



FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT

NEIGHBORWORKS[®] CAPITAL CORPORATION

DECEMBER 31, 2008 AND 2007

NeighborWorks® Capital Corporation

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
NeighborWorks[®] Capital Corporation

We have audited the accompanying statement of financial position of NeighborWorks[®] Capital Corporation as of December 31, 2008, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of NeighborWorks[®] Capital Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of NeighborWorks[®] Capital Corporation as of December 31, 2007, were audited by other auditors whose report dated May 12, 2008, expressed an unqualified opinion on those statements.

We conducted our audit 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2008, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated May 19, 2009, 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 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and important for assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion of the basic financial statements of NeighborWorks[®] Capital Corporation taken as a whole. The accompanying supplemental information on page 24 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of



Federal awards are presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations" and is also not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Reznick Group, P.C.

Bethesda, Maryland
May 19, 2009

NeighborWorks® Capital Corporation

STATEMENTS OF FINANCIAL POSITION

December 31,

ASSETS

	2008				2007 (as restated)			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Current assets:								
Cash and cash equivalents								
Cash - operations	\$ 1,442,437	\$ 100,000	\$ -	\$ 1,542,437	\$ 1,553,286	\$ -	\$ -	\$ 1,553,286
Cash - operating reserve	350,401	-	-	350,401	189,783	-	-	189,783
Cash - loan capital	6,558,460	-	3,599,490	10,157,950	2,963,577	-	3,562,879	6,526,456
Cash - loan loss reserve	35,797	1,199,903	-	1,235,700	194,693	585,039	-	779,732
Accounts receivable	248	-	-	248	-	-	-	-
Loans receivable, net	782,480	-	2,703,246	3,485,726	523,251	-	3,269,391	3,792,642
Grant receivable	-	-	-	-	35,000	-	-	35,000
Interest receivable	160,123	-	-	160,123	110,386	-	-	110,386
Prepaid expenses	8,672	-	-	8,672	4,064	-	-	4,064
Total current assets	<u>9,338,618</u>	<u>1,299,903</u>	<u>6,302,736</u>	<u>16,941,257</u>	<u>5,574,040</u>	<u>585,039</u>	<u>6,832,270</u>	<u>12,991,349</u>
Property and equipment								
Office furniture and equipment, net	26,314	-	-	26,314	8,853	-	-	8,853
Leasehold improvements, net	11,965	-	-	11,965	-	-	-	-
Total property and equipment	<u>38,279</u>	<u>-</u>	<u>-</u>	<u>38,279</u>	<u>8,853</u>	<u>-</u>	<u>-</u>	<u>8,853</u>
Other assets:								
Loans receivable, net	692,617	-	4,065,088	4,757,705	1,901,192	-	2,450,418	4,351,610
Deposits	7,500	-	-	7,500	1,669	-	-	1,669
Total other assets	<u>700,117</u>	<u>-</u>	<u>4,065,088</u>	<u>4,765,205</u>	<u>1,902,861</u>	<u>-</u>	<u>2,450,418</u>	<u>4,353,279</u>
Total assets	<u>\$ 10,077,014</u>	<u>\$ 1,299,903</u>	<u>\$ 10,367,824</u>	<u>\$ 21,744,741</u>	<u>\$ 7,485,754</u>	<u>\$ 585,039</u>	<u>\$ 9,282,688</u>	<u>\$ 17,353,481</u>

See notes to financial statements

NeighborWorks® Capital Corporation

STATEMENTS OF FINANCIAL POSITION - CONTINUED

December 31,

LIABILITIES AND NET ASSETS

	2008				2007 (as restated)			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Current liabilities:								
Short-term borrowings	\$ -	\$ -	\$ -	\$ -	\$ 926,469	\$ -	\$ -	\$ 926,469
Accounts payable and accrued liabilities	190,828	-	-	190,828	136,022	-	-	136,022
Accrued interest	4,205	-	-	4,205	11,085	-	-	11,085
Interest reserve	12,933	-	-	12,933	101,777	-	-	101,777
Notes payable, current portion	500,000	-	-	500,000	1,115,000	-	-	1,115,000
Total current liabilities	707,966	-	-	707,966	2,290,353	-	-	2,290,353
Notes payable, net of current portion	8,900,000	-	-	8,900,000	3,900,000	-	-	3,900,000
Total liabilities	9,607,966	-	-	9,607,966	6,190,353	-	-	6,190,353
Commitments and Contingencies	-	-	-	-	-	-	-	-
Net assets								
Unrestricted:								
Operating	1,218,951	-	-	1,218,951	1,590,657	-	-	1,590,657
Board designated - operating reserve	350,000	-	-	350,000	189,783	-	-	189,783
Board designated - lending capital	100,000	-	-	100,000	100,000	-	-	100,000
Loan loss reserve	(1,199,903)	-	-	(1,199,903)	(585,039)	-	-	(585,039)
Total unrestricted net assets	469,048	-	-	469,048	1,295,401	-	-	1,295,401
Temporarily restricted	-	1,299,903	-	1,299,903	-	585,039	-	585,039
Permanently restricted	-	-	10,367,824	10,367,824	-	-	9,282,688	9,282,688
Total net assets	469,048	1,299,903	10,367,824	12,136,775	1,295,401	585,039	9,282,688	11,163,128
Total liabilities and net assets	\$ 10,077,014	\$ 1,299,903	\$ 10,367,824	\$ 21,744,741	\$ 7,485,754	\$ 585,039	\$ 9,282,688	\$ 17,353,481

(continued)

NeighborWorks® Capital Corporation

STATEMENTS OF ACTIVITIES

Year ended December 31, 2008

	Unrestricted				Total Unrestricted	Temporarily Restricted	Permanently Restricted	Total
	Operations	Operating Reserve	Lending Capital	Loan Loss Reserve				
Revenue								
NeighborWorks® America grants	\$ 421,740	\$ -	\$ -	\$ -	\$ 421,740	\$ 100,000	\$ 1,700,000	\$ 2,221,740
Loan fee income, net of participation	64,073	-	-	-	64,073	-	-	64,073
Interest income - loans	444,805	-	-	-	444,805	-	-	444,805
Interest income - investments	161,785	-	-	-	161,785	-	-	161,785
Other	100	-	-	-	100	-	-	100
Net assets released from restrictions:								
Satisfaction of program restrictions	-	-	-	-	-	614,864	(614,864)	-
Total revenue	<u>1,092,503</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>\$ 1,092,503</u>	<u>714,864</u>	<u>1,085,136</u>	<u>2,892,503</u>
Expenses								
Program services								
Interest	261,651	-	-	-	261,651	-	-	261,651
Allowance for loan loss	-	-	-	614,864	614,864	-	-	614,864
Direct program expenses	758,621	-	-	-	758,621	-	-	758,621
Total program services	<u>1,020,272</u>	<u>-</u>	<u>-</u>	<u>614,864</u>	<u>1,635,136</u>	<u>-</u>	<u>-</u>	<u>1,635,136</u>
Support services								
Management and general	236,972	-	-	-	236,972	-	-	236,972
Fundraising	46,748	-	-	-	46,748	-	-	46,748
Total support services	<u>283,720</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>283,720</u>	<u>-</u>	<u>-</u>	<u>283,720</u>
Total expenses	<u>1,303,992</u>	<u>-</u>	<u>-</u>	<u>614,864</u>	<u>1,918,856</u>	<u>-</u>	<u>-</u>	<u>1,918,856</u>
Transfers	(160,217)	160,217	-	-	-	-	-	-
(Decrease) increase in net assets	(371,706)	160,217	-	(614,864)	(826,353)	714,864	1,085,136	973,647
Net assets, beginning of year - as restated	<u>1,590,657</u>	<u>189,783</u>	<u>100,000</u>	<u>(585,039)</u>	<u>1,295,401</u>	<u>585,039</u>	<u>9,282,688</u>	<u>11,163,128</u>
Net assets, end of year	<u>\$ 1,218,951</u>	<u>\$ 350,000</u>	<u>\$ 100,000</u>	<u>\$ (1,199,903)</u>	<u>\$ 469,048</u>	<u>\$ 1,299,903</u>	<u>\$ 10,367,824</u>	<u>\$ 12,136,775</u>

See notes to financial statements

NeighborWorks® Capital Corporation

STATEMENTS OF ACTIVITIES - CONTINUED

Year ended December 31, 2007 (as restated)

	Unrestricted				Total Unrestricted	Temporarily Restricted	Permanently Restricted	Total
	Operations	Operating Reserve	Lending Capital	Loan Loss Reserve				
Revenue								
NeighborWorks® America grants	\$ 471,033	\$ -	\$ -	\$ -	\$ 471,033	\$ -	\$ 1,605,000	\$ 2,076,033
Loan fee income, net of participation	49,488	-	-	-	49,488	-	-	49,488
Interest income - loans	572,321	-	-	-	572,321	-	-	572,321
Interest income - investments	197,166	-	-	-	197,166	-	-	197,166
Other	29,832	-	-	-	29,832	-	-	29,832
Net assets released from restrictions:								
Satisfaction of program restrictions	-	-	-	-	-	163,726	(163,726)	-
Total revenue	<u>1,319,840</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>\$ 1,319,840</u>	<u>163,726</u>	<u>1,441,274</u>	<u>2,924,840</u>
Expenses								
Program services								
Interest	206,673	-	-	-	206,673	-	-	206,673
Allowance for loan loss	-	-	-	163,726	163,726	-	-	163,726
Direct program expenses	443,910	-	-	-	443,910	-	-	443,910
Total program services	<u>650,583</u>	<u>-</u>	<u>-</u>	<u>163,726</u>	<u>814,309</u>	<u>-</u>	<u>-</u>	<u>814,309</u>
Support services								
Management and general	300,543	-	-	-	300,543	-	-	300,543
Fundraising	29,756	-	-	-	29,756	-	-	29,756
Total support services	<u>330,299</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>330,299</u>	<u>-</u>	<u>-</u>	<u>330,299</u>
Total expenses	<u>980,882</u>	<u>-</u>	<u>-</u>	<u>163,726</u>	<u>1,144,608</u>	<u>-</u>	<u>-</u>	<u>1,144,608</u>
(Decrease) increase in net assets	338,958	-	-	(163,726)	175,232	163,726	1,441,274	1,780,232
Net assets, beginning of year - as restated	<u>1,251,699</u>	<u>189,783</u>	<u>100,000</u>	<u>(421,313)</u>	<u>1,120,169</u>	<u>421,313</u>	<u>7,841,414</u>	<u>9,382,896</u>
Net assets, end of year - as restated	<u>\$ 1,590,657</u>	<u>\$ 189,783</u>	<u>\$ 100,000</u>	<u>\$ (585,039)</u>	<u>\$ 1,295,401</u>	<u>\$ 585,039</u>	<u>\$ 9,282,688</u>	<u>\$ 11,163,128</u>

(continued)

NeighborWorks® Capital Corporation

STATEMENTS OF CASH FLOW

Years ended December 31,

	2008	2007
Cash flows from operating activities		
Changes in net assets	\$ 973,647	\$ 1,780,232
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	8,133	5,366
Loss on abandoned equipment	-	575
Allowance for loan loss	614,864	163,726
Changes in operating assets and liabilities		
Grant receivable	35,000	(35,000)
Accounts receivable	(248)	-
Interest receivable	(49,737)	80,366
Prepaid expenses	(4,608)	(1,848)
Accounts payable and accrued liabilities	54,806	98,395
Accrued interest	(6,880)	(40,677)
Interest reserve	(88,844)	(1,834)
Deposits	(5,831)	1,366
	<u>1,530,302</u>	<u>2,050,667</u>
Net cash provided by operating activities		
Cash flows from investing activities		
Advances on loans receivable	(3,856,265)	(3,605,000)
Repayments of loans receivable	3,142,222	8,143,062
Purchases of property and equipment	(37,559)	(2,276)
	<u>(751,602)</u>	<u>4,535,786</u>
Net cash (used in) provided by investing activities		
Cash flows from financing activities		
Payments on loan participations	-	(323,200)
Repayments on NeighborWorks® America grants payable	-	(32,000)
Repayments on short-term borrowings	(926,469)	(1,139,015)
Proceeds from notes payable	5,500,000	-
Repayments on notes payable	(1,115,000)	(154,000)
	<u>3,458,531</u>	<u>(1,648,215)</u>
Net cash provided by (used in) financing activities		
NET INCREASE IN CASH AND CASH EQUIVALENTS	4,237,231	4,938,238
Cash and cash equivalents, beginning	<u>9,049,257</u>	<u>4,111,019</u>
Cash and cash equivalents, end	<u>\$ 13,286,488</u>	<u>\$ 9,049,257</u>
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	<u>\$ 268,531</u>	<u>\$ 247,350</u>

See notes to financial statements

NeighborWorks[®] Capital Corporation

NOTES TO FINANCIAL STATEMENTS

December 31, 2008 and 2007

NOTE 1 - ORGANIZATION

On December 28, 2007, Neighborhood Capital Corporation of Cleveland, Ohio merged with RNA Community Builders of Rutland, Vermont and changed its name to NeighborWorks[®] Capital Corporation (the Organization). The Organization retained the Federal Tax Identification Number of Neighborhood Capital Corporation. Shortly thereafter, NeighborWorks[®] Capital Corporation relocated its offices from Cleveland, Ohio to Silver Spring, Maryland. NeighborWorks[®] Capital Corporation has retained all of the assets, liabilities and obligations of Neighborhood Capital Corporation and has assumed all of the assets, liabilities and obligations of RNA Community Builders.

The mission of NeighborWorks[®] Capital Corporation is to serve NeighborWorks[®] America organizations (NWOs) by developing and offering loan capital for important community development projects in their respective communities. NeighborWorks[®] Capital Corporation fulfills its mission by providing NWOs with low-cost capital for which they would not otherwise have access. NeighborWorks[®] Capital Corporation capital is available for the acquisition, preservation, construction, sale, financing or ownership of affordable single-family and multi-family properties and commercial projects. NeighborWorks[®] Capital Corporation receives support in the form of Federal grants as well as contributions from corporations and private foundations.

The Organization has been granted status as a Community Development Financial Institution (CDFI) by the U.S. Department of the Treasury (the Treasury), qualifying it for certain awards and support from the Treasury. As discussed in note 6, the Organization has two notes payable to the Treasury in accordance with its status as a CDFI totaling \$1,750,000.

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 Master Investment Agreement between NeighborWorks[®] America and the Organization. The Organization is required to report information regarding its financial position and activities according to three classes of net assets as follows:

NeighborWorks[®] Capital Corporation

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2008 and 2007

- Unrestricted net assets - net resources of the Organization that bear no external restriction. These include the Organization's general operating net assets, Board of Director designated net assets for operating reserves and lending capital and loan loss reserves. During the years ended December 31, 2008 and 2007, the Board of Directors designated \$614,864 and \$163,726, respectively, of the Organization's net assets for loan loss provisions.
- Temporarily restricted net assets - capital funds that are allowed to be transferred from permanently restricted for the purpose of functioning as an allowance for loan loss against loans receivable or for other temporary restriction approved by NeighborWorks[®] America. Increases in the provision of the allowance for loan loss are recorded as reductions in permanently restricted net assets while recoveries in the provision of the allowance of loan loss are recorded as additions to permanently restricted net assets. Temporarily restricted net assets also result from timing differences between receipt of funds and the incurrence of related expenses. NeighborWorks[®] Capital Corporation 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, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions; however, donor restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted revenue. As of December 31, 2008 and 2007, temporarily restricted net assets consist of \$1,199,903 and \$585,039, respectively of allowances for loan loss that have been approved by the Board of the Directors. Additionally, during the year ended December 31, 2008, \$100,000 of expendable grant funds from NeighborWorks[®] America has been recorded as an increase in temporarily restricted net assets and is time-restricted by the donor until 2009 on the accompanying statements of activities.
- Permanently restricted net assets - 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 and not to be used for non-capitalizable purposes such as paying operating and day-to-day expenses of the Organization. As of December 31, 2008 and 2007, permanently restricted net assets consist of \$6,768,334 and \$5,719,809, respectively of amounts currently in use to fund loans receivable and \$3,599,490 and \$3,562,879, respectively of amounts held for use for future lending commitments or additional provisions for loan loss reserves.

NeighborWorks[®] Capital Corporation

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2008 and 2007

Contributions

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

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.

Cash and Cash Equivalents

Cash and cash equivalents may include currency on hand, treasury bills, commercial paper, or other investments with original maturities of three months or less. At December 31, 2008, 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 in federally insured accounts or invested in government securities. Invested cash may exceed federally insured amounts at times.

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. At December 31, 2008 and 2007, the allowance for loan loss was \$1,199,903 and \$585,039, respectively, of which \$839,520 and \$265,649 related to the current portion of loans receivable, respectively.

Deferred Revenue

The Organization earns fees and incurs costs associated with originating loans receivable during the normal course of business. The portion these costs that are attributable to originating loans receivable are netted against related fees earned. In accordance with Statement of Financial Accounting Standards No. 91 "Accounting for Nonrefundable Fees

NeighborWorks[®] Capital Corporation

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2008 and 2007

and Costs Associated with Originating or Acquiring Loans and Indirect Costs of Leases,” net origination fees are deferred and recognized as an adjustment to interest income over the life of the loan. No deferred costs were recorded for the years ended December 31, 2008 and 2007.

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 3 - 7 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.

Income Taxes

The Organization is a not-for-profit organization and is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code (the Code), except for unrelated business income as defined in the Code. The Organization did not have any unrelated business income during the years ended December 31, 2008 and 2007.

Functional Expense Allocation

The cost of providing various programs and other activities has been summarized on a functional basis in the Statement of Activities and in the accompanying Schedule of Functional Expenses. Accordingly, expenses are recorded directly to program services, management and general or fundraising based on specific identification.

Reclassification

Certain prior year balances have been reclassified to conform to the current year presentation.

NOTE 3 - 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 obtaining site control of properties. Funds are typically used for environmental studies, market studies, appraisals, architectural and engineering expenses, legal fees and earnest money deposits.

NeighborWorks[®] Capital Corporation

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2008 and 2007

Loans generally provided for up to \$200,000 with a maximum loan term of 30 months; recourse basis with flexible collateral requirements 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 provided for up to \$1.5 million with a maximum loan term of 36 months, renewable for an additional 24 months; recourse basis with a strong preference for mortgage or other collateral and are repayable upon closing of construction or permanent closing.

The following is a summary of loans receivable at December 31, 2008 and 2007:

Loan Product ID	Borrower/Project	2008	2007
ID	120 Mount Pleasant, Inc./Nuestra Comunidad/Quincy Commons	\$ 956,000	\$ -
ID	South Park Srs. LLC/Charlotte-Mecklenberg/Live Oak Seniors	-	410,000
ID	CRPC/DHIC, Inc./Dacain Glen	-	1,100,000
ID	Rural Communities Housing Development Corp./Orr Creek	500,000	-
PD	Waverly Homes Inc./Nuestra Comunidad/Edgewood	150,000	150,000
PD	Codman Square NDC/AB&W Bldg.	150,000	150,000
PD	East Akron NDC/Queen Esther's Village	-	10,000
ID	Los Bougainvilleas, LP/Alamo AMHA/Los Bougainvilleas	-	720,000
ID	Umpqua CDC/WISH House	622,000	-
ID	NHS of Southern Florida/NHS Offices	599,250	-
ID	Community Housing Partners/Townhomes of Ashbrook	1,300,000	1,300,000
ID	MHA South Central Connecticut, Inc./Highwood Square	400,000	400,000
ID	Williamette NHS/Alexander Court	825,000	825,000
PD	MHA of Southwestern Connecticut, Inc./Wilton Commons	-	125,000
PD	MHA of Greater Hartford/Zion Square	-	150,000
PD	Charlotte-Mecklenberg/Gables II	200,000	-
PD	Charlotte-Mecklenberg/Statesville Avenue Apartments	200,000	-
ID	HP of NE Florida/Forest Apartments	150,000	300,000
PD	South County Housing Corporation/The Cannery	500,000	500,000
ID	Neighborhood Development Services/Village of Harvest Hills	153,000	178,000
ID	AMHA @ Harbour Oaks LLC/Atlanta MHA/Harbour Oaks	360,000	218,823
PD	Housing Resources of Colombia Co./Millerton	75,000	75,000
ID	Housing Resources of Colombia County/Copake Village	318,000	318,000
ID	Colorado Rural Housing Development Corp./San Luis Self-Help	258,987	258,987
ID	Rural Opportunities, Inc./HOPN II-Newburgh Hts.	293,259	300,000
ID	Central Vermont Community Land Trust/River Station Condos	300,000	300,000
ID	Gilman Housing Trust/Orleans Youth-Build	80,000	80,000
ID	Gilman Housing Trust/White Drive	65,000	65,000
ID	Gilman Housing Trust/Shattuck Hill	50,000	50,000

NeighborWorks[®] Capital Corporation

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2008 and 2007

Loan Product ID	Borrower/Project	2008	2007
ID	NHS of the Black Hills/Caledonia Condos	-	162,984
PD	Beyond Housing, Inc./Pagedale Retail Building	200,000	-
ID	Rural Communities Housing Development Corp./Lakewood Homes	300,000	300,000
ID	Community Ventures Corp./3rd Street Exchange	-	253,159
ID	Cabrillo Economic Development Corporation/Villa Caesar Chavez	-	29,338
PD	Cabrillo Economic Development Corporation/Paseo de Luz	87,838	-
PD	MHA of Southwestern Connecticut, Inc./Wilton Commons II	200,000	-
PD	East Akron Neighborhood Development Corp/Village at New Seasons	150,000	-
		<u>9,443,334</u>	<u>8,729,291</u>
	Less allowance for loan loss	<u>(1,199,903)</u>	<u>(585,039)</u>
	Loans receivable, net of allowance for loan loss	8,243,431	8,144,252
	Less loans receivable - current portion, net	<u>3,485,726</u>	<u>3,792,642</u>
	Loans receivable - non-current portion, net	<u>\$ 4,757,705</u>	<u>\$ 4,351,610</u>

PD - Pre-Development Loan

ID - Interim Development Loan

The following schedule lists the future minimum principal receivable at December 31,

2009	\$ 4,403,246
2010	1,675,000
2011	<u>3,365,088</u>
	<u>\$ 9,443,334</u>

Loan Delinquency Status

All loan interest and principal payments are current. No loan principal payments were delinquent, and none were in forbearance or foreclosure as of and during the years ended December 31, 2008 and 2007, respectively.

Accrued interest and other receivables from these notes at December 31, 2008 and 2007 totaled \$160,123 and \$110,386, respectively.

NOTE 4 - SHORT-TERM BORROWINGS

Short-term borrowings represent advances against a line of credit available from Merrill Lynch Community Development Company, LLC in an amount up to \$4,000,000. The line is

NeighborWorks[®] Capital Corporation

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2008 and 2007

secured by an assignment of the loans receivable of the Organization. The facility closed on December 17, 2004. As of December 31, 2008 and 2007, \$0 and \$926,469 had been drawn, respectively. For the years ended December 31, 2008 and 2007, the line of credit bears interest at a variable per annum interest rate equal to the 1- or 3-month LIBOR plus 200 basis points. A non-usage fee of .25% of the undrawn amount is due quarterly. The expiration date of the line is September 15, 2010. Interest expense related to line for the years ended December 31, 2008 and 2007 totaled \$22,288 and \$57,220, respectively.

NOTE 5 - INTEREST RESERVE

The interest reserve represents funds withheld from loan disbursements. The reserves are held by the Organization and used to make loan interest payments on behalf of borrowers.

NOTE 6 - NOTES PAYABLE

As of December 31, 2008, the Organization had three unsecured notes payable to The John D. and Catherine T. MacArthur Foundation, two in the amount of \$1,000,000 and the third in the amount of \$500,000. The notes all bear interest at 3% and require quarterly payments until maturity. Principal payments are deferred until the maturity dates, which are October 1, 2008, for the first \$1,000,000 note, January 1, 2009, for the \$500,000 note, and January 1, 2010, for the second \$1,000,000 note. The first \$1,000,000 which matured on October 1, 2008, was fully repaid. Interest expense related to these notes for the years ended December 31, 2008 and 2007, totaled \$67,500 and \$75,000, respectively. As of December 31, 2008 and 2007, \$1,500,000 and \$2,500,000, respectively, is outstanding.

The Organization had an unsecured note payable to The Community Reinvestment Fund in the amount of \$500,000. The note bore interest at 2% per annum and was payable quarterly. The note required amortization of the loan commencing on July 1, 2005 in twelve equal quarterly installments of \$38,500 each. As of December 31, 2008, the note was fully repaid. Interest expense related to this note for the years ended December 31, 2008 and 2007 totaled \$555 and \$4,225, respectively. As of December 31, 2008 and 2007, \$0 and \$115,000, respectively, is outstanding.

The Organization has an unsecured note payable to The Calvert Social Investment Foundation. The note was originally for \$650,000. In 2008, the loan was amended and the maximum amount of the loan was increased to \$1,150,000. The note bears interest at 4.50% per annum and is payable semi-annually. The note matures on September 30, 2010. Interest expense related to the note for the years ended December 31, 2008 and 2007 was \$29,151

NeighborWorks[®] Capital Corporation

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2008 and 2007

and \$28,009, respectively. As of December 31, 2008 and 2007, \$1,150,000 and \$650,000, respectively, is outstanding.

The Organization has an unsecured note payable with GMAC Bank in the amount of \$5,000,000. The note bears interest at 3.75% per annum and is payable quarterly until maturity. Principal is deferred until maturity which is July 1, 2013. Interest expense related to the note was for \$95,833 for the year ended December 31, 2008. As of December 31, 2008, \$5,000,000 is outstanding.

The Organization has two unsecured notes payable to the U.S. Treasury Community Development Financial Institutions Fund. The first note, in the amount of \$1,000,000, bears interest at 2.63% per annum and is payable quarterly. The note requires three principal payments as follows: \$333,000 due on June 20, 2010, \$333,000 due on June 30, 2011, and \$334,000 due on the maturity date of August 11, 2012. Interest expense related to this note for both the years ended December 31, 2008 and 2007 totaled \$26,300. The second note, in the amount of \$750,000, bears interest at 2.67% per annum and is payable quarterly. Interest expense related to this note for both the years ended December 31, 2008 and 2007 totaled \$20,024. The full principal balance of this note may be repaid any time before August 9, 2010. As of December 31, 2008 and 2007, \$1,750,000 was outstanding.

The following schedule lists the future minimum notes payable at December 31:

2009	\$	500,000
2010		3,233,000
2011		333,000
2012		334,000
2013		<u>5,000,000</u>
	\$	<u>9,400,000</u>

NOTE 7 - TEMPORARILY RESTRICTED NET ASSETS

As of December 31, 2008, temporarily restricted net assets consisted of a \$100,000 of expendable funds from NeighborWorks[®] America which was time-restricted by the donor until 2009 as well as the allowance for loan losses of \$1,199,903. The Organization had temporarily restricted net assets of \$585,039 as of December 31, 2007 which represents the allowance for loan losses.

NeighborWorks[®] Capital Corporation

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2008 and 2007

NOTE 8 - PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets as of December 31, 2008 and 2007 are as follows:

	<u>2008</u>	<u>2007</u> (as restated)
Investment in perpetuity, income from which is expendable to support operations:		
NeighborWorks [®] America	\$ 10,342,824	\$ 9,257,688
Other	<u>25,000</u>	<u>25,000</u>
Total permanently restricted net assets	<u>\$ 10,367,824</u>	<u>\$ 9,282,688</u>

NOTE 9 - LOAN COMMITMENTS

As of December 31, 2008 and 2007, the Organization had the following outstanding loan commitments:

	<u>2008</u>
Nuestra Comunidad - Dudley Commons	\$ 1,300,000
BCL of Texas	2,500,000
NeighborWorks [®] Waco	600,000
Housing Resources of Western Colorado	2,000,000
NeighborWorks [®] Montana	<u>2,500,000</u>
	<u>\$ 8,900,000</u>

NeighborWorks® Capital Corporation

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2008 and 2007

<u>2007</u>	
Housing Assistance Program of Essex County	
Keene Community Housing	\$ 300,000
BCL of Texas	32,000
Rural Ulster Preservation - Ellenville	
Townhomes	30,000
Rural Communities - Orr Creek	500,000
Nuestra Comunidad - Quincy Commons	1,000,000
Nuestra Comunidad - Dudley Commons	<u>1,300,000</u>
	<u><u>\$ 3,162,000</u></u>

NOTE 10 - LEASE OBLIGATIONS

On July 3, 2008, the Organization entered into a non-cancelable 5-year operating lease for office space commencing in October 2008. Future minimum rent payments due under the lease as of December 31, 2008 are summarized as follows:

2009	\$ 72,270
2010	74,438
2011	76,678
2012	78,967
2013	<u>81,328</u>
	<u><u>\$ 383,681</u></u>

Rent expense for the years ended December 31, 2008 and 2007 was \$72,133 and \$28,056, respectively.

NOTE 11 - PENSION PLAN

During 2008, 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 year ended December 31, 2008 totaled \$17,560. During 2007, the Organization maintained a defined contribution pension plan pursuant to section 403(b) of the Internal Revenue Code. Employer contributions to that plan during the year ended December 31, 2007 totaled \$13,096.

NeighborWorks[®] Capital Corporation

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2008 and 2007

NOTE 12 - CONCENTRATIONS

The Organization receives all of its grant funding from NeighborWorks[®] America. This is the primary source of grant revenue to date.

As of December 31, 2008, the Organization's cash and cash equivalent balances totaled \$13,351,684, \$12,379,373 of which was held at Branch Banking and Trust Company (BB&T) and \$972,311 of which was held at KeyBank, N.A., (KeyBank). Both of these financial institutions are members of the Federal Deposit Insurance Corporation (FDIC). Deposit balances were insured up to \$100,000. Effective October 3, 2008, the FDIC temporarily increased its insurance on deposit accounts to \$250,000 through December 31, 2009. Furthermore, both BB&T and KeyBank are participating in the FDIC's separate Transaction Account Guarantee Program which fully guarantees all amounts on deposit in non-interest bearing transaction accounts through December 31, 2009. For BB&T, \$9,452,483 is invested in overnight repurchase agreements. While the sweep balances in overnight repurchase agreements are not FDIC insured, the cash is invested in United States government backed securities. BB&T participates in the Certificate of Deposit Account Registry Service (CDARS[®]) which provides for insurance in excess of the temporary increase in FDIC insurance until all qualifying amounts are fully insured. As such, the balance of \$2,925,000 held in certificates of deposits is fully insured. Additionally, \$401 is invested in an interest-bearing checking account and is fully insured while \$1,489 is invested in a non-interest bearing checking account and is fully insured. For KeyBank, \$177,197 is invested in an interest bearing checking account, \$518,448 is invested in a money market account and \$276,666 is invested in a money market fund account, the sum of which is insured up to \$250,000 and \$472,311 is uninsured.

NeighborWorks[®] Capital Corporation

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2008 and 2007

NOTE 13 - RELATED PARTY TRANSACTIONS

NeighborWorks[®] Capital Corporation, or its predecessors, has extended loans to entities or their affiliates that have had representation on the Board of Directors and/or its Loan Committee. For the years ended December 31, 2008 and 2007, the loans, as listed in note 3, have been extended to the following borrowers or their affiliates:

2008	
Colorado Rural Housing Development	\$ 258,987
Housing Resources of Columbia County	318,000
Neighborhood Development Services, Inc.	153,000
Neuestra Comunidad Development Corporation	150,000
South County Housing Corporation	500,000
Willamette NHS	825,000

2007	
Cabrillio Economic Development Corp.	\$ 29,338
Colorado Rural Housing Development	258,987
DHIC, Inc.	1,100,000
Housing Resources of Columbia County	318,000
Neighborhood Development Services, Inc.	178,000
NHS of Black Hills	162,984
Neuestra Comunidad Development Corporation	150,000
South County Housing Corporation	500,000
Willamette NHS	825,000

NOTE 14 - LENDING CAPITAL

The Organization's lending capital consists of a revolving loan and capital projects fund. Its lending capital includes both donor-restricted lending capital and capital projects funds and funds designated by the Board of Directors to function as 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 on the existence of donor imposed-restrictions.

NeighborWorks[®] Capital Corporation

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2008 and 2007

NOTE 15 - NEW ACCOUNTING PRONOUNCEMENT

In June 2006, the Financial Accounting Standards Board (FASB) issued FIN 48, "Accounting for Uncertainty in Income Taxes" an interpretation of FASB Statement No. 109. The effective date of FIN 48 was for fiscal years beginning after December 15, 2006. The effective date was delayed in 2007 and was delayed again in 2008 for nonpublic companies. The new effective date for FIN 48 for nonpublic companies is fiscal years beginning after December 31, 2008. The Organization has elected to defer application of FIN 48, as permitted by FSP FIN 48-3, "Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises," until 2009. The Organization does not anticipate that the provisions of FIN 48 will have any significant impact on its financial statements. However, additional disclosures may be required of situations, if any, where the Organization's tax positions are considered uncertain. Currently, the FASB is deliberating the manner and extent to which not-for-profit corporations will need to apply the provisions of FIN 48.

NOTE 16 - RESTATEMENT

In prior years, the estimate of the allowance for loan loss was improperly presented solely as a reduction in permanently restricted net assets. As discussed in note 2, in accordance with the terms of the Master Investment Agreement between the Organization and NeighborWorks[®] America, the provision for loan loss is to be recognized as a decrease in permanently restricted net assets and an increase in temporarily restricted net assets as well as a corresponding decrease in unrestricted net assets.

The following items were affected by this change:

	Unrestricted net assets	Temporarily restricted net assets	Permanently restricted net assets
As previously reported	\$ 1,855,440	\$ -	\$ 9,307,688
Adjustment	<u>(560,039)</u>	<u>585,039</u>	<u>(25,000)</u>
As restated	<u>\$ 1,295,401</u>	<u>\$ 585,039</u>	<u>\$ 9,282,688</u>

SUPPLEMENTAL INFORMATION

NeighborWorks[®] Capital Corporation

SCHEDULES OF FUNCTIONAL EXPENSES

December 31,

Expenditures	2008				2007			
	Program activities	Management and general	Fundraising	Total	Program activities	Management and general	Fundraising	Total
Salaries and benefits	\$ 356,047	\$ 130,278	\$ 27,384	\$ 513,709	\$ 216,086	\$ 127,653	\$ 21,015	\$ 364,754
Interest	261,651	-	-	261,651	206,673	-	-	206,673
Professional fees	210,246	89,487	7,318	307,051	96,406	163,141	-	259,547
Occupancy	61,313	7,213	3,607	72,133	23,848	2,805	1,403	28,056
Office expenses	33,187	3,904	1,952	39,043	16,516	1,943	972	19,431
Travel	28,529	307	1,841	30,677	26,538	286	1,712	28,536
Telephone	17,459	2,054	1,027	20,540	10,377	1,221	610	12,208
Bank fees	11,318	352	-	11,670	12,233	211	-	12,444
Marketing	8,864	-	1,564	10,428	5,343	-	943	6,286
Miscellaneous	8,002	937	471	9,410	10,482	1,232	617	12,331
Repairs and maintenance	7,667	902	451	9,020	4,064	478	239	4,781
Depreciation and amortization	6,913	813	407	8,133	4,561	537	268	5,366
Insurance	4,621	544	272	5,437	7,279	857	428	8,564
Printing	2,324	129	129	2,582	1,052	59	58	1,169
Special events and board retreats	1,250	-	221	1,471	7,087	-	1,251	8,338
Staff development	881	52	104	1,037	2,038	120	240	2,398
Loan loss reserve	614,864	-	-	614,864	163,726	-	-	163,726
	<u>\$ 1,635,136</u>	<u>\$ 236,972</u>	<u>\$ 46,748</u>	<u>\$ 1,918,856</u>	<u>\$ 814,309</u>	<u>\$ 300,543</u>	<u>\$ 29,756</u>	<u>\$ 1,144,608</u>

NeighborWorks® Capital Corporation

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year ended December 31, 2008

Federal Grantor/(Pass-through Grantor) Program Titles	Federal CFDA Number	Federal Expenditures
U.S. Department of Treasury passed through NeighborWorks® America		
Neighborhood Reinvestment Corporation Act:		
Capital Grant Funds	21.000	\$ 11,567,727
Expendable Grant Funds	21.000	421,740
Community Development Financial Institutions Program - Loan Program	21.020	<u>1,750,000</u>
Total Federal Programs		<u><u>\$ 13,739,467</u></u>

NeighborWorks[®] Capital Corporation

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

December 31, 2008

NOTE 1 - GENERAL

The accompanying schedule of expenditures of Federal awards presents the activity of all Federal financial assistance programs of NeighborWorks[®] Capital Corporation. NeighborWorks[®] Capital Corporation's reporting entity is defined in note 1 to the Organization's financial statements.

NOTE 2 - BASIS OF ACCOUNTING

The accompanying schedule of expenditures of Federal awards is a summary of the cash activity of the Organization's Federal awards programs and does not present transactions that would be included in financial statements of the Organization presented on the accrual basis of accounting, as contemplated by U.S. generally accepted accounting principles.

NOTE 3 - RELATIONSHIP TO FEDERAL FINANCIAL REPORTS

Amounts reported in the accompanying schedule of expenditures of Federal awards agree with the amounts reported in the related Federal financial reports for all Federal programs.

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Board of Directors
NeighborWorks[®] Capital Corporation

We have audited the financial statements of NeighborWorks[®] Capital Corporation as of and for the year ended December 31, 2008, and have issued our report thereon dated May 19, 2009. We conducted our audit 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered NeighborWorks[®] Capital Corporation's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of NeighborWorks[®] Capital Corporation's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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 direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

We noted certain matters that we reported to management of NeighborWorks[®] Capital Corporation's in a separate letter dated May 19, 2009.

This report is intended solely for the information and use of the audit committee, the Board of Directors, management, others within the entity, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Reznick Group, P.C.

Bethesda, Maryland
May 19, 2009

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Directors
NeighborWorks[®] Capital Corporation

Compliance

We have audited the compliance of NeighborWorks[®] Capital Corporation with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major Federal programs for the year ended December 31, 2008. 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. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major Federal programs is the responsibility of NeighborWorks[®] Capital Corporation's management. Our responsibility is to express an opinion on NeighborWorks[®] Capital Corporation's compliance based on our audit.

We conducted our audit of compliance 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; and OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations." Those standards and OMB Circular A-133 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 those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of NeighborWorks[®] Capital Corporation's compliance with those requirements.

In our opinion, NeighborWorks[®] Capital Corporation complied, in all material respects, with the requirements referred to above that are applicable to each of its major Federal programs for the year ended December 31, 2008.

Internal Control Over Compliance

The management of NeighborWorks[®] Capital Corporation is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our

audit, we considered NeighborWorks[®] Capital Corporation's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control over compliance.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a major program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that result in more than a remote likelihood that material noncompliance with a type of compliance requirement of a major program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is solely for the information and use of the audit committee, the Board of Directors, management, others within the entity and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Reznick Group, P.C.

Bethesda, Maryland
May 19, 2009

NeighborWorks[®] Capital Corporation

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

December 31, 2008

A. SUMMARY OF AUDITORS' RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of NeighborWorks[®] Capital Corporation.
2. No significant deficiencies were identified during the audit of the financial statements.
3. No instances of noncompliance material to the financial statements of NeighborWorks[®] Capital Corporation were disclosed during the audit.
4. No significant deficiencies were identified during the audit of the major federal award programs.
5. The auditor's report on compliance for the major federal award programs for NeighborWorks[®] Capital Corporation expresses an unqualified opinion.
6. There are no audit findings relative to the major federal award programs for NeighborWorks[®] Capital Corporation.
7. Major programs:
 - Department of Treasury - Community Development Financial Institutions Fund, CFDA No. 21.020
 - Department of Treasury - Neighborhood Reinvestment Corporation Act, CFDA No. 21.000
8. The threshold for distinguishing Type A and B programs was \$300,000
9. NeighborWorks[®] Capital Corporation qualified as a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENT AUDIT - NONE

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT - NONE