

**NeighborWorks® Capital Corporation**

**Financial Statements  
(With Supplementary Information)  
and Independent Auditor's Report**

**December 31, 2018 and 2017**

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# NeighborWorks® Capital Corporation

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## Independent Auditor's Report

To the Board of Directors  
NeighborWorks® Capital Corporation

### Report on the Financial Statements

We have audited the accompanying financial statements of NeighborWorks® Capital Corporation (a nonprofit organization), which comprise the statements of financial position as of December 31, 2018 and 2017, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

### *Management's Responsibility for the Financial Statements*

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

### *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 financial statements referred to above present fairly, in all material respects, the financial position of NeighborWorks® Capital Corporation as of December 31, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Emphasis of Matter*

As discussed in Note 2 of the financial statements, the Organization adopted the Financial Accounting Standard Board (the "FASB")'s Accounting Standards Update ("ASU") No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities* ("ASU 2016-14"), an amendment to FASB Accounting Standards Codification ("ASC") Topic 958 *Not-for-Profit Entities* ("the standard") as of and for the year ended December 31, 2018. The requirements of the ASU have been applied retrospectively to all periods presented with the exception of certain disclosures regarding liquidity and availability of resources as permitted by the standard. Our opinion is not modified with respect to this matter.

*Other Matters**Other Information*

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations ("CFR") Part 200, *Uniform Administrative 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 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 April 26, 2019, on our consideration of NeighborWorks® Capital 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 solely 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 the effectiveness of NeighborWorks Capital Corporation's 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 NeighborWorks® Capital Corporation's internal control over financial reporting and compliance.



Bethesda, Maryland  
April 26, 2019

# NeighborWorks® Capital Corporation

## Statements of Financial Position December 31, 2018 and 2017

	<u>Assets</u>	
	<u>2018</u>	<u>2017</u>
Current assets:		
Cash and cash equivalents		
Operations	\$ 2,115,269	\$ 2,766,998
Operating restricted	357,155	356,355
Loan capital	6,730,374	2,264,202
Accounts receivable	21,303	106,470
Grant receivable	-	826,905
Loans receivable, net (Note 4)	26,075,058	18,276,607
Interest receivable	332,155	305,299
Prepaid expenses	37,245	34,081
	<u>35,668,559</u>	<u>24,936,917</u>
Total current assets		
Investments - marketable securities	<u>504,980</u>	<u>503,434</u>
Loans receivable, net (Note 4)	<u>49,804,383</u>	<u>49,021,057</u>
Property and equipment		
Office furniture and equipment, net	20,883	32,666
Leasehold improvements, net	185	837
	<u>21,068</u>	<u>33,503</u>
Total property and equipment, net		
Investment - other	<u>3,000</u>	<u>-</u>
Other assets:		
Deposits	<u>9,862</u>	<u>9,444</u>
Total other assets	<u>9,862</u>	<u>9,444</u>
Total assets	<u>\$ 86,011,852</u>	<u>\$ 74,504,355</u>

# NeighborWorks® Capital Corporation

## Statements of Financial Position December 31, 2018 and 2017

	<u>Liabilities and Net Assets</u>	
	<u>2018</u>	<u>2017</u>
Current liabilities:		
Accounts payable and accrued liabilities	\$ 258,582	\$ 291,619
Accrued interest	188,494	113,008
Notes payable, current portion (Note 6)	<u>4,250,000</u>	<u>6,000,000</u>
Total current liabilities	<u>4,697,076</u>	<u>6,404,627</u>
Notes payable, net of current portion and unamortized debt issuance costs (Note 6)	36,449,958	25,963,887
Equity equivalent investments (Note 6)	<u>2,000,000</u>	<u>2,000,000</u>
Total liabilities	<u>43,147,034</u>	<u>34,368,514</u>
Net assets		
Without donor restrictions:		
Operating	5,863,107	5,397,757
Board designated - lending capital	11,701,358	8,224,453
Loan loss reserve	<u>(2,707,105)</u>	<u>(2,395,849)</u>
Total net assets without donor restrictions	<u>14,857,360</u>	<u>11,226,361</u>
With donor restrictions:		
Restricted until first use (Note 7)	2,906,333	3,497,099
Restricted until donor release (Note 7)	<u>25,101,125</u>	<u>25,412,381</u>
Total net assets	<u>42,864,818</u>	<u>40,135,841</u>
Total liabilities and net assets	<u>\$ 86,011,852</u>	<u>\$ 74,504,355</u>

See Notes to Financial Statements

# NeighborWorks® Capital Corporation

## Statement of Activities Year Ended December 31, 2018

	Without donor restrictions				With donor restrictions		Total
	Operations	Lending capital	Loan loss reserve	Total unrestricted	Restricted until first use	Restricted until donor release	
Revenue							
NeighborWorks® America grants	\$ 150,000	\$ -	\$ -	\$ 150,000	\$ 2,150,000	\$ -	\$ 2,300,000
Community Development Financial Institutions Fund	-	-	-	-	-	-	-
Earned revenue	15,000	-	-	15,000	-	-	15,000
Loan fee income, net of participation	445,082	-	-	445,082	-	-	445,082
Interest income - loans	3,989,561	-	-	3,989,561	-	-	3,989,561
Interest income - investments	14,804	-	-	14,804	-	-	14,804
Loan service fee	7,626	-	-	7,626	-	-	7,626
Other income	501	-	-	501	-	-	501
Net assets released from restrictions:							
Satisfaction of program restrictions	75,117	2,976,905	-	3,052,022	(2,740,766)	(311,256)	-
Total revenue	4,697,691	2,976,905	-	7,674,596	(590,766)	(311,256)	6,772,574
Expenses							
Program services							
Interest	1,313,963	-	-	1,313,963	-	-	1,313,963
Provision for loan loss	-	-	311,256	311,256	-	-	311,256
Program expenses	1,851,404	-	-	1,851,404	-	-	1,851,404
Total program services	3,165,367	-	311,256	3,476,623	-	-	3,476,623
Support services							
Management and general	402,372	-	-	402,372	-	-	402,372
Fundraising	164,602	-	-	164,602	-	-	164,602
Total support services	566,974	-	-	566,974	-	-	566,974
Total expenses	3,732,341	-	311,256	4,043,597	-	-	4,043,597
Transfers	(500,000)	500,000	-	-	-	-	-
Increase (decrease) in net assets	465,350	3,476,905	(311,256)	3,630,999	(590,766)	(311,256)	2,728,977
Net assets, beginning of year	5,397,757	8,224,453	(2,395,849)	11,226,361	3,497,099	25,412,381	40,135,841
Net assets, end of year	\$ 5,863,107	\$ 11,701,358	\$ (2,707,105)	\$ 14,857,360	\$ 2,906,333	\$ 25,101,125	\$ 42,864,818

# NeighborWorks® Capital Corporation

## Statement of Activities Year Ended December 31, 2017

	Without donor restrictions				With donor restrictions		Total
	Operations	Lending capital	Loan loss reserve	Total unrestricted	Restricted until first use	Restricted until donor release	
Revenue							
NeighborWorks® America grants	\$ 175,000	\$ -	\$ -	\$ 175,000	\$ 2,325,000	\$ -	\$ 2,500,000
Community Development Financial Institutions Fund	-	-	-	-	826,905	-	826,905
Earned revenue	-	-	-	-	-	-	-
Loan fee income, net of participation	382,982	-	-	382,982	-	-	382,982
Interest income - loans	3,445,769	-	-	3,445,769	-	-	3,445,769
Interest income - investments	16,230	-	-	16,230	-	-	16,230
Loan service fee	12,931	-	-	12,931	-	-	12,931
Other income	-	-	-	-	-	-	-
Net assets released from restrictions:							
Satisfaction of program restrictions	96,519	2,325,000	-	2,421,519	(2,235,356)	(186,163)	-
Total revenue	4,129,431	2,325,000	-	6,454,431	916,549	(186,163)	7,184,817
Expenses							
Program services							
Interest	924,442	-	-	924,442	-	-	924,442
Provision for loan loss	-	-	186,163	186,163	-	-	186,163
Program expenses	1,661,737	-	-	1,661,737	-	-	1,661,737
Total program services	2,586,179	-	186,163	2,772,342	-	-	2,772,342
Support services							
Management and general	364,263	-	-	364,263	-	-	364,263
Fundraising	167,438	-	-	167,438	-	-	167,438
Total support services	531,701	-	-	531,701	-	-	531,701
Total expenses	3,117,880	-	186,163	3,304,043	-	-	3,304,043
Transfers	-	-	-	-	-	-	-
Increase (decrease) in net assets	1,011,551	2,325,000	(186,163)	3,150,388	916,549	(186,163)	3,880,774
Net assets, beginning of year	4,386,206	5,899,453	(2,209,686)	8,075,973	2,580,550	25,598,544	36,255,067
Net assets, end of year	\$ 5,397,757	\$ 8,224,453	\$ (2,395,849)	\$ 11,226,361	\$ 3,497,099	\$ 25,412,381	\$ 40,135,841

See Notes to Financial Statements

# NeighborWorks® Capital Corporation

## Statements of Functional Expenses Years Ended December 31, 2018 and 2017

Expenditures	2018				2017			
	Program services	Management and general	Fundraising	Total	Program services	Management and general	Fundraising	Total
Salaries and benefits	\$ 1,158,966	\$ 235,278	\$ 101,977	\$ 1,496,221	\$ 982,424	\$ 227,869	\$ 101,063	\$ 1,311,356
Interest	1,313,963	-	-	1,313,963	924,442	-	-	924,442
Service fee expense	17,967	-	-	17,967	9,273	-	-	9,273
Professional fees	154,750	121,097	35,166	311,013	136,091	93,299	38,833	268,223
Occupancy	89,616	16,803	5,601	112,020	84,837	15,907	5,302	106,046
Office expenses	14,535	1,453	162	16,150	20,896	2,090	232	23,218
Grant expense	90,000	-	-	90,000	-	-	-	-
Travel	82,137	4,832	9,663	96,632	87,672	5,157	10,314	103,143
Telephone	19,521	2,297	1,148	22,966	17,773	2,091	1,045	20,909
Special events and board retreats	20,880	3,685	-	24,565	22,245	3,926	-	26,171
Depreciation and amortization, property and equipment	14,586	3,889	972	19,447	13,984	3,729	932	18,645
Marketing	66,519	-	7,391	73,910	67,876	-	7,542	75,418
Insurance	15,545	1,829	914	18,288	15,158	1,783	892	17,833
Miscellaneous	10,413	1,838	-	12,251	8,747	1,544	-	10,291
Repairs and maintenance	80,042	8,004	889	88,935	53,390	5,339	593	59,322
Dues	3,275	364	-	3,639	4,309	479	-	4,788
Staff development	4,823	568	284	5,675	6,107	719	359	7,185
Printing	7,829	435	435	8,699	5,955	331	331	6,617
Provision for loan loss	311,256	-	-	311,256	186,163	-	-	186,163
Impairment on investment - other	-	-	-	-	125,000	-	-	125,000
	<u>\$ 3,476,623</u>	<u>\$ 402,372</u>	<u>\$ 164,602</u>	<u>\$ 4,043,597</u>	<u>\$ 2,772,342</u>	<u>\$ 364,263</u>	<u>\$ 167,438</u>	<u>\$ 3,304,043</u>

See Notes to Financial Statements

# NeighborWorks® Capital Corporation

## Statements of Cash Flows Years Ended December 31, 2018 and 2017

	2018	2017
Cash flows from operating activities		
Changes in net assets	\$ 2,728,977	\$ 3,880,774
Adjustments to reconcile changes in net assets to net cash provided by operating activities		
Depreciation and amortization, property and equipment	19,447	18,645
Amortization, debt issuance costs	28,379	26,443
Provision for loan loss	311,256	186,163
Unrealized gain on investments	(1,546)	(9,710)
Impairment loss on investment - other	-	125,000
Changes in operating assets and liabilities		
Accounts receivable	85,167	(72,422)
Grant receivable	826,905	(826,905)
Interest receivable	(26,856)	(114,810)
Prepaid expenses	(3,164)	(9,747)
Deposits	(418)	273
Accounts payable and accrued liabilities	(33,037)	67,688
Accrued interest	75,486	73,813
Net cash provided by operating activities	<u>4,010,596</u>	<u>3,345,205</u>
Cash flows from investing activities		
Purchases of investment - other	(3,000)	(125,000)
Advances on loans receivable	(37,245,948)	(27,468,232)
Repayments of loans receivable	28,352,915	20,598,576
Purchases of property and equipment	<u>(7,012)</u>	<u>(3,399)</u>
Net cash used in investing activities	<u>(8,903,045)</u>	<u>(6,998,055)</u>
Cash flows from financing activities		
Proceeds from notes payable	28,700,000	21,150,000
Repayments on notes payable	(19,950,000)	(16,050,000)
Debt issuance costs paid	<u>(42,308)</u>	<u>(25,500)</u>
Net cash provided by financing activities	<u>8,707,692</u>	<u>5,074,500</u>
Net increase in cash and cash equivalents	3,815,243	1,421,650
Cash and cash equivalents, beginning	<u>5,387,555</u>	<u>3,965,905</u>
Cash and cash equivalents, end	<u><u>\$ 9,202,798</u></u>	<u><u>\$ 5,387,555</u></u>
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	<u><u>\$ 1,210,098</u></u>	<u><u>\$ 824,186</u></u>

See Notes to Financial Statements

## NeighborWorks® Capital Corporation

### Notes to Financial Statements December 31, 2018 and 2017

#### Note 1 - Organization

The NeighborWorks® Capital Corporation (the "Organization") is incorporated in the state of Colorado and is a national non-profit community development loan fund serving NeighborWorks® America's affiliates in all 50 states and the District of Columbia. The Organization is certified by the U.S. Department of the Treasury (the "Treasury") as a Community Development Financial Institution (CDFI).

The mission of the Organization is to deliver the flexible capital needed by NeighborWorks® America affiliates to provide affordable homes and strengthen communities. The Organization fulfills its mission by providing the NeighborWorks® America affiliates with low-cost capital which they would not otherwise have access. The Organization's capital is available for the acquisition, preservation, construction, sale, financing or ownership of affordable single-family and multi-family properties and commercial projects. The Organization is supported primarily by interest income on loans receivable and federal awards received that are passed through NeighborWorks America® from the Treasury.

The Organization operates under a Master Investment Agreement ("MIA") with NeighborWorks® America which allows for the provision of capital funds to support the mission of the Organization on an annual basis. On September 30, 2015, the Organization agreed to enter into a five-year Master Investment Agreement with NeighborWorks® America, which called for NeighborWorks® America to consider providing \$1,000,000 to \$2,500,000 annually in capital funds for the duration of the agreement to support the mission of the Organization. As discussed in Note 2, the MIA was amended to change the basis of presentation of capital funds received from NeighborWorks® America.

#### Note 2 - Summary of significant accounting policies

##### Basis of presentation

The Organization's financial statements have been prepared on the accrual basis of accounting. The accompanying financial statements of the Organization have been prepared for the purpose of complying with the MIA. The Organization is required to report information regarding its financial position and activities to two classes of net assets as follows:

- **Net assets without donor restrictions** – generally, net assets of the Organization that bear no donor restriction. These include the Organization's general operating net assets, lending capital, and loan loss reserves. Additionally, in accordance with the MIA, capital funds received from NeighborWorks America® with no identified restriction are recorded as increases in net assets without donor restrictions for use in operations.
- **Net assets with donor restrictions** – generally, net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Additionally, in accordance with the MIA, net assets with donor restrictions are further classified as follows:
  - **Restricted until first use** ("First Use") - NeighborWorks® America - capital funds that are allowed to be transferred from net assets restricted until donor release for the purpose of functioning as an allowance for loan loss against loans receivable or for other temporary restrictions approved by NeighborWorks® America. Increases in

## NeighborWorks® Capital Corporation

### Notes to Financial Statements December 31, 2018 and 2017

the provision of the allowance for loan loss are recorded as reductions in net assets restricted until donor release, while recoveries in the provision of the allowance of loan loss are recorded as additions to net assets restricted until first use. A correlating amount of bad debt expense is recognized as part of the change in net assets without donor restrictions as the estimates of applicable increases and recoveries in the provision of the allowance for loan loss are measured. Net assets restricted until first use can also result from timing differences between receipt of funds and the incurrence of related expenses in accordance with donor stipulations. The Organization reports revenue of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction is met, net assets restricted until first use are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

- **Restricted until donor release** ("Donor Release") - capital funds provided by NeighborWorks® America held in perpetuity, segregated and maintained as such to account for the prescribed eligible uses, which in accordance with the Master Investment Agreement between NeighborWorks® America and the Organization, are defined as being either 1) loaned as end borrower loans or 2) for use as a loan loss reserve. These funds are not to be used for non-capitalizable purposes such as paying operating and day-to-day expenses of the Organization.

During the years ended December 31, 2018 and 2017, \$150,000 and \$175,000, respectively, of capital funds with no identified restriction were received by the Organization and recorded as a component of net assets without donor restrictions. First Use capital funds of \$2,150,000 and \$2,325,000, were received by the Organization and recorded as a component of net assets with donor restrictions, respectively. During the years ended December 31, 2018 and 2017, these funds were deployed for prescribed eligible purposes and were reclassified to net assets without donor restrictions - lending capital, respectively.

The MIA contains certain financial and production covenants, which the Organization was in compliance with as of December 31, 2018 and 2017.

#### **Contributions**

The Organization recognizes contributions related to fundraising activities, including unconditional promises to give, when received.

#### **Cash and cash equivalents**

The Organization's cash management policy includes a minimum requirement of cash equal to 90 days of operating expenses (approximately \$1MM) and the maintenance of an investment account with a maximum of \$900,000 to allow investments in mutual funds holding either mortgage-backed or government-backed securities to increase yield.

Cash and cash equivalents may include currency on hand, treasury bills, commercial paper or other investments with original maturities of three months or less or with provisions that provide liquidity enhancement. At December 31, 2018 and 2017, cash and cash equivalents include only unrestricted demand deposits with banks or government securities. The Organization places its cash with high credit quality financial institutions that are federally insured or invested in government securities. Invested cash may exceed federally insured amounts at times.

## **NeighborWorks® Capital Corporation**

### **Notes to Financial Statements December 31, 2018 and 2017**

#### **Investments - marketable securities**

The Organization's cash management policy requires the maintenance of an investment account with a maximum of \$900,000 to allow investments in mutual funds holding either mortgage back or government backed securities to increase yield. As of December 31, 2018 and 2017, investments - marketable securities, consists of amounts held in certificates of deposit and a GNMA mutual fund with carrying values of \$504,980 and \$503,434, respectively, which approximates fair value.

#### **Investment - other**

On August 22, 2017 the Organization entered into a Subscription Agreement with ImpactUs Marketplace LLC ("ImpactUs") to invest \$250,000 to acquire Founder C Class Membership Interests equal to 16.67% of the Founders C Class Member Interests and a 1.3% interest in the total Membership Interests in the equity of ImpactUs. ImpactUs Marketplace LLC was a broker-dealer focused on connecting mission-driven investors to investment opportunities, raising capital and developing and implementing an online platform designed to facilitate and administer private impact-oriented investments.

An initial capital contribution of \$125,000 was made on August 22, 2017, with an additional \$125,000 to be contributed subject to ImpactUs meeting certain restrictions within certain time parameters imposed by the Organization. The conditions were not met and the commitment to fund the additional \$125,000 expired.

The Organization's contribution was accounted for as an other investment. Due to the uncertainty of the recoverability of its initial contribution and the likelihood that the Organization would incur a loss were it to sell its investment interest, the Organization's investment in ImpactUs was deemed to be impaired and, accordingly, an impairment loss of \$125,000 was recorded on the accompanying statement of activities for the year ended December 31, 2017.

In February 2018, ImpactUs Marketplace LLC sold the majority of its assets to MP/Starling Impact Holdings LLC. The acquisition was paid for in the form of a convertible note that would convert into equity or cash depending on the outcome of capital raising efforts. The Organization elected to maintain a pro-rata share in the convertible note. In 2018, the Organization made a \$3,000 investment in MP/Starling Impact Holdings LLC for the ImpactUs platform.

#### **Fair Value Measurements**

The Organization follows the accounting and disclosure standards pertaining to fair value measurements for qualifying assets and liabilities. Fair value is defined as the price that NeighborWorks Capital would receive upon selling an asset or pay to settle a liability in an orderly transaction between market participants. The values of debt and equity securities and mutual funds are based on their quoted market prices. Gains and losses that result from market fluctuations are recognized in the statement of activities in the period such fluctuations occur.

The Organization uses a framework for measuring fair value that includes a hierarchy that categorizes and prioritizes the sources used to measure and disclose fair value. This hierarchy is broken down into three levels based on inputs that market participants would use in valuing the financial instruments based on market data obtained from sources independent of the Organization. Inputs refer broadly to the assumptions that market participants would use in pricing the financial instrument, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the financial instrument developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset developed based on the

## **NeighborWorks® Capital Corporation**

### **Notes to Financial Statements December 31, 2018 and 2017**

best information available. The three-tier hierarchy of inputs is summarized in the three broad levels as follows:

Level 1 - Inputs that reflect unadjusted quoted prices in active markets for identical assets at the measurement date.

Level 2 - Inputs other than quoted prices that are observable for the asset either directly or indirectly, including inputs in markets that are not considered to be active.

Level 3 - Inputs that are unobservable and which require significant judgment or estimation.

An asset or liability's level within the framework is based upon the lowest level of any input that is significant to the fair value measurement.

The fair value of investments in government based mutual funds are based upon quoted prices in active markets for identical assets and are deemed to be level 1 financial instruments.

#### **Loans receivable**

Loans receivable are carried at unpaid principal balances, less an allowance for loan losses and net deferred loan fees, if applicable. Interest on loans is generally recognized over the term of the loan and is calculated using the simple interest method on the principal amounts outstanding.

#### **Allowance for loan loss**

The allowance for loan loss is periodically adjusted to a level that, in management's judgment, is adequate to provide for estimated probable losses from loans. The amount of the allowance is based on management's formal review and analysis of potential losses. Management's review process considers the borrower's financial condition, property performance, real estate development staff capacity and experience, project viability, collateral, take-out financing, local real estate market, and project operating feasibility. At December 31, 2018 and 2017, the allowance for loan loss was \$2,752,105 and \$2,440,849, respectively, of which \$1,026,681 and \$654,943 relates to the current portion of loans receivable, respectively, and is included as a component of current loans receivable, net. The Organization's practice is to write off any loan or portion of a loan when the loan is determined by management to be uncollectible due to the borrower's failure to meet repayment terms, the borrower's deteriorating or deteriorated financial conditions, or for other reasons. During the years ended December 31, 2018 and 2017, no loans were written off. During the years ended December 31, 2018 and 2017, the Organization recognized no recovery on loans receivable previously written off. Since inception, as of December 31, 2018 and 2017, the Organization has cumulatively had \$1,725,750 of loans receivable written off and \$390,248 of recoveries of loans receivable previously written off.

#### **Sales of loans receivable**

The Organization accounts for transfer and servicing of financial assets based on the financial and servicing assets it controls and liabilities it has incurred. The Organization derecognizes financial assets when control has been surrendered and derecognizes liabilities when extinguished. This method conforms closely with current industry practice.

#### **Deferred revenue**

The Organization earns fees and incurs costs associated with originating loans receivable during the normal course of business. In accordance with generally accepted accounting principles ("GAAP"), the portion of these costs that are attributable to originating loans receivable are to be netted against related fees earned and net origination fees are to be deferred and recognized as an

## **NeighborWorks® Capital Corporation**

### **Notes to Financial Statements December 31, 2018 and 2017**

adjustment to interest income over the life of the loan. NeighborWorks Capital instead recognizes loan origination fees as revenue when the loan closes and recognizes loan origination costs as expenses as they are incurred. The effect of recognizing loan origination fees and loan origination costs in this manner is immaterial, and management analyzes the projected difference each quarter to make sure the financial statements are not materially misstated.

#### **Property and equipment**

Property and equipment are stated at cost. Depreciation is computed on the straight-line basis over the estimated useful lives of the assets ranging from three to seven years. The Organization capitalizes assets that cost \$1,000 or more. Leasehold improvements are amortized over the shorter of their useful lives or the term of the associated lease. As of December 31, 2018 and 2017, accumulated depreciation and amortization were \$126,760 and \$107,313, respectively. Depreciation and amortization expense for the years ended December 31, 2018 and 2017 were \$19,447 and \$18,645, respectively.

#### **Debt issuance costs**

Debt issuance costs, net of accumulated amortization, are reported as a direct deduction from the face amount of the mortgage loan payable to which such costs relate. Amortization of debt issuance costs is reported as a component of interest expense and is computed over the term of the loan using the straight-line method. In accordance with GAAP, debt issuance costs are to be amortized over the term of the loan using the effective yield method; however, the effect of using the straight-line method is not materially different from the results that would have been obtained under the effective yield method.

Amortization expense for the years ended December 31, 2018 and 2017 was \$28,379 and \$26,443, respectively. Estimated amortization expense for each of the ensuing years through December 31, 2023 is \$31,272, \$23,779, \$21,632, \$7,150 and \$5,610, respectively.

#### **Income taxes**

The Organization has applied for and received a determination letter from the Internal Revenue Service ("IRS") to be treated as a tax-exempt entity pursuant to Section 501(c)(3) of the Internal Revenue Code. Due to its tax-exempt status, the Organization is not subject to income taxes. The Organization is required to file and does file tax returns with the IRS and other taxing authorities. Accordingly, these financial statements do not reflect a provision for income taxes, and the Organization has no other tax positions which must be considered for disclosure.

Tax returns filed by the Organization are subject to examination by the IRS for a period of three years. While no tax returns of the Organization are currently being examined by the IRS, tax returns filed since 2015 remain open for examination.

#### **Functional expense allocation**

The cost of providing various programs and other activities has been summarized on a functional basis in the Statements of Activities and in the accompanying Schedules of Functional Expenses. Accordingly, expenses are recorded to program services, management and general or fundraising based on management's classification of costs related to different functions. Costs not directly attributable to a function, including depreciation, amortization, interest, and other occupancy costs, are allocated to a function based on management's estimate of total costs attributable to separate functions.

## NeighborWorks® Capital Corporation

### Notes to Financial Statements December 31, 2018 and 2017

#### Use of estimates

The preparation of financial statements in conformity accounting principles generally accepted in the United States of America 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 revenue and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates include an allowance for loan losses on loans receivable.

#### New Accounting Pronouncements

For the year ended December 31, 2018, the Organization adopted the Financial Accounting Standards Board's Accounting Standards Update ('ASU") No. 2016-14 – *Not-for-Profit Entities* ("Topic 958"); *Presentation of Financial Statements of Not-for-Profit Entities*. This update addresses the complexity and understandability of net asset classifications, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return between not-for-profit entities. The changes required by the update have been applied retrospectively to all periods presented. A key change required by ASU 2016-14 are the net classes used in these financial statements. Amounts previously reported as unrestricted net assets are now reported as net assets without donor restrictions and amounts previously reported as temporarily restricted net assets and permanently restricted net assets, if applicable, are now reported in net assets with donor restrictions.

#### Subsequent events

Material subsequent events have been considered for recognition and disclosure in these financial statements through April 26, 2019, the date the financial statements were available to be issued.

#### Note 3 - Availability and liquidity

The table below represents financial assets available for general expenditures as of December 31, 2018:

Financial assets at year end:	
Cash and cash equivalents	\$ 9,202,798
Investments	504,980
Accounts receivable	21,303
Interest receivable	<u>332,155</u>
Total Financial Assets	<u>10,061,236</u>
Less: Financial assets not available for general expenditures:	
Cash - operating restricted	(357,155)
Cash - loan capital	<u>(6,730,374)</u>
Total assets available over the next 12 months to meet general expenditures	<u><u>\$ 2,973,707</u></u>

The current loans receivable are principally funded using notes payable. As loans are repaid and converted to cash, the proceeds will be applied to the applicable outstanding notes payable not used to meet general expenditures and, as a result, are not reflected in the table above. The Organization's policy is to maintain financial assets to meet 90 days of operating expenses (approximately \$1MM). As part of its liquidity plan, up to 30% of cash but not to exceed \$900,000,

## **NeighborWorks® Capital Corporation**

### **Notes to Financial Statements December 31, 2018 and 2017**

may be invested in permitted investments. Permitted investments include US Treasury Obligations, US Government Agency debt, Certificates of Deposit, mutual funds invested in US Treasury or US Government Obligations, Certificates of Deposit Registry Services, or Repurchase Agreements collateralized with US Government or Government Agency securities. All investments have maturities of one year or less.

#### **Note 4 - Loans receivable**

##### **Loans receivable**

The Organization offers the following loan products of varying terms and maturities:

- Pre-Development Loans - for funding needed to conduct due diligence and obtain site control of properties. Funds are typically used for environmental studies, market studies, appraisals, architectural and engineering expenses, legal fees and earnest money deposits. Loans generally provided for up to \$500,000 with a maximum loan term of 36 months on a recourse basis and repayable upon closing of interim, construction or permanent financing.
- Interim Development Loans - for funding needed to bridge borrowers from the early due diligence phase of a project to the point when construction or permanent financing closes. Funds are typically used for acquisition, critical repairs and pre-development or other costs associated with securing construction/permanent financing. Loans generally provided for up to \$5,000,000 with a maximum loan term of 48 months on a recourse basis secured by a mortgage or other collateral and are repayable upon closing of construction or permanent closing.
- Organizational Loans - for funding to address the enterprise level capital needs of NeighborWorks America affiliates. Loans generally provided for up to \$1,500,000 with a maximum loan term of 84 months and can be used to provide low-cost capital and grants to implement business assessment, strategic planning and capacity building work.
- Mini-Permanent Loans - for funding of acquisition and renovation of multi-family or commercial property or purchase of renewable energy systems with maximum loan amounts of \$5,000,000 and a maximum loan term of 84 months on a recourse basis secured by a mortgage or other collateral.
- Permanent Loans - for funding of acquisition and renovation of small multi-family property with maximum loan amounts of \$2,000,000 and a maximum loan term of 18 years on a recourse basis secured by a mortgage or other collateral.

# NeighborWorks® Capital Corporation

## Notes to Financial Statements December 31, 2018 and 2017

The following is a summary of loans receivable at December 31, 2018 and 2017:

Type	2018		2017	
	Number of loans	Net loan amount	Number of loans	Net loan amount
Pre-development	13	\$ 4,808,122	9	\$ 1,941,036
Interim development	42	47,014,027	38	46,754,530
Organizational	8	8,287,500	6	6,575,000
Mini-permanent	14	11,653,710	14	11,374,280
Permanent	5	6,868,187	2	3,093,667
Total	<u>82</u>	<u>78,631,546</u>	<u>69</u>	<u>69,738,513</u>
Less: Allowance for loan losses		<u>(2,752,105)</u>		<u>(2,440,849)</u>
Total		75,879,441		67,297,664
Current portion		<u>26,075,058</u>		<u>18,276,607</u>
Long-term portion		<u>\$ 49,804,383</u>		<u>\$ 49,021,057</u>

Principal maturities of the remaining loans receivable as of December 31, 2018 are as follows:

2019	\$ 26,689,503
2020	12,735,051
2021	17,279,584
2022	2,607,622
2023	6,775,000
2024	2,830,277
2025	2,846,322
2027	2,100,674
2028	2,948,912
2031	1,368,601
2038	<u>450,000</u>
	<u>\$ 78,631,546</u>

### Past-due loans

Loans are considered past due if the required principal and interest payments have not been received 30 days after the payments were due. The Organization generally places a loan on non-accrual status when interest or principal is past due 90 days or more. Interest on loans past due 90 days or more ceases to accrue except for loans that are in the process of collection. When a loan is placed on non-accrual status, previously accrued and unpaid interest is reversed out of interest income. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

# NeighborWorks® Capital Corporation

## Notes to Financial Statements December 31, 2018 and 2017

An aging of past due loans, by loan type for the years December 31, 2018 and 2017:

December 31, 2018	Current	31-60 days past due	61-90 days past due	90+ days past due	Total	Nonaccruing loans
Pre-development	\$ 4,608,122	\$ 200,000	\$ -	\$ -	\$ 4,808,122	\$ -
Interim development	47,014,027	-	-	-	47,014,027	-
Organizational	8,287,500	-	-	-	8,287,500	-
Mini-Permanent	11,579,573	74,137	-	-	11,653,710	1,811,775
Permanent	6,868,187	-	-	-	6,868,187	-
	<u>\$ 78,357,409</u>	<u>\$ 274,137</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 78,631,546</u>	<u>\$ 1,811,775</u>
Nonaccruing loans	<u>\$ 1,811,775</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
December 31, 2017	Current	31-60 days past due	61-90 days past due	90+ days past due	Total	Nonaccruing loans
Pre-development	\$ 1,941,036	\$ -	\$ -	\$ -	\$ 1,941,036	\$ -
Interim development	46,754,530	-	-	-	46,754,530	-
Organizational	6,575,000	-	-	-	6,575,000	-
Mini-Permanent	9,749,309	1,624,971	-	-	11,374,280	-
Permanent	3,093,667	-	-	-	3,093,667	-
	<u>\$ 68,113,542</u>	<u>\$ 1,624,971</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 69,738,513</u>	<u>\$ -</u>
Nonaccruing loans	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	

### Risk management

The Organization revised its lending policies and procedures during 2016 to underwrite and monitor loans for its portfolio. For each loan, the Organization conducts a risk rating analysis based on the loan type (pre-development, interim development, mini-permanent, permanent, organizational) by reviewing the following criteria: financial condition, property performance, real estate development staff capacity and experience, project viability, collateral, take-out financing, local real estate market, and project operating feasibility. Each criterion is rated and an overall rating is determined based on the primary source of repayment. The six rating categories are P-1, P-2, P-3, 4 (questionable), 5 (substandard), and 6 (doubtful). When the risk rating on a loan has been listed as questionable or substandard, the loan is deemed to not be performing as expected and a loss on a loan is considered possible but has not yet been determined. When the risk rating on a loan has been listed as doubtful, it is considered to be a partially or fully uncollectible loan. The Organization conducts a comprehensive review of all outstanding loans at least annually.

As part of the Organization's risk rating analysis, a corresponding reserve has been allocated to each loan in the loan portfolio. The total of these reserves as indicated by the Organization's risk rating analysis for the years ended December 31, 2018 and 2017 was \$2,516,660 (3.2% of the loan portfolio) and \$2,100,375 (3.01% of the loan portfolio), respectively. Additionally, in accordance with various investors' covenants, the Organization is required to maintain an overall minimum allowance for loan losses of at least 3.5% of the loan portfolio and records an adjustment to the allowance for loan losses as necessary to satisfy this covenant ("covenant adjustment"). The covenant adjustment is assessed based on the overall risk-rated analysis of the loan portfolio and, should the overall allocated allowance for loan losses be below 3.5%, a covenant adjustment is recorded based on the total allowance for loan losses by product type until the allowance for losses by product type is 3.5%. Accordingly, for the years ended December 31, 2018 and 2017, a

# NeighborWorks® Capital Corporation

## Notes to Financial Statements December 31, 2018 and 2017

covenant adjustment totaling \$235,445 and \$340,474, respectively, was recorded to maintain the overall minimum allowance for loan losses investor covenant requirement.

The table below details the Organization's loans by loan type according to their risk rating categories for the years December 31, 2018 and 2017:

December 31, 2018	P-1	P-2	P-3	Questionable	Substandard	Doubtful	Total
Pre-development	\$ -	\$ 1,677,851	\$ 3,130,271	\$ -	\$ -	\$ -	\$ 4,808,122
Interim development	-	29,106,260	17,507,767	400,000	-	-	47,014,027
Organizational	-	-	8,287,500	-	-	-	8,287,500
Mini-permanent	-	7,911,144	1,930,791	1,811,775	-	-	11,653,710
Permanent	-	2,550,674	4,317,513	-	-	-	6,868,187
	<u>\$ -</u>	<u>\$ 41,245,929</u>	<u>\$ 35,173,842</u>	<u>\$ 2,211,775</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 78,631,546</u>
	P-1	P-2	P-3	Questionable	Substandard	Doubtful	Total
Current	\$ -	\$ 41,245,929	\$ 34,899,705	\$ 2,211,775	\$ -	\$ -	\$ 78,357,409
Past due 31- 60 days	-	-	274,137	-	-	-	274,137
Past due 61 - 90 days	-	-	-	-	-	-	-
Past due 90+ days	-	-	-	-	-	-	-
	<u>\$ -</u>	<u>\$ 41,245,929</u>	<u>\$ 35,173,842</u>	<u>\$ 2,211,775</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 78,631,546</u>
December 31, 2017	P-1	P-2	P-3	Questionable	Substandard	Doubtful	Total
Pre-development	\$ -	\$ 143,146	\$ 1,397,890	\$ 400,000	\$ -	\$ -	\$ 1,941,036
Interim development	-	26,245,924	20,508,606	-	-	-	46,754,530
Organizational	-	-	6,575,000	-	-	-	6,575,000
Mini-permanent	-	4,858,629	4,703,876	1,811,775	-	-	11,374,280
Permanent	-	1,707,174	1,386,493	-	-	-	3,093,667
	<u>\$ -</u>	<u>\$ 32,954,873</u>	<u>\$ 34,571,865</u>	<u>\$ 2,211,775</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 69,738,513</u>
	P-1	P-2	P-3	Questionable	Substandard	Doubtful	Total
Current	\$ -	\$ 32,954,873	\$ 34,571,865	\$ 586,804	\$ -	\$ -	\$ 68,113,542
Past due 31- 60 days	-	-	-	1,624,971	-	-	1,624,971
Past due 61 - 90 days	-	-	-	-	-	-	-
Past due 90+ days	-	-	-	-	-	-	-
	<u>\$ -</u>	<u>\$ 32,954,873</u>	<u>\$ 34,571,865</u>	<u>\$ 2,211,775</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 69,738,513</u>

# NeighborWorks® Capital Corporation

## Notes to Financial Statements December 31, 2018 and 2017

The following table presents an analysis of the allowance for loan losses for the years ended December 31, 2018 and 2017:

December 31, 2018	Pre-development	Interim development	Organizational	Mini-Permanent	Permanent	Total
Beginning balance	\$ 67,936	\$ 1,636,410	\$ 230,125	\$ 398,100	\$ 108,278	\$ 2,440,849
(Recovery) provision for loan losses	100,348	9,081	59,938	9,780	132,109	311,256
Write-off	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-
Ending balance	<u>\$ 168,284</u>	<u>\$ 1,645,491</u>	<u>\$ 290,063</u>	<u>\$ 407,880</u>	<u>\$ 240,387</u>	<u>\$ 2,752,105</u>
	Pre-development	Interim development	Organizational	Mini-Permanent	Permanent	Total
Allowance for loan losses						
Allocated	\$ 135,398	\$ 1,382,150	\$ 248,625	\$ 565,448	\$ 185,039	\$ 2,516,660
Covenant adjustment	32,886	263,341	41,438	(157,568)	55,348	235,445
Balance per financial statements	<u>\$ 168,284</u>	<u>\$ 1,645,491</u>	<u>\$ 290,063</u>	<u>\$ 407,880</u>	<u>\$ 240,387</u>	<u>\$ 2,752,105</u>
Loans						
Impaired loans	\$ -	\$ -	\$ -	-	\$ -	\$ -
Non-impaired loans	4,808,122	47,014,027	8,287,500	11,653,710	6,868,187	78,631,546
Balance per financial statements	<u>\$ 4,808,122</u>	<u>\$ 47,014,027</u>	<u>\$ 8,287,500</u>	<u>\$ 11,653,710</u>	<u>\$ 6,868,187</u>	<u>\$ 78,631,546</u>
	Pre-development	Interim development	Organizational	Mini-Permanent	Permanent	Total
December 31, 2017						
Beginning balance	\$ 110,993	\$ 1,646,604	\$ 75,267	\$ 379,822	\$ 42,000	\$ 2,254,686
(Recovery) provision for loan losses	(43,057)	(10,194)	154,858	18,278	66,278	186,163
Write-off	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-
Ending balance	<u>\$ 67,936</u>	<u>\$ 1,636,410</u>	<u>\$ 230,125</u>	<u>\$ 398,100</u>	<u>\$ 108,278</u>	<u>\$ 2,440,849</u>
	Pre-development	Interim development	Organizational	Mini-Permanent	Permanent	Total
Allowance for loan losses						
Allocated	\$ 88,245	\$ 1,306,630	\$ 197,250	\$ 432,512	\$ 75,738	\$ 2,100,375
Covenant adjustment	(20,309)	329,780	32,875	(34,412)	32,540	340,474
Balance per financial statements	<u>\$ 67,936</u>	<u>\$ 1,636,410</u>	<u>\$ 230,125</u>	<u>\$ 398,100</u>	<u>\$ 108,278</u>	<u>\$ 2,440,849</u>
Loans						
Impaired loans	\$ -	\$ -	\$ -	-	\$ -	\$ -
Non-impaired loans	1,941,036	46,754,530	11,374,280	3,093,667	6,575,000	69,738,513
Balance per financial statements	<u>\$ 1,941,036</u>	<u>\$ 46,754,530</u>	<u>\$ 11,374,280</u>	<u>\$ 3,093,667</u>	<u>\$ 6,575,000</u>	<u>\$ 69,738,513</u>

The Organization did not have any loan modifications that were considered troubled debt restructurings for the years ended December 31, 2018 and 2017. The Organization determined that the allowance for loan losses was adequate and the Organization did not have any impaired loans for the years ended December 31, 2018 and 2017.

### Note 5 - Transfer of loans, other off-balance sheet assets and Servicing

The Organization has entered into certain loan participation agreements with other organizations. The Organization has accounted for these loan participations as sales as of December 31, 2018 and 2017. There was no gain or loss recognized on the sale of these participation interests. The total balance of loan participations serviced was \$2,198,062 and \$4,704,445 as of December 31, 2018 and 2017, respectively.

# NeighborWorks® Capital Corporation

## Notes to Financial Statements December 31, 2018 and 2017

The Organization has retained the servicing rights on participations recorded as sales. The total amount of the servicing fees charged approximates the cost of servicing and, accordingly, the Organization has not recorded a servicing asset or servicing liability as of December 31, 2018 and 2017, respectively.

During the years ended December 31, 2018 and 2017, loan participation interest expense totaling \$180,008 and \$271,503, respectively, was incurred and included as a component of interest income - loans on the accompanying statements of activities. As of the years ended December 31, 2018 and 2017, loan participation interest expense payable was \$18,754 and \$39,610, respectively, and is included as a component of accrued interest on the accompanying statements of financial position.

### Note 6 - Notes payable and equity equivalent investments

All notes payable and equity equivalent investments ("EQ2") are unsecured. Debt financing provides the Organization with a source of capital that can be loaned to NeighborWorks® America affiliate borrowers through the various types of loan products available from the Organization. Additionally, certain of these note payable and equity equivalent investments contain covenants that require the Organization to provide reporting on a periodic basis and to meet and maintain specific financial ratios. As of December 31, 2018, the Organization was in compliance with all covenants. The Organization's notes payable and equity equivalent investments consisted of the following as of December 31, 2018 and 2017:

Lender	Total credit facility commitments at 12/31/2018	Maturity date	Schedule repayments				Principal balance at 12/31/2018	Principal balance at 12/31/2017
			Principal		Interest			
			Amount	Due	Annual rate	Due		
<u>Notes payable</u>								
Ally Bank	\$ 4,250,000	1/31/2019	\$ 4,250,000	1/31/2019	3.25%	Quarterly	\$ 4,250,000	\$ 5,000,000
Bank of America	12,000,000	12/24/2023	2,000,000 2,000,000 2,000,000 2,000,000	12/24/2020 12/24/2021 12/24/2022 12/24/2023	3.50%	Quarterly	8,000,000	8,000,000
Branch Banking & Trust (BB&T)	5,000,000	8/1/2019	5,000,000	Maturity	Prime rate	Monthly	-	2,500,000
Capital One Bank	1,000,000	10/1/2021	1,000,000	Maturity	2.00%	Quarterly	1,000,000	1,000,000

# NeighborWorks® Capital Corporation

## Notes to Financial Statements December 31, 2018 and 2017

Lender	Total credit facility commitments at 12/31/2018	Maturity date	Schedule repayments				Principal balance at 12/31/2018	Principal balance at 12/31/2017
			Principal		Interest			
			Amount	Due	Annual rate	Due		
Morgan Stanley	4,000,000	8/3/2021	4,000,000	Maturity	30 day LIBOR + 2.50% with 2.74% Floor	Monthly	-	-
PNC Bank	2,000,000	12/19/2021	2,000,000	Maturity	3.00%	Monthly	2,000,000	2,000,000
PNC Bank	2,000,000	12/19/2021	2,000,000	Maturity	4.80%	Monthly	2,000,000	-
TD Bank	5,000,000	8/31/2020	5,000,000	Maturity	2.25%+ 30 Day LIBOR	Monthly	3,000,000	-
CDFI Fund	488,045	6/23/2024	488,045	Maturity	2.00%	Semi-Annual	488,045	488,045
CDFI Fund	511,955	6/11/2028	511,955	Maturity	1.95%	Semi-Annual	511,955	511,955
CDFI Fund	950,000	6/6/2029	950,000	Maturity	2.50%	Semi-Annual	950,000	950,000
Deutsche Bank	7,000,000	12/21/2021	7,000,000	Maturity	LIBOR + 2.25%	Quarterly	-	-
Wells Fargo	10,000,000	12/19/2021	10,000,000	Maturity	2.4% + 30 Day LIBOR	Monthly	2,000,000	-
The Kresge Foundation	5,000,000	5/29/2022	1,500,000 1,500,000 2,000,000	5/29/2020 5/29/2021 5/29/2022	1.50%	Quarterly	5,000,000	5,000,000
HSBC Bank	3,000,000	6/30/2022	3,000,000	Maturity	Cost of Max 3.00%	Quarterly	3,000,000	-
US Bank	10,000,000	12/18/2023	10,000,000	Maturity	30-day LIBOR +2%	Monthly	-	-
Charles Schwab Bank	10,000,000	12/7/2021	10,000,000	Maturity	90-day LIBOR + 1.75% with a floor of 3%	Quarterly	8,600,000	6,600,000
Total notes payable	82,200,000						40,800,000	32,050,000
Equity equivalent investments (EQ2)								
Wells Fargo EQ2	1,000,000	9/19/2022	1,000,000	Maturity	2.00%	Quarterly	1,000,000	1,000,000
Wells Fargo EQ2	1,000,000	12/20/2029	1,000,000	Maturity	2.00%	Quarterly	1,000,000	1,000,000
Total equity equivalent investments	2,000,000						2,000,000	2,000,000
Total notes payable and equity equivalent investments	\$ 84,200,000						\$ 42,800,000	\$ 34,050,000

Undrawn commitments on credit facilities at December 31, 2018 and 2017 were \$41,400,000 and \$36,900,000, respectively.

Certain amounts of these loans payable are considered Equity Equivalent ("EQ2") investments. EQ2 investments are fully subordinated, unsecured obligations that carry a fixed interest rate and have a rolling maturity. The lender cannot accelerate repayment unless an uncured event of default

# NeighborWorks® Capital Corporation

## Notes to Financial Statements December 31, 2018 and 2017

exists. As of December 31, 2018 and 2017, loans payable included \$2,000,000 of EQ2 investments.

The following schedule lists the maturities of all notes payable and equity equivalent investments at December 31, 2018:

2019	\$	4,250,000
2020		6,500,000
2021		19,100,000
2022		8,000,000
2023		2,000,000
Thereafter		2,950,000
	\$	<u>42,800,000</u>

Unamortized debt issuance costs of \$100,042 and \$86,113 as of December 31, 2018 and 2017, respectively, are reported as a direct deduction from loans payable (see Note 2).

### Note 7 - Net assets with donor restrictions

Net assets restricted until first use as of December 31, 2018 and 2017 are as follows:

	2018			
	12/31/2017	Contributions received (contributions refunded)	Satisfaction of donor restrictions	12/31/2018
<b>Operations</b>				
NeighborWorks® America Expendable Grants - Home Depot Award	\$ 129,228	\$ -	\$ (75,000)	\$ 54,228
NeighborWorks® America Expendable Grants - Home Depot Award				
NeighborWorks® America - Match	-	-	-	-
Community Development Financial Institutions Program - Financial Assistance	926,905	-	(826,905)	100,000
Grants from Banks and Foundations	117	-	(117)	-
Total Operations	<u>1,056,250</u>	<u>-</u>	<u>(902,022)</u>	<u>154,228</u>
<b>Lending Activity</b>				
NeighborWorks® America Revolving Loan & Capital Projects Fund				
(Subsequent to Amendment)	\$ -	\$ 2,150,000	\$ (2,150,000)	\$ -
Loans written off, approved by NeighborWorks® America for Release of Restrictions	(1,725,750)	-	-	(1,725,750)
Loan Loss Reserve Provision	4,166,599	-	311,256	4,477,855
Total Lending activity	<u>2,440,849</u>	<u>2,150,000</u>	<u>(1,838,744)</u>	<u>2,752,105</u>
Total	<u>\$ 3,497,099</u>	<u>\$ 2,150,000</u>	<u>\$ (2,740,766)</u>	<u>\$ 2,906,333</u>

# NeighborWorks® Capital Corporation

## Notes to Financial Statements December 31, 2018 and 2017

	2017			
	12/31/2016	Contributions received (contributions refunded)	Satisfaction of donor restrictions	12/31/2017
<b>Operations</b>				
NeighborWorks® America Expendable Grants - Home Depot Award	\$ 129,228	\$ -	\$ -	\$ 129,228
NeighborWorks® America Expendable Grants - Home Depot Award	-	-	-	-
NeighborWorks® America - Match Community Development Financial Institutions Program - Financial Assis	100,000	826,905	-	926,905
Grants from Banks and Foundations	96,636	-	(96,519)	117
Total Operations	325,864	826,905	(96,519)	1,056,250
<b>Lending Activity</b>				
NeighborWorks® America Revolving Loan & Capital Projects Fund (Subsequent to Amendment)	\$ -	\$ 2,325,000	\$ (2,325,000)	\$ -
Loans written off, approved by NeighborWorks® America for				
Release of Restrictions	(1,725,750)	-	-	(1,725,750)
Loan Loss Reserve Provision	3,980,436	-	186,163	4,166,599
Total Lending activity	2,254,686	2,325,000	(2,138,837)	2,440,849
Total	\$ 2,580,550	\$ 3,151,905	\$ (2,235,356)	\$ 3,497,099

Net assets restricted until donor release as of December 31, 2018 and 2017 are as follows:

	2018			
	12/31/2017	Contributions received (contributions refunded)	Reclassification of allowance for loan loss	12/31/2018
NeighborWorks® America Revolving Loan & Capital Projects Fund	\$ 29,578,980	\$ -	\$ -	\$ 29,578,980
Loan Loss Reserve Provision	(4,166,599)	-	(311,256)	(4,477,855)
Total	\$ 25,412,381	\$ -	\$ (311,256)	\$ 25,101,125
	2017			
	12/31/2016	Contributions received (contributions refunded)	Reclassification of allowance for loan loss	12/31/2017
NeighborWorks® America Revolving Loan & Capital Projects Fund	\$ 29,578,980	\$ -	\$ -	\$ 29,578,980
Loan Loss Reserve Provision	(3,980,436)	-	(186,163)	(4,166,599)
Total	\$ 25,598,544	\$ -	\$ (186,163)	\$ 25,412,381

## **NeighborWorks® Capital Corporation**

### **Notes to Financial Statements December 31, 2018 and 2017**

#### **Note 8 - Loan commitments - NeighborWorks® America affiliates**

As of December 31, 2018 and 2017, the Organization has committed to make loans to various NeighborWorks® America affiliates totaling \$28,168,330 and \$26,441,833, respectively.

#### **Note 9 - Lease obligations**

On July 3, 2008, the Organization entered into a non-cancelable, five-year operating lease for office space in Silver Spring, Maryland commencing in October 2008. On December 20, 2013, an amendment to the lease was executed, extending the lease for five years until March 31, 2019 and changing premises. On November 28, 2018, an amendment to the lease was executed further extending the lease for six months until August 31, 2019. The lease contains escalation clauses and charges for other costs related to the space. The Organization also leases office space for program and administrative services in California and North Carolina under cancelable agreements.

Future minimum rent payments due under the non-cancelable lease as of December 31, 2018 total \$59,034 during the year ended December 31, 2019.

Rent expense for the years ended December 31, 2018 and 2017 was \$112,020 and \$106,046, respectively.

#### **Note 10 - Pension plan**

During 2018 and 2017, the Organization maintained a defined contribution pension plan pursuant to section 401(k) of the Internal Revenue Code. Employer contributions to the plan during the years ended December 31, 2018 and 2017 totaled \$68,616 and \$59,662, respectively.

#### **Note 11 - Related party transactions**

The Organization, or its predecessors, has extended loans to entities or their affiliates that have had representation on its Board of Directors and/or its Loan Committee. For the years ended December 31, 2018 and 2017, the Organization had one and two loans outstanding, respectively, totaling \$1,500,000 and \$4,676,500 of loans receivable, respectively, to such entities or their affiliates.

#### **Note 12 - Available lending capital**

The Organization's available lending capital consists of unsecured loans from financial institutions, government agencies and foundations combined with net assets donor restricted until first use and net assets restricted until donor release (Note 7) associated with lending capital. As required by GAAP, net assets associated with lending capital, including funds designated by the Board of Directors to function as lending capital, are classified and reported based upon the existence of donor-imposed restrictions.

**NeighborWorks® Capital Corporation**

**Notes to Financial Statements  
December 31, 2018 and 2017**

The composition, by source, of total lending capital at December 31, 2018 and 2017 is as follows:

	<u>2018</u>	<u>2017</u>
Notes payable and EQ2s	\$ 42,800,000	\$ 34,050,000
Undrawn credit facility commitments	41,400,000	36,900,000
Board designated - lending capital	11,701,358	8,224,453
Restricted until donor release	<u>25,101,125</u>	<u>25,412,381</u>
Total available lending capital	<u>\$ 121,002,483</u>	<u>\$ 104,586,834</u>

As of December 31, 2018 and 2017, total lending capital deployed as loans receivable, net of the allowance for loan losses, was \$75,879,441 and \$67,297,664, respectively.

## **Supplementary Information**

# NeighborWorks® Capital Corporation

## Schedule of Expenditures of Federal Awards Year Ended December 31, 2018

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Provided Through to Subrecipients	Total Federal Expenditures
U.S. Department of Treasury			
Passed through NeighborWorks® America Neighborhood Reinvestment Corporation Act:			
Capital Grant Funds	21.000		\$ 32,328,230
Expendable Grant Funds	21.000		150,000
			<u>32,478,230</u>
Community Development Financial Institutions ("CDFI") Program:			
CDFI Cluster			
Financial Assistance	21.020		1,526,905
Loan Program	21.020		1,950,000
			<u>3,476,905</u>
Total Federal Programs		\$ -	<u>\$ 35,955,135</u>

The accompanying notes are an integral part of this schedule

## NeighborWorks® Capital Corporation

### Notes to Schedule of Expenditures of Federal Awards December 31, 2018

#### Note 1 - Basis of presentation

The accompanying schedule of expenditures of federal awards includes the federal award activity for NeighborWorks® Capital Corporation and is presented on the accrual basis of accounting. The information in the schedule of expenditures of federal awards is presented in accordance with the 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"). Because the Schedule presents only a selected portion of the operations of NeighborWorks® Capital Corporation, it is not intended to and does not present the financial position, changes in net assets, or cash flows of NeighborWorks® Capital Corporation.

#### Note 2 - Summary of significant accounting policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, "Cost Principles of Non-Profit Organizations." NeighborWorks® Capital Corporation has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

#### Note 3 - U.S. Department of Treasury Community Development Financial Institutions Fund - Loan Program

NeighborWorks® Capital Corporation has received three loans directly from the U.S. Department of Treasury Community Development Financial Institutions ("CDFI") Fund Program. The loan balance outstanding at the beginning of the year and loans made during the year are included in the federal expenditures presented in the Schedule. The balance of loans outstanding at December 31, 2018 consists of:

CFDA Number	Program Name	Outstanding Balance at December 31, 2018
21.020	CDFI Fund - Loan Program	\$ 1,950,000

Independent Auditor's Report on Internal Control over Financial Reporting and  
Compliance and Other Matters Based on an Audit of Financial Statements  
Performed in Accordance with *Government Auditing Standards*

To the Board of Directors  
NeighborWorks® Capital Corporation

We have audited, 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, the financial statements of NeighborWorks® Capital Corporation, which comprise the statement of financial position as of December 31, 2018, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements and have issued our report thereon dated April 26, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements we considered NeighborWorks® Capital 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 financial statements, but not for the purpose of expressing an opinion on the effectiveness of NeighborWorks® Capital Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of NeighborWorks® Capital 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 combinations of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of NeighborWorks® Capital Corporation'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 NeighborWorks® Capital Corporation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a material effect on the determination of financial statement amounts. However, providing an opinion on compliance with these 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 results of that testing, and not to provide an opinion on the effectiveness of NeighborWorks® Capital Corporation's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering NeighborWorks® Capital Corporation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*CohnReznick LLP*

Bethesda, Maryland  
April 26, 2019

Independent Auditor's Report on Compliance for Each Major Federal Program and  
on Internal Control over Compliance Required by the Uniform Guidance

To the Board of Directors  
NeighborWorks® Capital Corporation

Report on Compliance for Each Major Federal Program

We have audited NeighborWorks® Capital 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 NeighborWorks® Capital Corporation's major federal programs for the year ended December 31, 2018. NeighborWorks® Capital 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 NeighborWorks® Capital 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. *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 NeighborWorks® Capital Corporation's compliance with these 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 NeighborWorks® Capital Corporation's compliance.

*Opinion on Each Major Federal Program*

In our opinion, NeighborWorks® Capital Corporation 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 December 31, 2018.

## Report on Internal Control over Compliance

Management of NeighborWorks® Capital 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 NeighborWorks® Capital 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 NeighborWorks® Capital 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 will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or 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.



Bethesda, Maryland  
April 26, 2019

## NeighborWorks® Capital Corporation

### Schedule of Findings and Questioned Costs December 31, 2018

#### A. Summary of Auditor's Results

1. The auditor's report expresses an unmodified opinion on whether the financial statements of NeighborWorks® Capital Corporation were prepared in accordance with generally accepted accounting principles.
2. No material weaknesses related to the audit of the financial statements are reported in the 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*. No significant deficiencies were reported.
3. No instances of noncompliance material to the financial statements of NeighborWorks® Capital Corporation which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No material weaknesses in internal control over major federal award programs were disclosed during the audit and reported in the Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control over Compliance Required by the Uniform Guidance. No significant deficiencies were reported.
5. The auditor's report on compliance for the major federal award programs for NeighborWorks® Capital Corporation expresses an unmodified opinion on all major programs.
6. There are no audit findings required to be reported in accordance with 2 CFR Section 200.516(s) in this Schedule.
7. Major program:  
  
Department of Treasury - Neighborhood Reinvestment Corporation Act, CFDA No. 21.000
8. The threshold for distinguishing Type A and B programs was \$1,078,654.
9. NeighborWorks® Capital Corporation was determined to be a low-risk auditee.

#### B. Findings - Financial Statement Audit

None

#### C. Findings and Questioned Costs - Major Federal Award Programs

None

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