30, 2019 and 2018:

Allowance for Loan Loss:	2019	2018
Beginning of year	\$ 4,412,000	\$ 4,112,000
Additions to allowance	941,786	340,321
Charges against allowance	(13,786)	(40,321)
End of year	\$ 5,340,000	\$ 4,412,000
Allowance/loans receivable	6.21%	6.45%
Consisting of allowance for:		
Current loans receivable	\$ 1,435,000	\$ 1,004,000
Noncurrent loans receivable	3,905,000	3,408,000
Total allowance for loan loss	\$ 5,340,000	\$ 4,412,000

RCAC expensed \$941,786 and \$340,321 to Provision for loan loss during the fiscal years ended September 30, 2019 and 2018, respectively.

Other Activity in the allowance for loan loss during the year ended September 30, 2019 consisted of:

RCAC recognized the sale of a property associated with to a loan to a borrower, an Oregon nonprofit corporation for land acquisition, predevelopment, and site development for a 39-unit subdivision. The loan was secured by a real estate. The loan balance was \$132,558. RCAC received a payment of \$118,772. This transaction resulted to a charge to the Allowance for a loan loss in the amount of \$13,786.

Other Activity in allowance for loan loss during the year ended September 30, 2018 consisted of:

RCAC was a participant in a loan to a California nonprofit public benefit corporation. The loan was secured by a real state. The Borrower defaulted and ultimately filed Bankruptcy-Chapter 7. At the time of filing of bankruptcy, the loan totaled \$47,736. RCAC received a payment \$9,409. This transaction resulted in a charge to the Allowance for loan loss in the amount of \$38,327.

RCAC wrote off a loan to an individual in Utah for a Household Water Well Program to repair a water pump in the property. The loan was secured by a real state. The loan balance was \$1,994. The loan had defaulted and the property was sold by USDA at auction. This transaction resulted to a charge to the Allowance for a loan loss in the amount of \$1,994.

Rural Community Assistance Corporation
Notes to the Consolidated Financial Statements, continued
September 30, 2019 and 2018



Note 6: Allowance for Loan Loss, continued:

In addition to the allowance for loan loss, the following pools of loans have special primary coverage of potential loan losses as of September 30, 2019 and 2018.

Name of loan/guarantee program	Loans Receivable at 9/30/2019	Primary Loss Coverage	Coverage/Loan Receivable Ratio
USDA Community Facility or Business & Industry guarantee	\$ 10,007,443	\$ 7,933,168	79.27%
HUD Title VI guarantee	318,642	302,710	95.00%
State of California Small Business Credit Initiative guarantee	787,331	629,865	80.00%
Small Business Administration guarantee	472,836	378,402	80.03%
Bureau of Indian Affairs guarantee	1,815,151	1,633,636	90.00%
Total loans with guarantees	<u>\$ 13,401,403</u>	<u>\$ 10,877,781</u>	<u>81.17%</u>

Name of loan/guarantee program	Loans Receivable at 9/30/2018	Primary Loss Coverage	Coverage/Loan Receivable Ratio
USDA Community Facility or Business & Industry guarantee	\$ 14,141,954	\$ 8,205,579	58.02%
HUD Title VI guarantee	394,016	374,315	95.00%
State of California Small Business Credit Initiative guarantee	536,917	429,533	80.00%
Small Business Administration guarantee	322,111	256,532	79.64%
Bureau of Indian Affairs guarantee	139,271	125,344	90.00%
Total loans with guarantees	<u>\$ 15,534,269</u>	<u>\$ 9,391,303</u>	<u>60.46%</u>

Note 7: Receivables, Prepaids, and Deposits:

Receivables, prepaids, and deposits as of September 30, 2019 and 2018 were composed of the following:

	2019	2018
Accounts receivable	\$ 738,840	\$ 359,438
Grants & contracts receivable (net)	7,684,575	4,135,521
Interest receivable	405,471	327,251
Prepaids, deposits, & other	164,770	138,836
Total receivables, prepaids and deposits	<u>\$ 8,993,656</u>	<u>\$ 4,961,046</u>

The Grants & contract receivable amounts are net of an allowance for doubtful accounts of \$45,000 as of September 30, 2019 and \$45,000 as of September 30, 2018.



Rural Community Assistance Corporation
Notes to the Consolidated Financial Statements, continued
September 30, 2019 and 2018

Note 8a: Land, Building, and Equipment

Land, Building, and Equipment were composed of the following at September 30, 2019 and 2018:

	2018	Additions	Deletions	2019
Land (office building)	\$ 427,000	\$ -	\$ -	\$ 427,000
Office building improvements	4,410,855	69,283	-	4,480,138
Less: Accumulated depreciation	(2,598,876)	(242,081)	-	(2,840,957)
Equipment and software	679,851	37,075	-	716,926
Less: Accumulated depreciation	(463,105)	(89,774)	-	(552,879)
 Total land, building and equipment	 \$ 2,455,725	 \$ (225,497)	 \$ -	 \$ 2,230,228

Depreciation expense for the years ended September 30, 2019 and 2018 was \$331,854 and \$339,308, respectively.

Note 8b: Land and property

Land and property held for sale

As of September 30:	2019	2018	Addition (Deletion)
a. Land in Pine Top, Arizona, valued at	\$ 225,000	\$ 225,000	\$ -
Land and property held for sale	\$ 225,000	\$ 225,000	\$ -

<u>Land held for investment:</u>	2019	2018	Addition (Deletion)
As of September 30:			
a. Land in Pinetop, Arizona, valued at	\$ -	\$ -	\$ -
b. Land in Moab, Utah, valued at	-	420,000	(420,000)
d. Undeveloped lots in Walanae, Hawaii valued at	1,900,000	1,900,000	-
	\$ 1,900,000	\$ 2,320,000	\$ (420,000)



Rural Community Assistance Corporation
Notes to the Consolidated Financial Statements, continued
September 30, 2019 and 2018

Note 9: Notes Payable:

Notes payable consisted of the following at September 30, 2019 and 2018:

	Interest Rate	Maturity	2019	2018
Banc of America	3.00%	Jun-26	\$ 2,000,000	\$ 2,000,000
Banc of America-CF Relending Collateral	1.00%	Jan-25	564,480	-
Bank of the West	2.00%	Aug-27	1,500,000	1,500,000
California Bank & Trust- \$ 1 million line of credit	Variable	Apr-20	-	-
California Bank & Trust-COIN	0.00%	Aug-19	500,000	500,000
California Endowment	0.00%	Mar-29	11,700,000	12,500,000
California Wellness Foundation	2.00%	Dec-25	1,000,000	-
Catholic Health Initiatives	2.00%	Sep-20	500,000	500,000
Charles Schwab Bank- \$ 10 million line of credit	Libor Reference rate plus 1.75% or 3.00%	Oct-22	2,000,000	2,000,000
Christensen Fund	2.00%	Aug-27	250,000	250,000
Community Economics	0.00%	Various	150,000	200,000
Compass Bank (BBVA)	2.75%	Jan-29	6,000,000	-
Dignity Health	2.50%	Sep-24	500,000	500,000
Dominican Sisters of Hope	2.00%	Jun-20	50,000	50,000
First Foundation Bank	3.00%	Dec-21	248,738	249,992
Ford Foundation	1.00%	Feb-22	3,000,000	3,000,000
GSAF, LLC (<i>Note 1</i>)	2.00%	Dec-29	947,087	487,500
Housing California	2.50%	Jun-20	200,000	200,000
JP Morgan Chase Bank, N.A.-COIN	0.00%	Aug-19	-	1,000,000
JP Morgan Chase Bank, N.A.-COIN	0.00%	Sep-21	1,000,000	1,000,000
Mechanics Banks	2.66%	Aug-24	2,000,000	2,000,000
Mercy Investment Services, Inc.	3.00%	Jun-22	1,000,000	1,000,000
Merrick Bank Corporation	2.00%	Sep-21	750,000	750,000
Morgan Stanley-\$ 5 million line of credit	Libor Reference rate plus 1.75%	May-22	5,000,000	-
National Housing Law Project	2.75%	Various	200,000	-
Opportunity Finance Network	3.00%	Sep-24	1,818,182	1,818,182
Oregon Community Foundation	3.00%	Jun-26	1,000,000	-
Pacific Western Bank-COIN	0.00%	May-20	500,000	500,000



Rural Community Assistance Corporation
Notes to the Consolidated Financial Statements, continued
September 30, 2019 and 2018

Note 9: Notes Payable, continued:

	Interest Rate	Maturity	2019	2018
Providence St. Joseph Health System	3.00%	Jun-23	1,000,000	1,000,000
Rasmuson Foundation	0.00%-1.00%	Dec-24	1,250,000	1,250,000
Religious Communities Investment Fund	2.75%	Jul-24	350,000	350,000
Sachs (Erich & Hannah) Foundation	2.75%	Mar-22	500,000	500,000
Santa Fe Community Foundation	2.00%	Mar-27	56,760	56,760
Sisters of Charity - Incarnate Word	2.00%	Jul-24	250,000	250,000
Sisters of St. Francis of Philadelphia	1.00%	Oct-22	50,000	50,000
Sisters of the Holy Cross	3.00%	Sep-20	200,000	200,000
Sisters of the Holy Names of Jesus and Mary	2.00%	Nov-19	250,000	250,000
Tahoe Truckee Community Foundation	2.50%	Jun-20	200,000	200,000
The Grove Foundation	2.00%	Sep-24	500,000	500,000
Trillium Asset Management	2.00%-2.50%	Various	800,000	575,000
Trinity Health Corporation	2.50%	Mar-23	1,500,000	1,500,000
Union Bank	3.00%	Apr-24	1,000,000	750,000
US Department of Agriculture, CF Relending	2.38%	Dec-56	2,784,559	-
US Department of Agriculture, IRP 1	1.00%	Aug-21	159,333	239,201
US Department of Agriculture, IRP 2	1.00%	Mar-25	491,827	571,017
US Department of Agriculture, IRP 3	1.00%	Sep-38	548,347	574,441
US Department of Agriculture, IRP 4-A	1.00%	Aug-39	574,441	600,275
US Department of Agriculture, IRP 4-B	1.00%	Dec-39	200,090	208,616
US Department of Agriculture, IRP 5	1.00%	Sep-41	625,854	651,180
US Department of Agriculture, IRP 6	1.00%	Jan-44	373,910	387,020
US Department of Agriculture, IRP 7	1.00%	Nov-44	967,551	1,000,000
US Department of Agriculture, IRP 8	1.00%	Sep-47	500,000	500,000
US Department of Agriculture, IRP 9	1.00%	Sep-48	1,000,000	-
US Department of Treasury, CDFI Fund	2.42%	Jul-20	1,700,000	1,700,000
US Department of Treasury, CDFI Fund	1.95%	Jun-28	558,862	558,863
US Department of Treasury, SBLF	2.00%	Sep-19	-	4,300,000
W.K. Kellogg Foundation	1.00%	Jun-27	1,000,000	1,000,000
Wells Fargo Bank	2.00%	Jun-26	2,000,000	2,000,000
Wells Fargo Bank-COIN	0.00%	Aug-27	1,000,000	1,000,000
Woodcock Foundation	2.00%	Sep-28	250,000	-
Total notes payable			67,020,021	54,728,046
Less: Amounts payable within one year			(6,490,541)	(10,940,389)
Notes payable, less current portion			<u>\$ 60,529,479</u>	<u>\$ 43,787,657</u>



Rural Community Assistance Corporation
Notes to the Consolidated Financial Statements, continued
September 30, 2019 and 2018

Note 9: Notes Payable, continued:

	<u>2019</u>	<u>2018</u>
Weighted average maturity (monthly)	<u>104</u>	<u>84</u>
Weighted average interest rate	<u>1.91%</u>	<u>1.38%</u>
<u>Principal maturities for the fiscal years ending September 30:</u>		
2020	\$ 6,490,541	
2021	4,655,285	
2022	4,496,456	
2023	6,941,565	
2024	7,880,297	
Thereafter	<u>36,555,876</u>	
Total	<u>\$ 67,020,020</u>	

Loan Covenants:

Many of the above notes payable contain loan covenants that require RCAC to maintain specific financial ratios, achieve certain performance levels, or maintain certain management controls. RCAC is not aware of any violations of loan covenants as of September 30, 2019 and 2018.

Note 10: Post-Employment Benefits:

RCAC offers post-employment medical insurance benefits with an option for eligible former employees to continue medical coverage for a limited period after employment. If the medical insurance carrier allows the continued coverage, RCAC will contribute to the cost of the coverage. The Plan benefits were frozen in 2008. Eligible participants may opt to receive cash in-lieu of this benefit.

The plan is unfunded. A liability of \$154,283 and \$181,543 as of September 30, 2019 and 2018, respectively, is included on the Consolidated Balance Sheets in other long-term liabilities.

Rural Community Assistance Corporation
Notes to the Consolidated Financial Statements, continued
September 30, 2019 and 2018



Note 11: Retirement and Deferred Compensation Plans:

RCAC maintains a tax-deferred annuity plan qualified under section 403(b) of the Internal Revenue Code (IRC). All employees may make voluntary pre-tax contributions to the plan, up to the maximum amount allowed by the Internal Revenue Service. Under the plan, RCAC may also contribute to the account of eligible participants. Employees become eligible for RCAC contributions after six months of full-time employment. The RCAC employer contribution was 5% and 4%, based on qualified employee gross salaries for fiscal year 2019 and 2018. The 2019 contribution includes a 1% one time additional contribution approved by the board. The retirement plan expense recognized by RCAC (as a component of fringe benefits) for the years ended September 30, 2019 and 2018 was \$448,450 and \$335,539, respectively.

RCAC also offers an IRC Section 457(b) deferred compensation plan. The Plan allows management employees to voluntarily defer compensation to the extent allowed by law. No other contribution is made to the 457(b) Plan. The 457(b) plan assets as of September 30, 2019 and 2018 were \$207,817 and \$233,543, respectively. The asset is included in other non-current assets on the RCAC Balance Sheet and the corresponding liability is included in other long-term liabilities.

Note 12: Bonds Payable:

On June 3, 2004, RCAC obtained financing for the Organization's headquarters building in West Sacramento, California via the issuance of \$2,830,000 variable rate demand revenue bonds by the California Infrastructure and Economic Development bank, an entity within the Business, Transportation, and Housing Agency of the State of California. The bonds mature on June 1, 2029.

On June 2, 2014 RCAC initiated a partial redemption of the bonds in the amount of \$800,000. On July 16, 2014, an alternate letter of credit, with an annual fee of 1.45%, was issued in the amount of \$2,060,033 by Union Bank of California. The letter of credit is secured by a first lien position on the aforementioned headquarters building and expires on June 1, 2029.

Interest on the bonds is exempt from California State and Federal income taxes and is not subject to alternative minimum tax. The interest rate is determined weekly.

RCAC capitalized bond issuance cost of \$96,462, and Union Bank of California letter of credit issuance cost of \$69,347. Bond issuance costs are amortized over the 25 year life of the bond and the letter of credit issuance cost is amortized over a 15 year life. The unamortized balances of both are listed below. The short-term portion of these unamortized costs are included on the Consolidated Balance Sheets within receivables, prepaid, and deposits, and the non-current portion is included within Other non-current assets as of September 30, 2019 and 2018.

Rural Community Assistance Corporation
Notes to the Consolidated Financial Statements, continued
September 30, 2019 and 2018



Note 12: Bonds Payable, continued:

RCAC capitalized bond issuance cost of \$96,462, and Union Bank of California letter of credit issuance cost of \$69,347. Bond issuance costs are amortized over the 25 year life of the bond and the letter of credit issuance cost is amortized over a 15 year life. The unamortized balances of both are listed below. The short-term portion of these unamortized costs are included on the Consolidated Balance Sheets within receivables, prepaid, and deposits, and the non-current portion is included within Other non-current assets as of September 30, 2019 and 2018.

	2019	2018
<u>Bond related assets:</u>		
Bank balance in bond sinking fund	\$ 593,077	\$ 480,502
Unamortized bond issuance costs	37,331	41,189
Unamortized letter of credit origination	45,268	49,891
Land, building, improvements, net	2,230,228	2,455,725
Total bond related assets	<u>\$ 2,905,904</u>	<u>\$ 3,027,307</u>
	2019	2018
<u>Bond related liability:</u>		
Bonds payable	<u>\$ 2,030,000</u>	<u>\$ 2,030,000</u>
	2019	2018
<u>Bond related expenses:</u>		
Amortization of bond and letter of credit costs	\$ 8,482	\$ 8,482
Letter of credit fees	30,285	30,265
Interest expense	32,655	26,615
Trustee and administration fees	10,005	10,005
Total bond expenses	<u>\$ 81,427</u>	<u>\$ 75,367</u>
Interest rate range, rate determined weekly	<u>1.33%-2.40%</u>	<u>0.96%-1.86%</u>
Weighted average annualized interest rate	<u>1.61%</u>	<u>1.31%</u>
Weighted average bond annualized expense rate	<u>4.01%</u>	<u>3.71%</u>

The bonds are subject to early redemption on any business day at the discretion of RCAC. A bond sinking fund deposit account has been established at Union Bank of California. Per the agreement, the following are the annual sinking fund payments:



Rural Community Assistance Corporation
Notes to the Consolidated Financial Statements, continued
September 30, 2019 and 2018

Note 12: Bonds Payable, continued:

For the Year Ending September 30:

2020	\$ 126,252
2021	131,247
2022	136,251
2023	141,252
2024	146,247
Thereafter	754,156
Total payments	<u>\$ 1,435,405</u>

Note 13: Net Assets with Donor Restrictions:

RCAC receives support for its operations that include donor-imposed restrictions. The restrictions may be time restricted (the donation cannot be used until a later date), purpose restricted (the donation may only be used for a specific activity), or both time and purpose restricted. The donor imposed restrictions will expire when (a) the donor imposed time limitation has elapsed, or (b) the donor stipulated purpose for which the donation was restricted has been fulfilled by RCAC.

The balances of net assets with donor restrictions reflect that support already recorded as revenue, but for which donor-imposed restrictions still apply. The balances of net assets with donor restrictions at September 30, 2019 and 2018 are as follows:

Lending Capital - subject to the passage of time:

California Endowment (Sinking Fund - accumulated earnings)	\$ 2,755,940
California State Water Resources Control Board	108,437
City of Flagstaff	269,146
Ford Foundation	150,000
State of Idaho	213,849
USDA Rural Development	207,233
USDA Rural Utility Service	-
U.S. Treasury, Capital Magnet Fund	2,375,000
U.S. Treasury, CDFI Fund	<u>2,506,905</u>
Total net assets with donor restrictions-lending capital	<u>8,586,510</u>



Rural Community Assistance Corporation
Notes to the Consolidated Financial Statements, continued
September 30, 2019 and 2018

Note 13: Net Assets with Donor Restrictions, continued:

Other - subject to expenditure for specified purpose:

Support various environmental and housing programs -

Ally Bank	25,904
American Express	72,394
Bank of America	363,308
California Endowment (Tall Trees)	640,000
California Endowment	536,630
California State Water Resources Control Board	480,564
Capital One Service	55,156
Ford Foundation	729,079
Jennifer P Speers	29,508
Joe Serna Jr Farmworker Housing Loan Servicing Fund	883,635
Mary Reynolds Babcock Foundation	1,067,535
Morgan Stanley Bank, NA	169,802
PNC Bank	28,509
Pacific Western Bank	24,450
Rabo Bank	53,168
The Community Foundation	-
USDA Rural Development	79,855
USDA Rural Utility Service	250,000
U.S. Treasury, Capital Magnet Fund	125,000
W K Kellogg Foundation	15,379
Water Foundation	109,317
Wells Fargo Foundation	211,863
Yocha Dehe Wintun Nation	54,297
Other various donors	187,804
	<hr/>
Total net assets with donor restrictions - other than lending capital	6,193,157
	<hr/>
Total net assets with donor restrictions	<u><u>\$ 14,779,667</u></u>

Board designated fund

This fund is comprised of surpluses from operations set aside for lending and development along with grants received for the same purpose. RCAC's Board of Directors determine the amount added to this fund annually.



Rural Community Assistance Corporation
Notes to the Consolidated Financial Statements, continued
September 30, 2019 and 2018

Note 14: Concentration of Revenue Sources:

During the fiscal years ended September 30, 2019, and 2018, RCAC's operations and program activities were funded by the following sources of revenue:

	2019	2018
<u>Donations with Donor Restrictions:</u>		
Loan Interest Income With Donor Restrictions	\$ 1,052,517	\$ 973,719
Uplift America Fund	532,000	401,931
USDA Rural Utilities Service	341,607	238,249
Investment Income With Donor Restrictions	338,297	304,219
Wells Fargo Foundation	210,000	-
CA Household Waterwells	205,490	-
Idaho Septic System Grant, State of Idaho	120,782	150,000
Water Foundation	120,000	-
Morgan Stanley Bank	105,000	100,000
Yocha Dehe Winrun Nation	80,000	-
The Bank of America Corporation	65,000	65,000
American Express	40,000	45,000
Capital One	25,000	103,000
Rabobank	25,000	12,500
JP Morgan Chase Foundation	25,000	-
Dignity Health	22,500	22,500
Charles SCHWAB	21,500	9,000
FAHE	20,000	-
California Bank and Trust	20,000	-
Ally Bank	15,000	-
Banner Bank	15,000	-
U.S. Bankcorp Foundation	12,500	25,000
Pacific Western Bank	10,000	-
Capitol Magnet Fund	-	2,500,000
U.S. Treasury, CDFI Fund	-	1,006,905
State Water Resources Control Board	-	360,953
W.K. Kellogg Foundation	-	282,553
City of Flagstaff	-	269,146
S.L. Ginbel Foundation Advised Fund	-	50,000
Rose Foundation for Communities and the Environment	-	46,500
Center for Health Program Mgmt. Sierra Health	-	18,000
City of Loyalton	-	5,000
All others	5,190	25,125
	<u>\$ 3,427,383</u>	<u>\$ 7,014,300</u>
Total donations with donor restrictions		



Rural Community Assistance Corporation
Notes to the Consolidated Financial Statements, continued
September 30, 2019 and 2018

Note 14: Concentration of Revenue Sources, continued:

	<u>2019</u>	<u>2018</u>
<u>Grants & contracts without donor restrictions:</u>		
U.S. Department of Agriculture	\$ 5,204,412	\$ 4,113,542
U.S. Environmental Protection Agency	3,709,956	3,366,099
U.S. Department of Housing & Urban Development	2,083,624	2,243,674
U.S. Department of Health & Human Services	1,272,262	1,217,211
U.S. Department of Commerce	294,784	-
U.S. Department of Labor	218,870	191,548
U.S. Department of Small Business Administration	59,391	190,609
Neighborhood Reinvestment Corporation Act	4,426	109,287
San Diego County Water Authority	1,555,563	390,065
State Water Resources Control Board	1,142,671	1,341,331
Yuba County Water Agency	393,186	278,082
New Mexico Environmental Depart. Drinking Water	85,157	135,225
All others	629,740	389,965
	<u>\$ 16,654,043</u>	<u>\$ 13,966,638</u>
<u>Lending income without donor restrictions:</u>		
Loan interest income	\$ 2,667,064	\$ 2,140,585
Loan fees	1,033,220	939,363
Guarantee Fees Revenue	36,836	-
Gain (Loss) on sale of assets	75,000	5,111
	<u>3,812,120</u>	<u>3,085,059</u>
<u>Investment income without donor restrictions:</u>		
Investment income without donor restrictions	<u>105,923</u>	<u>159,122</u>
<u>Revenue From Partnership</u>		
Revenue from Partnership	<u>110,441</u>	<u>-</u>
<u>Other and rental income</u>		
Other and rental income	<u>119,494</u>	<u>133,288</u>
	<u>\$ 24,229,404</u>	<u>\$ 24,358,406</u>

Grants and contracts without donor restrictions - U.S. Government departments and agency amounts include grants and contracts in which RCAC was either the primary recipient or a sub-recipient of the funding.

Rural Community Assistance Corporation
Notes to the Consolidated Financial Statements, continued
September 30, 2019 and 2018



Note 15: Concentrations of Risk:

Credit Risk:

The Organization maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts. The Organization believes it is not exposed to any significant credit risk on cash and cash equivalents.

The Organization grants credit to its clients and partners, substantially all of whom are non-profit organizations, tribal communities, small business or governmental agencies. Management believes that its loan underwriting, billing, and collection policies are adequate to minimize potential credit risk.

Note 16: Grant Liens:

RCAC has provided grants to other non-profit organizations. The conditions of these grants require the recipient organization to maintain services to a targeted population for a period of time or requires that ownership of real estate is continued by specific parties. When possible, RCAC secures performance via a grant lien on real estate. The liens enable RCAC to recover the amount of the grant if the use of the real estate is altered or ownership is transferred. RCAC expects the grant recipients to perform per the conditions of the grant and therefore RCAC does not carry a value for these liens on its Consolidated Balance Sheets. The grants were expensed when the grants were awarded. The amounts of outstanding grant liens as of September 30 are:

	2019		2018	
	Number of Grant Liens	Amount	Number of Grant Liens	Amount
Health related facilities grants expiring in 2027 to 2030	7	\$ 721,991	7	\$ 721,991
Total	7	\$ 721,991	7	\$ 721,991

Rural Community Assistance Corporation
Notes to the Consolidated Financial Statements, continued
September 30, 2019 and 2018



Note 17: Other Loan Servicing Commitments:

RCAC makes long-term loans for which the borrower obtains a USDA Rural Development guarantee for a portion of the loan. The guarantee is typically for 80% or 90% of the total loan amount. Under the conditions of the guarantee, RCAC is required to retain 5% of the loan, and is allowed to sell up to 95%. RCAC typically sells the guaranteed portion of these loans, but retains the servicing (for a fee) of the entire loan and management of the guarantee requirements. The portion of the loan retained by RCAC is included on the Consolidated Balance Sheet under loans receivable. The portion of the loan sold, but with servicing commitment retained, is not carried on the RCAC Consolidated Balance Sheet.

RCAC Loan Servicing Provided to Other Lenders	2019		2018	
	Number of Loans or Grants	Amount	Number of Loans or Grants	Amount
Loans sold to other lenders with servicing retained, USDA guaranteed loans	49	\$ 31,670,733	47	\$ 33,402,013
Loan servicing provided for loans and grants made by the California Department of Housing and Community Development	8	12,463,812	8	12,463,812
Other loans serviced by RCAC	4	3,181,473	-	-
Total	61	\$ 47,316,018	55	\$ 45,865,825



Rural Community Assistance Corporation
Notes to the Consolidated Financial Statements, continued
September 30, 2019 and 2018

Note 18: Commitments and Contingencies:

a) Off-Balance-Sheet Risk:

To meet the financing needs of borrowers, RCAC is party to certain financial instruments with off-balance sheet risk. These financial instruments include financial guarantees, conditional commitments to lend more on existing loans (undisbursed portion of existing loans) and conditional commitments to make new loans. These arrangements involve elements of credit risks. RCAC uses the same credit policies in making guarantees and conditional commitments as it does for on-balance-sheet obligations.

The composition of financial instruments with off-balance-sheet risk, as of September 30, 2019 and 2018 are:

	2019	2018
Undisbursed portion of existing loans	\$ 43,978,077	\$ 30,098,690
Conditional commitments to make new loans	22,247,477	26,196,545
Total	<u>\$ 66,225,554</u>	<u>\$ 56,295,235</u>

b) Water System Operation and Maintenance:

In fiscal year 2014, RCAC obtained State of California Proposition 84 funding (The Safe Drinking Water, Water Quality and Supply, Flood Control, River and Coastal Protection Bond Act) for water infrastructure projects in California. RCAC was awarded three grants totaling \$5.4 million and plans to sub-grant \$4.7 million of that amount to local water entities. Ten sub-grants were awarded as of September 30, 2018. The conditions of the grants to RCAC require RCAC to operate and maintain the infrastructure created with grant funds, for the reasonable useful life of such infrastructure, if the sub-grantees fail to do so. RCAC will require all sub-grantees to operate and maintain the related infrastructure, but acknowledges that RCAC has an obligation, if the sub-grantee fails to do so. RCAC believes that all sub-grantees will operate and maintain these projects and therefore, does not recognize a liability to do the same.



Rural Community Assistance Corporation
Notes to the Consolidated Financial Statements, continued
September 30, 2019 and 2018

Note 18: Commitments and Contingencies, continued:

c) Operating Leases:

Rural Community Assistance Corporation rents office spaces under operating leases expiring at various dates through 2023. Rent expense under these operating leases amounted to \$142,747 and \$125,464 for the years ended September 30, 2019 and 2018, respectively. The minimum future lease payments over the next five years are as follows:

<u>Year Ending September 30:</u>	
2020	\$ 85,506
2021	64,835
2022	44,141
2023	19,184
<hr/>	
Total payments	\$ 213,666
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d) Unrecognized Revenue and Guarantees:

Kunia Village Development Project, HI.

According to the Development Services agreement dated February 1, 2016, RCAC is contracted to receive \$1,400,000 for development services provided to the Kunia Village Housing Partners, LLC through RQLLC, RCAC's wholly owned subsidiary.

The developer fee is scheduled to be distributed out of operations and not from the Limited Partner pay-in. Since RQLLC's developer fee earnings are tied to rental operations and operating results, revenue will be recognized as payments are received for the project.

The balance of the developer fee will be distributed annually between 2018 and 2036 equally between Kunia Village Development Corporation (KVDC) and RQLLC.

The developer fee is earned upon completion of certain milestones set forth in the Development Services Agreement, and distributed from development funding sources as available in 2018 and 2019. Any developer fee unable to be paid from development sources will become a deferred developer fee note to be paid from available operating cash flow.

Rural Community Assistance Corporation
Notes to the Consolidated Financial Statements, continued
September 30, 2019 and 2018



Note 18: Commitments and Contingencies, continued:

Courtyard Apartments, MT.

RCAC is the sole member of Rural Integrity LLC (RILLC) which is the co-general partner, along with Recapitalization Montana, LLC in Courtyard Associates, A Montana Limited Partnership (CALP). On May 21, 2018 CALP acquired the Courtyard Appartments, a 32 unit rental housing project in Kalispell Montana. CALP entered into a Development Services agreement dated May 1, 2018 with RCAC and Recapitalization Montana, LLC to jointly serve as Developer for the rehabilaion of Courtyard Apartments. The joint developers are contracted to receive a developer fee of \$472,000 for development services provided to CALP.

The Joint Development Agreement dated July 28, 2019 between RCAC and Recapitalization Montana, LLC provides that RCAC receive 54% of the developer fee of \$254,880 and Recapitalization Montana, LLC receives 46% of that amount. RCAC has received \$147,277 in developer fees from Couvty and Assocaites. Of this amount \$36,836 was recognized as gurantee fee for guaranteeing the construction loan. It's expected that the entire fee will be repaid from development sources.

RCAC, RILLC and Recapitalizatn Montana together have entered into gurantees to and for the benefit of the CALP Investor Limited Partner, Community Affordable Housing Fund, LLC, all in accordance with the CALP Limited Partnership Agreement dated May 1, 2018:

- * Completion of construction and rehabilitation, including paymen of any costs that exceed available financing. Any such payment shall be structured as a loan.
- * Payment of operating deficits up to an aggregated amount of \$175,000. Any such payment shall be structured as a loan.
- * Repayment of Capital contributions in proportion to any deficiencies in Low Income Housing Tax Credits.
- * Repurchase of the interest of the Investment Limited Partner under certain extreme extreme circumstances.

RCAC and RILLC have each entered into gurantees to and for the benefit of Glacier Bank:

- * Completion of construction and rehabilitation, including payment of any costs that exceed available financing.
- * Repayment Gurantee for a \$3,683,603 construction loan should permanent sources not be available.



Rural Community Assistance Corporation
15-Year History of Donor Restricted Revenue, Expenses and Net Asset Changes and Year-End Balances
For the fiscal years ended September 30, 2005 through 2019

Year Ending September 30,	Without Donor Restrictions				With Donor Restrictions			Total Net Assets Net Change	Year End Net Assets		
	Revenue & Gains before Releases	Net Assets Released	Expenses	Net Change	Revenue	(Released)	Net Change		Without Donor Restrictions	With Donor Restrictions	Total
2005	\$ 10,792,671	\$ 7,163,366	\$ 17,784,081	\$ 171,956	\$ 4,041,017	\$ (7,163,366)	(3,122,349)	\$ (2,950,393)	\$ 5,403,286	\$ 12,843,571	\$ 18,246,857
2006	11,863,526	10,377,828	13,137,728	9,103,626	1,325,056	(10,377,828)	(9,052,772)	50,854	14,506,912	3,790,799	18,297,711
2007	12,438,118	1,623,724	13,639,130	422,712	1,232,826	(1,623,724)	(390,898)	31,814	14,929,624	3,399,901	18,329,525
2008	11,862,967	1,634,368	13,263,401	233,934	1,408,413	(1,634,368)	(225,955)	7,979	15,163,558	3,173,946	18,337,504
2009	12,480,384	1,304,915	13,748,543	36,756	2,827,489	(1,304,915)	1,522,574	1,559,330	15,200,314	4,696,520	19,896,834
2010	14,408,810	2,033,080	16,361,043	80,847	1,252,318	(2,033,080)	(780,762)	(699,915)	15,281,161	3,915,758	19,196,919
2011	13,507,015	526,197	13,829,452	203,760	4,122,600	(526,197)	3,596,403	3,800,163	15,484,921	7,512,121	22,997,082
2012	13,033,296	1,930,168	13,169,787	1,793,677	1,075,602	(1,930,168)	(854,566)	939,111	17,278,598	6,657,555	23,936,153
2013	14,097,517	627,199	14,074,267	650,450	4,118,651	(627,199)	3,491,452	4,141,902	17,929,047	10,149,007	28,078,055
2014	11,842,021	3,118,778	13,348,370	1,612,429	3,601,869	(3,118,778)	483,091	2,095,520	19,541,477	10,632,098	30,173,575
2015	12,485,248	4,463,833	14,231,690	2,717,391	5,465,959	(4,463,833)	1,002,126	3,719,517	22,258,868	11,634,224	33,893,092
2016	14,304,912	6,425,665	16,110,145	4,620,432	2,478,091	(6,425,665)	(3,947,574)	672,858	26,879,300	7,686,651	34,565,951
2017	14,735,219	3,138,011	16,612,853	1,260,377	4,295,062	(3,138,011)	1,157,051	2,417,428	28,139,677	8,843,702	36,983,379
2018	17,344,106	2,332,164	18,744,774	931,496	7,014,300	(2,332,164)	4,682,136	5,613,632	29,071,173	13,525,838	42,597,011
2019	20,802,021	2,173,554	22,018,170	957,405	3,427,383	(2,173,554)	1,253,829	2,211,234	30,028,578	14,779,667	44,808,245

Generally accepted accounting principles in the United States of America require that contributions with donor-imposed restrictions be recognized as revenue by a nonprofit organization upon the transfer of assets, including promises to give. RCAC recognizes such contributions as with donor restricted revenue and maintains with donor restricted net assets until the restrictions on the contribution are met.

Revenue is recognized in the year of receipt of the asset. Expenses incurred to meet the donor imposed restrictions may occur in the same or in a subsequent fiscal year. Donor restricted net assets are released from restrictions upon appropriate use of the funds or upon expiration of the restriction period.



**Rural Community Assistance Corporation
Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2019**

<u>Grantor:</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>	<u>Pass-throughs</u>
<u>U.S. Department of Agriculture:</u>			
Rural Housing Service Self-Help Housing 18	12-31ME-18-C-0005	\$ 1,301,409	\$ -
Rural Housing Service Self-Help Housing 19	12-31ME-18-C-0005	1,203,130	-
Rural Utilities Service Technical Assistance & Training Project 19 (Pass-through from RCAP)	10.761	1,175,963	12,000
Rural Utilities Service Technical Assistance & Training Project 20 (Pass-through from RCAP)	10.761	41,567	-
Tribal Rural Utilities Service Technical Assistance & Training Project 19 (Pass-through from RCAP)	10.761	103,042	-
Colonias Rural Utilities Service Technical Assistance & Training Project 19 (Pass-through from RCAP)	10.761	235,504	-
Region Five Development Commission	10.89	1,822	-
Rural Community Development Initiative 14	10.446	16,155	-
Rural Community Development Initiative 15	10.446	151,450	-
Rural Community Development Initiative 16	10.446	43,492	-
Rural Community Development Initiative 18	10.446	22,954	-
Solid Waste Management 19	10.762	143,000	-
Rural Infrastructure Application & Development Assistance Project 2018-2019	10.761	743,926	-
Rural Development Cooperative Agreement	10.890	12,125	-
Rural Utilities Service, Household Water Wells	10.862	8,873	-
Total U.S. Department of Agriculture		\$ 5,204,412	\$ 12,000
<u>U.S. Department of Health and Human Services:</u>			
Community Services Block Grant 18 (Pass-through from State of California) (Contract # 18F-5303)	93.569	\$ 59,075	\$ 4,531
Community Services Block Grant 19 (Pass-through from State of California) (Contract # 19F-4303)	93.569	118,577	2,865
Rural Community Facilities Development 18	93.570	172	-
Rural Community Facilities Development 19	93.570	1,094,438	-
Total U.S. Department of Health and Human Services		\$ 1,272,262	\$ 7,396

Rural Community Assistance Corporation
Schedule of Expenditures of Federal Awards, continued
For the Year Ended September 30, 2019



<u>Grantor, continued:</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>	<u>Pass-throughs</u>
<u>U.S. Department of Commerce:</u>			
Minority Business Resource Development	11.802	\$ 294,784	\$ 119,910
Total U.S. Department of Commerce		<u>\$ 294,784</u>	<u>\$ 119,910</u>
<u>U.S. Department of Labor:</u>			
Migrant and Seasonal Farmworker Housing Program 17	17.264	\$ 756	\$ -
Migrant and Seasonal Farmworker Housing Program 18	17.264	212,578	25,000
Migrant and Seasonal Farmworker Housing Program 19	17.264	5,536	-
Total U.S. Department of Labor		<u>\$ 218,870</u>	<u>\$ 25,000</u>
<u>U.S. Department of Small Business Administration:</u>			
Program for Investment in Microentrepreneurs Act of 1999	59.050	\$ 59,391	\$ 30,000
Total U.S. Department of Small Business Administration		<u>\$ 59,391</u>	<u>\$ 30,000</u>
<u>U.S. Environmental Protection Agency:</u>			
National Priority Area 1 Training & TA for Small Drinking Water Systems	66.424	\$ 70,226	\$ -
National Priority Area 1 Training & TA for Small Drinking Water Systems	66.424	317,992	-
National Priority Area 3 Improving Water Quality through Training and TA	66.424	29,426	-
National Priority Area 3 Improving Water Quality through Training and TA	66.424	93,138	-
National Priority Area 4 Training & TA for Small Drinking Water Systems	66.424	39,627	-
National Priority Area 4 Training & TA for Small Drinking Water Systems	66.424	106,733	-
EFC to provide multimedia environmental Finance expertise and outreach to regulate communities to help them meet environmental requirements	66.203	519,402	11,364



**Rural Community Assistance Corporation
Schedule of Expenditures of Federal Awards, continued
For the Year Ended September 30, 2019**

<u>Grantor, continued:</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>	<u>Pass - throughs</u>
State of Institution of Higher Learning	66.436	2,332	-
Public Water System Supervision & Training Region 8	66.468	13,104	-
Public Water System Supervision & Training Region 9 (Pass-through from Horsley Witten Froup, LLC.)	66.468	-	-
Public Water System Supervision & Training Region 9 (Pass-through from Horsley Witten Froup, LLC.)	66.468	936,182	-
Public Water System Supervision & Training Region 9 (Pass-through from Horsley Witten Froup, LLC.)	66.468	46,349	-
EPA Region 9	66.468	10,000	-
EPA Region 9 Tribal WasteWater Operator Training	66.468	5,934	-
Defense Finance & Accouting Service	66.468	22,863	-
Capacity Development Assistance Y3 (Pass-through from State of California Dept of Health Services)	66.468	-	-
Capacity Development Assistance Y1 (Pass-through from State of California Dept of Health Services)	66.468	929,315	-
Capacity Development Assistance Y2 (Pass-through from State of California Dept of Health Services)	66.468	407,713	-
Department of Conservationand Natural Resources a division of Environmental Protection	66.468	6,594	-
Capacity Development Assistance (Pass-through from State of Hawaii Dept of Health)	66.468	74,607	-
Drinking Water Training and Outreach 17 (Pass-through from State of Washington)	66.468	62,697	-
Drinking Water Training and Outreach 19 (Pass-through from State of Washington)	66.468	15,723	-
Total U.S. Environmental Protection Agency		<u>\$ 3,709,956</u>	<u>\$ 11,364</u>



Rural Community Assistance Corporation
Schedule of Expenditures of Federal Awards, continued
For the Year Ended September 30, 2019

<u>Grantor:</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>	<u>Pass - throughs</u>
<u>U.S. Department of Housing and Urban Development:</u>			
Housing Counseling Program 17	14.169	\$ -	\$ -
Housing Counseling Program 18	14.169	831,160	623,528
Housing Counseling Training 17	14.316	76,713	-
Housing Counseling Training 18	14.316	504,100	-
Housing Counseling Training 17 Supplemental	14.316	-	-
Blue Sky Center	14.252	4,032	-
Rural Business Development	14.252	26,614	-
Community Compass Technical Assistance 15	14.259	30,938	-
Community Compass Technical Assistance 16 AFFH	14.259	184	-
Community Compass Technical Assistance 16 Tribal	14.259	49,052	-
Rural Capacity Building 15	14.265	65,636	18,737
Rural Capacity Building 16	14.265	116,079	30,000
Rural Capacity Building 17	14.265	277,524	63,935
Rural Capacity Building 18	14.265	84,147	-
Section 4 Funds (Pass-through from Rural Local Initiatives Support Corporation 17 Travel)	14.252	16,855	-
Wells Fargo Farm Worker Initiative (Pass-through from Rural Local Initiatives Support Corporation 17 Travel)	14.252	590	472
Total U.S. Department of Housing and Urban Development		\$ 2,083,624	\$ 736,673
<u>Emergency Economic Stabilization Act of 2008</u>			
Housing Finance Agency Innovation Fund known in California as Keep Your home California		\$ 4,426	\$ -
(passthrough from California Housing Finance Agency)	A10-014	\$ 4,426	\$ -
Total Federal Awards Expended		\$ 12,847,726	\$ 942,343



**Rural Community Assistance Corporation
Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2019**

Note 1: Scope of Audit Pursuant to the Uniform Guidance:

All federal grant operations of Rural Community Assistance Corporation are included in the scope of the Audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Compliance testing of all requirements under the Uniform guidance were performed for RCAC. The Rural Utilities Service Technical Assistance and Training project, Tribal Rural Utilities Service Technical Assistance and Training project, Colonias Rural Utilities Service Technical Assistance and Training project, Rural Infrastructure Application and Development Assistance project and Housing Counseling Programs, represent major federal award programs and other grants with fiscal 2019 cash and noncash expenditures in excess of \$750,000 to ensure coverage of at least 25% of federally granted funds. Actual coverage is approximately 37% of total cash and noncash federal award program expenditures.

Note 2: Basis of Presentation:

The accompanying Schedule of Expenditures of Federal Awards (SEFA) includes all Federal grants and contracts to RCAC that had activity during the year ended September 30, 2019. This schedule has been prepared on the accrual basis of accounting. Grant and contract revenue is recorded for financial reporting purposes when RCAC has met the qualifications for the respective grants and contracts. Grants that have expired and procurement contracts that do not have an individual CFDA number, have been identified by contract number in the SEFA.

Note 3: Relationship to consolidated Financial Statements:

The amounts reported in the accompanying Schedule of Expenditures of Federal Awards agree, in all material respects, to amounts reported within the consolidated financial statements. Federal award revenues are reported principally in the Organization's consolidated financial statements as grant revenue.

Note 4: Amounts Provided to Sub-recipients:

Amounts provided to sub-recipients under Federal and non-federal award programs during the year ended September 30, 2019 were as follows:

HHS Community Services Block Grants	\$ 7,395
USDA Technitrain, Solid Waste	12,000
U.S. Department of Commerce	119,910
USEPA EFC	11,364



**Rural Community Assistance Corporation
Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2019**

Note 4: Amounts Provided to Sub-recipients, continued:

US Department of Small Business Administration	30,000
DOL Migrant and Seasonal Farm Workers	25,000
HUD Housing Counseling, Rural Capacity Building, RURALLISC	736,673
Non-Federal Award Program Grants and Pass-through Awards	1,768,400
	<hr/>
Total Grants and Pass-through Awards	\$ 2,710,742
	<hr/>

Note 5: Federal Awards Expended with Common CFDA Number:

When there is more than one program under a single CFDA number, the Schedule of Expenditures of Federal Awards totals all programs under the one CFDA number. Occasionally, however, this total could not be conveniently displayed because all programs under one CFDA number were not contiguous. When this occurred, this total is not shown in the Schedule, but instead, is provided below:

<u>CFDA No.</u>	<u>Federal Expenditures</u>
10.446	234,051
10.761	2,300,002
10.890	13,947
12-31ME-18-C-0005	2,504,539
14.169	831
14.252	48,092
14.259	80,175
14.265	543,386
14.316	580,812
17-264	218,870
66.424	657,141
66.468	2,531,081
93.569	177,653
93.570	1,094,610

Note 6: Pass-Through Entities' Identifying Number:

When federal awards were received from a pass-through entity, the Schedule of Expenditures of Federal Awards shows, if available, the identifying number assigned by the pass-through entity. When no identifying number is shown, the Organization either determined that no identifying number is assigned for the program, or was simply unable to obtain an identifying number from the pass-through entity.

**Rural Community Assistance Corporation
Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2019**



Note 7: Indirect Costs

RCAC has a negotiated Indirect Cost Rate Agreement (NICRA) with the U.S. Government. Accordingly, it has elected not to use the de minimis indirect cost rate of 10%.

Note 8: Grants to Lending Capital:

RCAC received a \$315,000 award from USDA Rural Utilities Service (RUS) for lending capital for the Household Water Wells Program. \$207,233 of the proceeds from this award was disbursed to qualified borrowers in FY18 and \$60,055 was disbursed in the current fiscal year.

RCAC received a \$250,000 award from USDA Rural Utilities Service (RUS) for lending capital. \$228,781 of the proceeds from this award was disbursed to qualified borrowers in FY18 and none was disbursed in the current fiscal year.

RCAC received a \$250,000 award from USDA Rural Utilities Service (RUS) for lending capital. \$238,249 of the proceeds from this award was disbursed to qualified borrowers in FY18 and \$11,751 was disbursed in the current fiscal year.

RCAC received a \$1,006,905 award from the U.S. Treasury, Community Development Finance Institution (CDFI) for lending capital to be lent to qualified borrowers. \$909,662 was disbursed in FY18 and \$97,243 was disbursed in the current fiscal year.

RCAC received a \$2,375,000 award from the U.S. Treasury, Capital Magnet Fund (CMF) for lending capital to be lent to qualified borrowers. None was disbursed in FY18 and \$2,030,000 was disbursed in the current fiscal year.

RCAC received a \$500,000 award from USDA Intermediary Relending Program (IRP), 30-year, 1% interest rate, with a maturity date of September 2047. \$300,000 of the proceeds from this award was disbursed to qualified borrowers in FY18 and \$200,000 was disbursed in the current fiscal year.

RCAC received a \$219,649 award from U.S. Department of Commerce Economic Development Administration (EDA) for lending capital for the Revolving Loan Fund. None was disbursed in FY18 and in the current fiscal year.

RCAC received a \$193,000 award from USDA Rural Utilities Service (RUS) for lending capital for the Household Water Wells Program. None of the proceeds from this award was disbursed to qualified borrowers in the current fiscal year.

RCAC received a \$202,500 award from USDA Rural Utilities Service (RUS) for lending capital for the Household Water Wells Program. None of the proceeds from this award was disbursed to qualified borrowers in the current fiscal year.



**Rural Community Assistance Corporation
Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2019**

Note 8: Grants to Lending Capital, continued:

RCAC received a \$250,000 award from USDA Rural Utilities Service (RUS) for lending capital. \$156,675 of the proceeds from this award was disbursed to qualified borrowers in the current fiscal year.

RCAC received a \$200,000 award from USDA Rural Utilities Service (RUS) for lending capital. None of the proceeds from this award was disbursed to qualified borrowers in the current fiscal year.

RCAC received a \$1,000,000 award from USDA Intermediary Relending Program (IRP), 30-year, 1% interest rate, with a maturity date of September 2048. \$567,188 of the proceeds from this award was disbursed to qualified borrowers in the current fiscal year.

Rural Community Assistance Corporation
Schedule of Federal Award Pass-through Awards
For the Year Ended September 30, 2019



<u>U.S. Department of Health and Human Services:</u>	<u>CFDA</u>	
Community Services Development Block Grant 17/18	93.569	
Self-Help Enterprises		\$ 7,395
Total U.S. Department of Health and Human Services		7,395
<u>U.S. Department of Agriculture:</u>		
Technitrain 17 National Demonstration Water Project 18	10.761	
Self-Help Enterprises		12,000
Total U.S. Department of Agriculture		12,000
<u>U.S. Department of Labor:</u>	17.264	
Pueblo Unido Community Dev Corp		100,000
Total U.S. Department of Labor		100,000
<u>U.S. Department of Housing and Urban Development:</u>		
Rural Capacity Building Program:	14.265	
Collaborative Visions		3,750
Epicenter		14,987
Snowy Mountain Dev Corp		15,000
Village of Hatch		15,000
Growraton!/Greater Raton Econ Dev Corp		21,410
Homestead Community Dev Corp		16,525
California Coalition for Rural Housing		26,000
Wells Fargo Farm Worker Initiative	14.252	472
		113,145
Housing Counseling 2018:	14.169	
ACCESS, Inc.		37,044
Comité De Bien Estar		30,535
Community Action Team Inc.		12,884
Community in Action (CinA)		27,357
Community Housing Council of Fresno		46,878
Hawaiian Community Assets, Inc.		25,399
Home Fund (La Plata)		48,200
Housing Hope		19,866
Housing Solutions of Northern Arizona		39,427
Inland Fair Housing & Mediation Board		47,764
Klamath & Lake Community Action		7,062
Lutheran Social Services of SoCal		17,614
Nanakuli Housing Corporation		5,509
National Affordable Housing Network		44,893
Neighborhood Non-profit Housing Corporation		46,052
Northern Circle Indian Housing Authority		34,356
Santa Fe Community Housing Trust		25,595
Ventura County Comm Development Corp		48,267
Western Arizona Council of Governments		58,827
		623,529
Total U.S. Department of Housing and Urban Development		736,674

Rural Community Assistance Corporation
Schedule of Federal Award Pass-through Awards, continued
For the Year Ended September 30, 2019



U.S. Department of Environmental Protection Agency

CA State Water Resources Control Board	66.203	
Eastern Wasington University		11,364
Total U.S Department of Environmental Protection Agency		11,364

U.S. Department of Small Business Administration

Office of Women's Business Ownership	59.050	
Pueblo de Cochiti Housing Authority		15,000
Rio Arriba County		15,000
Total U.S Department of Small Business Administration		30,000

U.S. Department of Commerce

Minority Business Development Agency	11.802	
Opportunity Link, Inc.		44,910
		44,910
Total Federal Award Pass-through Expenditures		\$ 942,343



Rural Community Assistance Corporation
Schedule of Indirect Costs by Expenditure Type
For the year ended September 30, 2019

Expenditures:

Direct Salaries	\$ 1,640,786
Fringe Benefits	755,817
Consulting	175,287
Consumable Supplies	39,388
Project Specific Expense - Supplies	3,404
Telephone	29,981
Project Specific Expense - Telephone	562
Postage	3,112
Project Specific Expense - Postage	585
Office Space	105,535
Equipment Rental & Maintenance	33,534
Printing and Copying	2,633
Staff Educational Materials	787
Other Training Costs	120,366
Travel	204,336
Depreciation	89,774
Insurance	67,360
Dues and Subscriptions	7,703
Conference Registration/Staff Training	16,079
Taxes, Licenses and Fees	4,164
Recruitment	22,039
	<hr/>
Total Indirect Costs	<u><u>\$ 3,323,232</u></u>

Rural Community Assistance Corporation
Schedule of Indirect Cost Rates
For the year ended September 30, 2019



The indirect cost rate for the fiscal year ended September 30, 2019 is computed as follows:

Total expenditures	\$ 22,018,171
Less: indirect costs	<u>(3,323,232)</u>
Total direct costs	<u>18,694,939</u>
Excluded items:	
Contributions	36,254
Bank service charge	28,436
Interest on notes payable	958,747
Grants excluded from indirect	1,996,033
Scholarship	292,609
Provision for loan loss	941,786
Rental operations	<u>152,672</u>
Total excluded items	<u>4,406,537</u>
Total adjusted direct costs	<u>\$ 14,288,402</u>
Indirect costs	<u>\$ 3,323,232</u>
Indirect costs rate	<u><u>23.26%</u></u>

Note: RCAC's Negotiated Indirect Cost Rate Agreement (NICRA) with the U.S. Government is a predetermined rate of 24.87%.



MANN • URRUTIA • NELSON CPAs & ASSOCIATES, LLP
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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Board of Directors
Rural Community Assistance Corporation
West Sacramento, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Rural Community Assistance Corporation (a nonprofit organization), which comprise the consolidated balance sheets as of September 30, 2019 and 2018, and the related consolidated statements of activities, and cash flows for the years then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated January 2, 2020.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Rural Community Assistance Corporation's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Mann, Urrutia, Nelson CPAs

Sacramento, California
January 2, 2020



MANN • URRUTIA • NELSON CPAs & ASSOCIATES, LLP
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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY
THE UNIFORM GUIDANCE**

To the Board of Directors
Rural Community Assistance Corporation
West Sacramento, California

Report on Compliance for Each Major Federal Program

We have audited Rural Community Assistance Corporation's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Rural Community Assistance Corporation's major federal programs for the year ended September 30, 2019. Rural Community Assistance Corporation's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Rural Community Assistance Corporation's compliance.

Opinion on Each Major Federal Program

In our opinion, Rural Community Assistance Corporation's complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2019.

Report on Internal Control over Compliance

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

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

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

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

Mann, Urrutia, Nelson CPAs

Sacramento, California
January 2, 2020

RURAL COMMUNITY ASSISTANCE CORPORATION
Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2019

SECTION 1 - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	None reported
Significant deficiencies identified that are not considered to be material weakness(es)?	No
Noncompliance material to consolidated financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weakness (es) identified?	None reported
Significant deficiencies identified that are not considered to be material weakness(es)?	No
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with section 200.516 of the Uniform Guidance?	No

Identification of major programs:

<u>CFDA</u>	<u>Name of Federal Program</u>
10.761	Rural Utilities Service
14.169	Housing Counseling Program

Dollar threshold used to distinguish between Type A and Type B programs:	\$750,000.
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Auditee qualified as a low-risk auditee:	Yes
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RURAL COMMUNITY ASSISTANCE CORPORATION
Schedule of Findings and Questioned Costs, continued
For the Year Ended September 30, 2019

SECTION II – FINANCIAL STATEMENT FINDINGS

No current year findings.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No current year findings or questioned costs for federal awards defined in section 200.516.

RURAL COMMUNITY ASSISTANCE CORPORATION
Schedule of Prior Year Findings and Questioned Costs
For the Year Ended September 30, 2019

PRIOR YEAR FINDINGS

There were no prior year findings or questioned costs.