NORTHCOUNTRY COOPERATIVE DEVELOPMENT FUND

FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

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For the Years Ended December 31, 2014 and 2013

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INDEPENDENT AUDITOR'S REPORT

Board of Directors and Members
Northcountry Cooperative Development Fund
Minneapolis, Minnesota

We have audited the accompanying financial statements of Northcountry Cooperative Development Fund, which comprise the balance sheets as of December 31, 2014 and 2013, and the related statements of operations, stockholders' equity, and cash flows for the years then ended, and the related notes to financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

(Continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Northcountry Cooperative Development Fund as of December 31, 2014 and 2013, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Mahoney Ulbrich
Christiansen Russ P.A.

Saint Paul, Minnesota
April 17, 2015

NORTHCOUNTRY COOPERATIVE DEVELOPMENT FUND

BALANCE SHEETS

December 31, 2014 and 2013

	2014	2013
ASSETS		
Current assets:		
Cash	$ 1,601,936	$ 1,039,975
Funds held for KSCR	128,609	116,136
Current maturities of loans receivable	1,994,219	1,310,833
Accrued interest receivable	25,743	25,874
Grants and other receivables	99,904	-
Prepaid expenses	5,870	5,729
Total current assets	3,856,281	2,498,547
Loans receivable - net, less current maturities	5,341,702	5,325,699
Other assets	24,000	-
Office equipment, net	8,534	10,182
Investments in other entities	148,160	-
Deferred income tax benefit	180,200	200,200
Total assets	$ 9,558,877	$ 8,034,628
LIABILITIES AND STOCKHOLDERS' EQUITY		
Notes payable due on demand	$ 1,122,839	$ 1,261,957
Current maturities of notes payable	3,850,524	2,269,276
Funds due to KSCR	128,609	116,136
Funds held in escrow for borrower	322,965	-
Accounts payable	37,689	9,600
Accrued expenses	5,558	8,603
Deferred grants	45,000	-
Total current liabilities	5,513,184	3,665,572
Notes payable, less portion due on demand and current maturities	3,569,211	4,105,642
Total liabilities	9,082,395	7,771,214
Stockholders' equity		
Preferred stock, $10 par value, 500,000 shares authorized, 120,596 and 102,596 shares outstanding in 2014 and 2013, respectively	1,205,960	1,025,960
Common stock - voting, $10 par value, 1,000 shares authorized, 433 and 471 shares outstanding in 2014 and 2013, respectively	4,330	4,710
Common stock - nonvoting, $10 par value, 500,000 shares authorized, 48,500 and 48,500 shares outstanding in 2014 and 2013, respectively	485,000	485,000
Additional paid-in capital	467,929	495,489
Retained earnings (accumulated deficit)	(1,686,737)	(1,747,745)
Total stockholders' equity	476,482	263,414
Total liabilities and stockholders' equity	$ 9,558,877	$ 8,034,628

See accompanying notes to financial statements.

NORTHCOUNTRY COOPERATIVE DEVELOPMENT FUND

STATEMENTS OF OPERATIONS

For the Years Ended December 31, 2014 and 2013

	2014	2013
Interest income:		
Loans receivable	$ 503,227	$ 486,295
Operating cash investments	5,286	893
Total interest income	508,513	487,188
Interest expense	(172,925)	(155,997)
Net interest income	335,588	331,191
Provision (reduction) for loan losses, net	28,122	(36,943)
Net interest income after provision for loan losses	363,710	294,248
Noninterest income:		
Fees and service charges	50,709	48,663
Grant revenue	166,859	16,112
Other income	4,488	221
Total noninterest income	222,056	64,996
Income before noninterest expenses	585,766	359,244
Noninterest expenses:		
Compensation and employee benefits	305,072	237,727
Contract services	104,015	112,489
Office	22,086	21,141
Advertising	7,423	10,373
Depreciation	7,297	10,097
Occupancy	13,806	9,200
Other	45,059	18,388
Total noninterest expenses	504,758	419,415
Income (loss) before income taxes	81,008	(60,171)
Income tax expense - deferred	(20,000)	-
Net income (loss)	$ 61,008	$ (60,171)

See accompanying notes to financial statements.

NORTHCOUNTRY COOPERATIVE DEVELOPMENT FUND

STATEMENTS OF STOCKHOLDERS' EQUITY

For the Years Ended December 31, 2014 and 2013

	Preferred Stock		Common Stock - Voting		Common Stock - Nonvoting		Additional Paid-In Capital	Retained Earnings (Accumulated Deficit)	Total Stockholders' Equity
	Shares	Amount	Shares	Amount	Shares	Amount			
Balance, December 31, 2012	97,596	$ 975,960	477	$ 4,770	48,500	$ 485,000	$ 464,664	$ (1,687,574)	$ 242,820
Preferred stock:									
Transfer from notes payable	5,000	50,000	-	-	-	-	-	-	50,000
Common stock:									
Issuance of stock	-	-	16	160	-	-	19,640	-	19,800
Redemption of stock	-	-	(28)	(280)	-	-	-	-	(280)
Reclassification	-	-	6	60	-	-	(60)	-	-
Capital contributions	-	-	-	-	-	-	11,245	-	11,245
Net loss	-	-	-	-	-	-	-	(60,171)	(60,171)
Balance, December 31, 2013	102,596	1,025,960	471	4,710	48,500	485,000	495,489	(1,747,745)	263,414
Preferred stock:									
Transfer from notes payable	4,500	45,000	-	-	-	-	-	-	45,000
Issuance of stock	13,500	135,000	-	-	-	-	-	-	135,000
Common stock:									
Issuance of stock	-	-	17	170	-	-	8,130	-	8,300
Redemption of stock	-	-	(55)	(550)	-	-	-	-	(550)
Capital contributions	-	-	-	-	-	-	1,310	-	1,310
Cost of issuance	-	-	-	-	-	-	(37,000)	-	(37,000)
Net income	-	-	-	-	-	-	-	61,008	61,008
Balance, December 31, 2014	120,596	$ 1,205,960	433	$ 4,330	48,500	$ 485,000	$ 467,929	$ (1,686,737)	$ 476,482

See accompanying notes to financial statements.

NORTHCOUNTRY COOPERATIVE DEVELOPMENT FUND

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2014 and 2013
Increase (Decrease) in Cash and Cash Equivalents

	2014	2013
Cash flows from operating activities:		
Net income (loss)	$ 61,008	$ (60,171)
Adjustments to reconcile net income (loss) to net cash from operating activities:		
Depreciation	7,297	10,097
Provision for loan losses (reduction)	(28,122)	36,943
Income tax expense - deferred	20,000	-
Changes in operating assets and liabilities:		
Receivables	(99,773)	(3,786)
Prepaid expenses	(141)	(276)
Accounts payable	28,089	(18,290)
Accrued interest	58,989	38,808
Accrued expenses	(3,045)	4,381
Deferred grants	45,000	-
Net cash from operating activities	89,302	7,706
Cash flows from investing activities:		
Collections on loans receivable	1,150,048	896,671
Issuance of loans receivable	(1,821,315)	(1,769,869)
Funds received for borrower, net	322,965	-
Purchase of other assets	(24,000)	-
Purchase of office equipment	(5,649)	-
Investment in other entities	(148,160)	-
Net cash from investing activities	(526,111)	(873,198)
Cash flows from financing activities:		
Issuance of notes payable	1,553,597	1,790,264
Repayments on notes payable	(661,887)	(539,000)
Proceeds from issuance of preferred stock	135,000	-
Proceeds from issuance of common stock	8,300	14,800
Proceeds from additional paid in capital contribution	1,310	11,245
Redemption of common stock	(550)	(280)
Stock issuance costs	(37,000)	-
Net cash from financing activities	998,770	1,277,029
Net increase in cash and cash equivalents	561,961	411,537
Cash and cash equivalents - beginning of year	1,039,975	628,438
Cash and cash equivalents - end of year	$ 1,601,936	$ 1,039,975
Supplemental disclosures of cash flow information:		
Cash paid for interest	$ 153,268	$ 117,837
Preferred stock issued for notes payable	$ 45,000	$ 50,000

See accompanying notes to financial statements.

1. ORGANIZATION

Northcountry Cooperative Development Fund (NCDF) is a member-owned and member-governed financial intermediary providing loans to support the growth and development of cooperative enterprises. NCDF provides financing to consumer, worker, housing and producer cooperatives and their members throughout the United States.

NCDF obtains funds from its members as well as from non-member institutions interested in supporting the cooperative economy, including foundations, religious organizations, community groups, cooperative coalitions, financial institutions and socially responsible organizations.

NCDF was formed in 1978 and is organized as a cooperative association under Chapter 308A of Minnesota law and is certified as a Community Development Financial Institution (CDFI) by the United Stated Department of Treasury.

NCDF has more than 175 member cooperatives and more than 237 individual members in 31 states.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Material estimates that are particularly susceptible to change are the allowance for loan losses and the valuation allowance for the deferred income tax asset.

Cash Equivalents - NCDF considers all investment instruments purchased with original maturities of three months or less to be cash equivalents.

Credit Risk - Financial instruments that potentially subject NCDF to credit risk include cash on deposit at banks. NCDF has not experienced any losses in such accounts. As of December 31, 2014 and 2013, balances exceed the insured limits by approximately $1,305,000 and $687,000 respectively. NCDF does not believe it is exposed to any significant concentration of credit risk on cash.

Additionally, loans receivable subject NCDF to a credit risk. Generally, loans are collateralized by property, equipment and inventory of the borrower.

Loans Receivable - NCDF provides commercial and cooperative home ownership (share) loans to members throughout the United States. The ability of the members to honor their contracts is dependent upon sound management of the cooperative, general economic conditions and the value of real estate collateral in the member's geographic area.

(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loans receivable are stated at unpaid principal balances, less an allowance for loan losses. Interest on loans is recognized over the term of the loan and is calculated using the simple-interest method on principal amounts outstanding. The accrual of interest on loans is discontinued at the time the loan is 120 days delinquent unless the credit is well-secured and in process of collection.

Loans are placed on non-accrual status or charged off if all or a portion of the loan is deemed to be uncollectible by management based on economic conditions, business conditions and collection efforts. It is NCDF's policy that any loan that is more than 120 days delinquent shall be charged off unless management determines that pay off of the loan is imminent, whether through collections, liquidation or foreclosure. The Board of Directors must approve the charge off of any loan, generally upon recommendation from the Loan and Finance Committees.

All interest accrued but not collected for loans that are placed on non-accrual status or charged off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Non-refundable commitment fees are recognized upon receipt. Loan fees are recognized as income upon closing of the loan because incremental direct costs incurred on each loan exceed the fees charged.

At times NCDF escrows funds on behalf of borrowers.

Allowance for Loan Losses - The allowance for loan losses is a non-cash reserve established against potential or expected losses on loans. Each loan in the portfolio is assigned a risk rating and each rating has a corresponding percentage that must be set aside as an allowance. The ratings and the allowance are evaluated regularly by management based upon qualitative factors that are subjective and require a high degree of management judgment. These factors include adverse situations that may affect the borrower's ability to repay, estimated value of the underlying collateral and prevailing economic conditions. The Loan Committee establishes initial risk ratings at the time loans are approved and must approve any changes to ratings. In addition, on a quarterly basis, the Loan Committee reviews and approves all risk ratings and the allowance for loan losses. The Board of Directors reviews the allowance and risk ratings at least annually.

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the loan is uncollectible. Subsequent recoveries are credited to income.

(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Office Equipment - Office equipment is capitalized at cost. Depreciation is provided using the straight-line method over estimated useful lives of three to seven years. When an asset is retired or sold, its cost and related accumulated depreciation are removed from the account and the resulting gain or loss is reflected in the statement of operations. Accumulated depreciation was $30,201 and $22,904 as of December 31, 2014 and 2013.

Fair Value Measurements - NCDF determines fair value, when necessary, based on the assumptions that market participants would use when pricing the asset or liability. NCDF does not currently have any financial assets or liabilities that are measured at fair value on a recurring or non-recurring basis.

Investments in Other Entities - Investments in other entities are carried at cost.

Income Taxes - NCDF is taxed as a cooperative and is subject to the provisions of Subchapter T of the Internal Revenue Code. The bylaws require NCDF to annually distribute net income from patronage to its members, based on their patronage with NCDF. The distributions may be in the form of cash, stock or allocated surplus, which reduces NCDF's income tax liability. However, losses in NCDF's patronage business may, at the Board's discretion, be carried forward to offset future distributions of net income from patronage. Members of NCDF receiving qualified patronage dividends consent to include them in their taxable income.

Income taxes are provided for the tax effects of the transactions reported in the financial statements and consist of taxes currently due plus deferred income taxes related primarily to the difference between the basis of loans receivable for financial and income tax reporting, which consists of the allowance for loan losses. The deferred income tax asset includes the future tax return consequences of that difference, which will be deductible when the loans are written off. A deferred income tax asset is also recognized for operating losses that are available to offset future taxable income. The deferred income taxes are reflected at income tax rates applicable to the period in which the deferred income taxes are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred income taxes are adjusted through the provision for income taxes. If it is more likely than not that all or some portion of the deferred income tax asset will not be realized, a valuation allowance is recognized. Management believes there are no uncertain tax positions.

Federal and state tax authorities generally have the right to examine income tax returns for a period of three years after they are filed. The Cooperative is not currently under examination by any taxing jurisdiction. Any interest or penalties associated with income tax positions are reported in other noninterest expenses. There were no such interest or penalties in 2014 and 2013.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reclassifications - The balance sheet was reclassified in 2014 to present current assets and liabilities. Other reclassifications have been made to the prior year financial statements to be consistent with the current year classifications. The reclassifications did not change the net loss or stockholders' equity.

3. LOANS RECEIVABLE

The following table presents the recorded investment in loans, net of participations, by portfolio segment and the allowance for loan losses as of December 31:

	2014	2013
Cooperative housing mortgage loans	$ 3,209,300	$ 3,256,609
Cooperative business mortgage loans	1,017,815	1,129,929
Cooperative business loans	3,213,976	2,336,112
Loans to individuals to purchase cooperative housing	199,233	293,907
Total loans	7,640,324	7,016,557
Less allowance for loan losses	(304,403)	(380,025)
	$ 7,335,921	$ 6,636,532
Current maturities	$ 1,994,219	$ 1,310,833
Long-term	5,341,702	5,325,699
	$ 7,335,921	$ 6,636,532

A description of the loans follows:

- Cooperative housing mortgage loans are loans for multifamily housing properties secured by a mortgage.
- Cooperative business mortgage loans are loans for commercial real estate secured by a mortgage.
- Cooperative business loans are business loans not secured by a mortgage.
- Loans to individuals to purchase cooperative housing.

The following table presents the change in the allowance for loan losses in 2014 and 2013:

	2014	2013
Beginning balance	$ 380,025	$ 343,082
Provision for loan losses (reduction)	(28,122)	36,943
Loans charged off	(47,500)	-
Ending balance	$ 304,403	$ 380,025

(Continued)

3. LOANS RECEIVABLE (Continued)

In 2014, the NCDF Board of Directors wrote off a portion of a loan to a retail grocery cooperative that it deemed uncollectable. The loan was restructured in 2014 and $47,500 was written off to adjust the loan receivable to the assessed value of the collateral. The loan was also placed on nonaccrual status. Management expects to collect the remaining portion of the loan.

In addition to the loans summarized above, NCDF services the following loan participations:

	2014	2013
Loan participations serviced	$ 2,250,290	$ 1,159,337

The following table presents the aging of loans by portfolio segment at December 31, 2014:

	Cooperative housing mortgage loans	Cooperative business mortgage loans	Cooperative business loans	Loans to individuals to purchase cooperative housing	Total
Current	$ 3,209,300	$ 1,017,815	$ 3,213,976	$ 199,233	$ 7,640,324
31 - 90	-	-	-	-	-
90 + days	-	-	-	-	-
Total	$ 3,209,300	$ 1,017,815	$ 3,213,976	$ 199,233	$ 7,640,324

The following table presents the allowance for loan losses by portfolio segment in 2014:

Beginning balance	$ 225,186	$ 64,615	$ 84,663	$ 5,561	$ 380,025
Reduction, net	(90,403)	34,423	30,670	(2,812)	(28,122)
Charged off	-	(47,500)	-	-	(47,500)
Ending balance	$ 134,783	$ 51,538	$ 115,333	$ 2,749	$ 304,403

The following table and the accompanying explanations present informative data regarding the credit quality of loans receivable at December 31, 2014:

A	$ 1,718,847	$ 206,415	$ 119,894	$ 162,526	$ 2,207,682
B	945,932	614,627	2,143,119	29,401	3,733,079
C	406,764	100,185	905,113	1,505	1,413,567
D	-	-	45,850	-	45,850
F	137,757	96,588	-	5,801	240,146
	$ 3,209,300	$ 1,017,815	$ 3,213,976	$ 199,233	$ 7,640,324

(Continued)

3. LOANS RECEIVABLE (Continued)

The following categories are used to assess the risk profile of the loan portfolio:

Category	Description of Creditworthiness	Allowance %
A	Highest credit quality, borrower is stable and reliable	0 - 1
B	Good borrower, but some recent internal or external changes	1.5 - 5
C	Good borrower, but recent significant internal or external changes and challenges	3 - 5
D	Borrower is either rebounding or heading into a period of significant difficulties	6 - 10
E	Relatively weak borrower facing some internal or external challenges	10 - 15
F	Weak borrower facing significant challenges	25 plus
G	Doubtful	Up to 100

Loans are considered impaired if it is probable that at least some of the principal and interest payments will not be collected. Other information related to loan impairment as of December 31, 2014 follows:

- All loans are individually reviewed for impairment
- The category D, E and F loans are considered impaired
- There is one loan on non-accrual status

4. KSCR FUNDS

NCDF has an agreement with NASCO Development Services to provide loan servicing functions for their KSCR Fund. NCDF accumulates principal and interest collections, net of remitting interest due to investors of the KSCR Fund, for use in providing additional loans on behalf of the KSCR Fund. NASCO Development Services and the KSCR Fund investors bear all risk of loss pertaining to these loans.

At December 31, 2014 and 2013, NCDF is servicing $79,066 and $98,018 of loans for the KSCR Fund, which is not included in loans receivable.

5. INVESTMENTS IN OTHER ENTITIES

During 2014, NCDF made 5% investments in two limited liability companies that are constructing commercial buildings that will be leased to food cooperatives. NCDF has made loans to one of these cooperatives. NCDF has notes payable to both cooperatives and they both hold stock in NCDF.

(Continued)

6. NOTES PAYABLE

Notes payable, including accrued interest, are summarized as follows:

	2014	2013
Senior loans payable:		
Institutional	$ 2,376,514	$ 2,319,445
Subordinate loans payable:		
Cooperatives	4,169,591	2,851,118
Individuals	494,302	562,159
Institutional	500,000	500,014
Institutional EQ2	1,002,167	1,404,139
	$ 8,542,574	$ 7,636,875

Notes payable at December 31, 2014 have interest rates ranging from 0.25% to 4%, are unsecured, and mature through 2021. Principal maturities of notes payable, including accrued interest, are as follows:

Accrued interest	$ 199,519
Due on demand – 30 days	159,959
Due on demand – 90 days	763,361
2015	3,850,524
2016	484,887
2017	783,000
2018	766,324
2019	1,035,000
Thereafter	500,000
	$ 8,542,574

An institutional EQ2 note from Wells Fargo Community Lending and Investing in the amount of $500,000 matures in October 2015 and is reflected in current notes payable on the Balance Sheet as well as in 2015 maturities above. This note has a provision for an automatic one year renewal upon request. Management expects to submit a request and required documentation, and expects to receive a one year extension.

7. LEASE OBLIGATIONS

NCDF leases its office space under the terms of an operating lease agreement that expires on June 30, 2015. Rent due in 2015 is $8,700.

Rent expense was $13,500 in 2014 and $9,200 in 2013.

8. RETIREMENT PLAN

NCDF has established a salary reduction plan with matching contributions for participating employees. The plan has received IRS approval under Section 408(p) of the Internal Revenue Code. The plan covers all employees who have met certain service requirements. NCDF will match the elective contributions of an employee in an amount not exceeding 3% of the employee's compensation. Matching contributions were $5,793 for 2014 and $5,216 for 2013.

9. STOCKHOLDERS' EQUITY

Preferred Stock - At the discretion of the Board of Directors, NCDF may pay holders of Class A preferred stock an annual dividend of up to 8% in the form of cash, additional shares of Class A preferred stock or equity credits. The Class A preferred stock has no voting rights and shares may only be transferred upon the approval of the Board of Directors. The Class A preferred stock has a liquidation preference over other equity. No dividends were declared or issued during 2014 or 2013.

Lenders agreed to convert $25,000 of notes payable into preferred stock during 2014 ($50,000 in 2013).

NCDF has an agreement with an investor that allows the investor to redeem all or part of its $500,000 of preferred stock under certain conditions on or after April 1, 2021.

Additional Paid-In Capital - Additional paid-in capital requirements are determined on a multi-tiered format based for businesses on the assets and for housing on the number of units. New members contributed additional paid-in capital of $8,130 in 2014 and $19,640 in 2013. Existing members contributed additional paid-in capital of $1,310 in 2014 and $11,245 in 2013.

10. TRANSACTIONS WITH RELATED PARTIES

Several directors of NCDF were employed by, or directors of, NCDF member organizations or other organizations that may be borrowers from, lenders to, or hold common or preferred stock in NCDF. Such activities were in the ordinary course of business at normal credit terms including interest rates and collateralization and do not represent more than a normal risk of collection.

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11. INCOME TAXES

NCDF has Federal net operating loss carry forwards of approximately $1,700,000 that begin to expire in 2027. Minnesota net operating loss carry forwards of approximately $1,700,000 begin to expire in 2022.

The deferred income tax asset consists of the future tax effect of net operating loss carryforwards and the allowance for loan losses. For financial statement purposes an allowance for loan losses is recorded based on management's review of loans receivable. For income tax purposes, loan losses are deductible when incurred. Deferred tax assets are $477,000 and $495,000 at December 31, 2014 and 2013, respectively.

Realization of the deferred income tax asset is dependent upon sufficient future taxable income during the net operating loss carry forward period. Management expects it is more likely than not that a portion of the deferred income tax assets may not be realized, accordingly, a deferred income tax valuation allowance of $296,800 and $294,800 has been recorded at December 31, 2014 and 2013. The deferred income tax valuation allowance increased by $2,000 in 2014 and $15,000 in 2013.

Utilization of the deferred income tax asset is dependent upon NCDF generating sufficient income within the net operating loss carryforward period. As discussed in Note 14, management's projection of future income is heavily dependent upon future grant revenues. Due to the uncertainty of future income, it is at least reasonably possible that management's view of future income will change in the near term.

NCDF's 2013 provision for income taxes differs from applying the statutory Federal income tax rates to income before income taxes. The primary difference results from the change in the deferred income tax valuation allowance, which was increased in 2013 due to the likelihood that NCDF will not generate sufficient taxable income to fully utilize the deferred tax asset.

12. COMMITMENTS

As of December 31, 2014, NCDF has made commitments of approximately $1,339,362 to lend funds in the normal course of business to meet the financing needs of its members. These are commitments to extend credit that involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the financial statements.

NCDF is in the planning stages of changing its name and updating its logo and website. This work is expected to be completed during the middle of 2015. At December 31, 2014, $24,000 has been capitalized and will be amortized over the expected period of use beginning in 2015.

(Continued)

13. CDFI AWARD

In August 2014, NCDF was notified that it was selected to receive an award from the US Department of Treasury's CDFI Fund. The award will be in the form of a grant ($267,089), nonvoting stock ($1,093,929) and note payable ($138,982) aggregating $1.5 million. As of December 31, 2014, $51,859 of the grant has been recorded. The remaining funds will be recorded when received.

14. ACCUMULATED DEFICIT AND MANAGEMENT'S PLANS

Management and the Board are pursuing a plan to increase net income, increase stockholders' equity and reduce the accumulated deficit. The accumulated deficit was caused by loan losses in 2007, 2008 and 2011 related to two cooperative housing development projects. A capital campaign in 2013 and 2014 produced the following results:

1. Increased grant revenue from $16,112 in 2013 to $166,859 in 2014 to supplement earned revenue.
2. Increased loans receivable outstanding by $1.5 million (24%) from $6,143,359 at December 31, 2012 to $7,016,557 at December 31, 2013 to $7,640,324 at December 31, 2014.
3. Increased preferred stock through a private placement offering in the amount of $500,000 in 2012, $50,000 in 2013 and $180,000 in 2014.
4. Received grants and grant commitments totaling $337,105.

In 2015, management expects NCDF to:

1. Receive the balance of a $1.5 million award from the US Department of Treasury's CDFI Fund to be made in a combination of grant, nonvoting stock and note payable. $51,859 of grant revenue was recognized in 2014 and the balance of the award will be recognized in 2015.
2. Sell $250,000 of shares of preferred stock.
3. Increase loans receivable to approximately $9.3 million.

15. SUBSEQUENT EVENTS

NCDF received $1,429,714 from the CDFI Fund on March 19, 2015, the balance is expected later in 2015.

Management has evaluated subsequent events through April 17, 2015, the date on which the financial statements were available for issue, and identified no further significant events or transactions to disclose.