

FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITORS' REPORT  
**NEIGHBORWORKS<sup>®</sup> CAPITAL CORPORATION**  
DECEMBER 31, 2010 AND 2009

# NeighborWorks® Capital Corporation

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
NeighborWorks<sup>®</sup> Capital Corporation

We have audited the accompanying statements of financial position of NeighborWorks<sup>®</sup> Capital Corporation (a nonprofit organization) as of December 31, 2010 and 2009, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of NeighborWorks<sup>®</sup> Capital Corporation's management. 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 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 audits provide 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<sup>®</sup> Capital Corporation as of December 31, 2010 and 2009, and the changes in its net assets and its cash flows for the years 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 March 30, 2011, on our consideration of NeighborWorks<sup>®</sup> 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 should be considered in assessing the results of our audit.

Our audits were conducted for the purpose of forming an opinion of the financial statements as a whole. The accompanying supplemental information on page 26 is presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is 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 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 taken as a whole.

*Reznick Group, P.C.*

Bethesda, Maryland  
March 30, 2011

**NeighborWorks<sup>®</sup> Capital Corporation**

STATEMENTS OF FINANCIAL POSITION

December 31, 2010 and 2009

ASSETS

|                                     | <u>2010</u>          | <u>2009</u>          |
|-------------------------------------|----------------------|----------------------|
| Current assets:                     |                      |                      |
| Cash and cash equivalents           |                      |                      |
| Cash - operations                   | \$ 1,577,719         | \$ 977,175           |
| Cash - operating reserve            | 415,000              | 355,000              |
| Cash - loan capital                 | 1,541,389            | 5,035,143            |
| Cash - loan loss reserve            | 1,553,013            | 928,924              |
| Accounts receivable                 | 2,312                | 6,582                |
| Loans receivable, net               | 8,112,095            | 3,514,594            |
| Interest receivable                 | 81,811               | 54,596               |
| Prepaid expenses                    | <u>11,373</u>        | <u>9,114</u>         |
| Total current assets                | <u>13,294,712</u>    | <u>10,881,128</u>    |
| Property and equipment              |                      |                      |
| Office furniture and equipment, net | 22,149               | 23,269               |
| Leasehold improvements, net         | <u>6,838</u>         | <u>9,401</u>         |
| Total property and equipment        | <u>28,987</u>        | <u>32,670</u>        |
| Other assets:                       |                      |                      |
| Loans receivable, net               | 16,143,999           | 11,631,779           |
| Deposits                            | 7,500                | 7,500                |
| Deferred loan fees, net             | <u>35,044</u>        | <u>7,241</u>         |
| Total other assets                  | <u>16,186,543</u>    | <u>11,646,520</u>    |
| Total assets                        | <u>\$ 29,510,242</u> | <u>\$ 22,560,318</u> |

LIABILITIES AND NET ASSETS

|  |                      |                      |
|--|----------------------|----------------------|
| Current liabilities:                     |                      |                      |
| Accounts payable and accrued liabilities | \$ 39,924            | \$ 21,223            |
| Accrued interest                         | 16,875               | 12,938               |
| Interest reserve                         | 32,643               | 2,875                |
| Notes payable, current portion           | <u>2,283,333</u>     | <u>2,233,333</u>     |
| Total current liabilities                | 2,372,775            | 2,270,369            |
| Notes payable, net of current portion    | <u>10,011,398</u>    | <u>6,666,667</u>     |
| Total liabilities                        | <u>12,384,173</u>    | <u>8,937,036</u>     |
| Commitments and Contingencies            | -                    | -                    |
| Net assets                               |                      |                      |
| Unrestricted:                            |                      |                      |
| Operating                                | 1,024,443            | 981,765              |
| Board designated - operating reserve     | 415,000              | 355,000              |
| Board designated - lending capital       | 850,000              | 100,000              |
| Loan loss reserve                        | <u>(1,627,226)</u>   | <u>(928,882)</u>     |
| Total unrestricted net assets            | 662,217              | 507,883              |
| Temporarily restricted (note 7)          | 2,252,475            | 1,028,931            |
| Permanently restricted (note 8)          | <u>14,211,377</u>    | <u>12,086,468</u>    |
| Total net assets                         | <u>17,126,069</u>    | <u>13,623,282</u>    |
| Total liabilities and net assets         | <u>\$ 29,510,242</u> | <u>\$ 22,560,318</u> |

(continued)

**NeighborWorks® Capital Corporation**

STATEMENTS OF ACTIVITIES

Year ended December 31, 2010

|  | Unrestricted |                      |                    |                      | Total<br>unrestricted | Temporarily<br>restricted | Permanently<br>restricted | Total         |
|--|--------------|----------------------|--------------------|----------------------|-----------------------|---------------------------|---------------------------|---------------|
|  | Operations   | Operating<br>reserve | Lending<br>capital | Loan loss<br>reserve |                       |                           |                           |               |
| Revenue  |              |                      |                    |                      |                       |                           |                           |               |
| NeighborWorks® America grants                              | \$ 300,000   | \$ -                 | \$ -               | \$ -                 | \$ 300,000            | \$ 578,800                | \$ 2,898,253              | \$ 3,777,053  |
| Community Development Financial<br>Institution Fund grants | -            | -                    | -                  | -                    | -                     | 750,000                   | -                         | 750,000       |
| Loan fee income, net of participation                      | 148,782      | -                    | -                  | -                    | 148,782               | -                         | -                         | 148,782       |
| Interest income - loans                                    | 1,010,318    | -                    | -                  | -                    | 1,010,318             | -                         | -                         | 1,010,318     |
| Interest income - investments                              | 18,606       | -                    | -                  | -                    | 18,606                | -                         | -                         | 18,606        |
| Net assets released from restrictions:                     |              |                      |                    |                      |                       |                           |                           |               |
| Satisfaction of program restrictions                       | 53,600       | -                    | 750,000            | 75,000               | 878,600               | (105,256)                 | (773,344)                 | -             |
| Total revenue  | 1,531,306    | -                    | 750,000            | 75,000               | 2,356,306             | 1,223,544                 | 2,124,909                 | 5,704,759     |
| Expenses   |              |                      |                    |                      |                       |                           |                           |               |
| Program services   |              |                      |                    |                      |                       |                           |                           |               |
| Interest   | 427,891      | -                    | -                  | -                    | 427,891               | -                         | -                         | 427,891       |
| Bad debt expense   | -            | -                    | -                  | 773,344              | 773,344               | -                         | -                         | 773,344       |
| Direct program expenses                                    | 728,286      | -                    | -                  | -                    | 728,286               | -                         | -                         | 728,286       |
| Total program services                                     | 1,156,177    | -                    | -                  | 773,344              | 1,929,521             | -                         | -                         | 1,929,521     |
| Support services   |              |                      |                    |                      |                       |                           |                           |               |
| Management and general                                     | 233,344      | -                    | -                  | -                    | 233,344               | -                         | -                         | 233,344       |
| Fundraising  | 39,107       | -                    | -                  | -                    | 39,107                | -                         | -                         | 39,107        |
| Total support services                                     | 272,451      | -                    | -                  | -                    | 272,451               | -                         | -                         | 272,451       |
| Total expenses   | 1,428,628    | -                    | -                  | 773,344              | 2,201,972             | -                         | -                         | 2,201,972     |
| Transfers  | (60,000)     | 60,000               | -                  | -                    | -                     | -                         | -                         | -             |
| Increase (decrease) in net assets                          | 42,678       | 60,000               | 750,000            | (698,344)            | 154,334               | 1,223,544                 | 2,124,909                 | 3,502,787     |
| Net assets, beginning of year                              | 981,765      | 355,000              | 100,000            | (928,882)            | 507,883               | 1,028,931                 | 12,086,468                | 13,623,282    |
| Net assets, end of year                                    | \$ 1,024,443 | \$ 415,000           | \$ 850,000         | \$ (1,627,226)       | \$ 662,217            | \$ 2,252,475              | \$ 14,211,377             | \$ 17,126,069 |

(continued)

**NeighborWorks® Capital Corporation**

STATEMENTS OF ACTIVITIES - CONTINUED

Year ended December 31, 2009

|  | Unrestricted |                      |                    |                      | Total<br>unrestricted | Temporarily<br>restricted | Permanently<br>restricted | Total         |
|--|--------------|----------------------|--------------------|----------------------|-----------------------|---------------------------|---------------------------|---------------|
|  | Operations   | Operating<br>reserve | Lending<br>capital | Loan loss<br>reserve |                       |                           |                           |               |
| Revenue  |              |                      |                    |                      |                       |                           |                           |               |
| NeighborWorks® America grants                              | \$ 350,000   | \$ -                 | \$ -               | \$ -                 | \$ 350,000            | \$ 7,500                  | \$ 2,150,000              | \$ 2,507,500  |
| Community Development Financial<br>Institution Fund grants | -            | -                    | -                  | -                    | -                     | 95,624                    | -                         | 95,624        |
| Loan fee income, net of participation                      | 80,375       | -                    | -                  | -                    | 80,375                | -                         | -                         | 80,375        |
| Interest income - loans                                    | 593,323      | -                    | -                  | -                    | 593,323               | -                         | -                         | 593,323       |
| Interest income - investments                              | 34,359       | -                    | -                  | -                    | 34,359                | -                         | -                         | 34,359        |
| Net assets released from restrictions:                     |              |                      |                    |                      |                       |                           |                           |               |
| Satisfaction of program restrictions                       | 103,075      | -                    | -                  | 702,377              | 805,452               | (374,096)                 | (431,356)                 | -             |
| Total revenue  | 1,161,132    | -                    | -                  | 702,377              | 1,863,509             | (270,972)                 | 1,718,644                 | 3,311,181     |
| Expenses   |              |                      |                    |                      |                       |                           |                           |               |
| Program services   |              |                      |                    |                      |                       |                           |                           |               |
| Interest   | 298,724      | -                    | -                  | -                    | 298,724               | -                         | -                         | 298,724       |
| Bad debt expense   | 40,833       | -                    | -                  | 431,356              | 472,189               | -                         | -                         | 472,189       |
| Direct program expenses                                    | 746,121      | -                    | -                  | -                    | 746,121               | -                         | -                         | 746,121       |
| Total program services                                     | 1,085,678    | -                    | -                  | 431,356              | 1,517,034             | -                         | -                         | 1,517,034     |
| Support services   |              |                      |                    |                      |                       |                           |                           |               |
| Management and general                                     | 262,792      | -                    | -                  | -                    | 262,792               | -                         | -                         | 262,792       |
| Fundraising  | 44,848       | -                    | -                  | -                    | 44,848                | -                         | -                         | 44,848        |
| Total support services                                     | 307,640      | -                    | -                  | -                    | 307,640               | -                         | -                         | 307,640       |
| Total expenses   | 1,393,318    | -                    | -                  | 431,356              | 1,824,674             | -                         | -                         | 1,824,674     |
| Transfers  | (5,000)      | 5,000                | -                  | -                    | -                     | -                         | -                         | -             |
| (Decrease) increase in net assets                          | (237,186)    | 5,000                | -                  | 271,021              | 38,835                | (270,972)                 | 1,718,644                 | 1,486,507     |
| Net assets, beginning of year                              | 1,218,951    | 350,000              | 100,000            | (1,199,903)          | 469,048               | 1,299,903                 | 10,367,824                | 12,136,775    |
| Net assets, end of year                                    | \$ 981,765   | \$ 355,000           | \$ 100,000         | \$ (928,882)         | \$ 507,883            | \$ 1,028,931              | \$ 12,086,468             | \$ 13,623,282 |

See notes to financial statements

**NeighborWorks® Capital Corporation**

STATEMENTS OF CASH FLOWS

Years ended December 31, 2010 and 2009

|  | <u>2010</u>         | <u>2009</u>         |
|--|---------------------|---------------------|
| Cash flows from operating activities   |                     |                     |
| Changes in net assets  | \$ 3,502,787        | \$ 1,486,507        |
| Adjustments to reconcile change in net assets to net cash provided by operating activities |                     |                     |
| Depreciation and amortization  | 13,838              | 9,908               |
| Provision for loan loss  | 773,344             | 431,356             |
| Changes in operating assets and liabilities  |                     |                     |
| Accounts receivable  | 4,270               | (6,334)             |
| Interest receivable  | (27,215)            | 105,527             |
| Prepaid expenses   | (2,259)             | (442)               |
| Accounts payable and accrued liabilities   | 18,701              | (169,605)           |
| Accrued interest   | 3,937               | 8,733               |
| Interest reserve   | 29,768              | (10,058)            |
|  | <u>4,317,171</u>    | <u>1,855,592</u>    |
| Net cash provided by operating activities  |                     |                     |
| Cash flows from investing activities   |                     |                     |
| Advances on loans receivable   | (14,167,890)        | (10,826,688)        |
| Repayments of loans receivable   | 4,284,825           | 3,492,390           |
| Purchases of property and equipment  | (6,618)             | (4,299)             |
|  | <u>(9,889,683)</u>  | <u>(7,338,597)</u>  |
| Net cash used in investing activities  |                     |                     |
| Cash flows from financing activities   |                     |                     |
| Proceeds from notes payable  | 4,478,064           | -                   |
| Payment of deferred loan fees  | (31,340)            | (7,241)             |
| Repayments on notes payable  | (1,083,333)         | (500,000)           |
|  | <u>3,363,391</u>    | <u>(507,241)</u>    |
| Net cash provided by (used in) financing activities  |                     |                     |
| NET (DECREASE) IN CASH AND CASH EQUIVALENTS  | (2,209,122)         | (5,990,246)         |
| Cash and cash equivalents, beginning   | <u>7,296,242</u>    | <u>13,286,488</u>   |
| Cash and cash equivalents, end   | <u>\$ 5,087,121</u> | <u>\$ 7,296,242</u> |
| Supplemental disclosure of cash flow information   |                     |                     |
| Cash paid during the year for interest   | <u>\$ 423,954</u>   | <u>\$ 289,991</u>   |
| Significant noncash investing and financing activity:                                      |                     |                     |
| Loans receivable written off   | \$ 75,000           | \$ 702,377          |
| Disposal of fixed assets   | (12,428)            | -                   |
|  | <u>\$ 62,572</u>    | <u>\$ 702,377</u>   |

See notes to financial statements



## NeighborWorks<sup>®</sup> Capital Corporation

### NOTES TO FINANCIAL STATEMENTS

December 31, 2010 and 2009

#### 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<sup>®</sup> Capital Corporation (the Organization). The Organization retained the Federal Tax Identification Number of Neighborhood Capital Corporation. Shortly thereafter, NeighborWorks<sup>®</sup> Capital Corporation relocated its offices from Cleveland, Ohio to Silver Spring, Maryland. NeighborWorks<sup>®</sup> 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<sup>®</sup> Capital Corporation is to serve NeighborWorks<sup>®</sup> America organizations (NWOs) by developing and offering loan capital for important community development projects in their respective communities. NeighborWorks<sup>®</sup> Capital Corporation fulfills its mission by providing NWOs with low-cost capital for which they would not otherwise have access. NeighborWorks<sup>®</sup> 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<sup>®</sup> 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.

#### 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<sup>®</sup> 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:

- Unrestricted net assets - net resources of the Organization that bear no external restriction. These include the Organization's general operating net assets, Board of

## NeighborWorks<sup>®</sup> Capital Corporation

### NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2010 and 2009

Director designated net assets for operating reserves and lending capital and loan loss reserves. During the years ended December 31, 2010 and 2009, the Board of Directors designated \$773,344 and \$431,356, respectively, of the Organization's net assets for loan loss provisions.

- Temporarily restricted net assets - NeighborWorks<sup>®</sup> America - 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 restrictions approved by NeighborWorks<sup>®</sup> 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<sup>®</sup> 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.
- Permanently restricted net assets - capital funds provided by NeighborWorks<sup>®</sup> 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<sup>®</sup> 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.

#### Contributions

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

#### 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, 2010, cash and cash equivalents include only unrestricted demand deposits with banks or government securities. The Organization places its cash with high credit-quality financial

## NeighborWorks<sup>®</sup> Capital Corporation

### NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2010 and 2009

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, 2010 and 2009, the allowance for loan loss was \$1,627,226 and \$928,882, respectively, of which \$978,260 and \$194,829 related to the current portion of loans receivable, respectively. During the years ended December 31, 2010 and 2009, \$75,000 and \$702,377 of loans were written off, respectively.

#### Deferred Revenue

The Organization earns fees and incurs costs associated with originating loans receivable during the normal course of business. The portion of these costs that are attributable to originating loans receivable are netted against related fees earned. In accordance with general accounting principles for accounting for nonrefundable fees 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, 2010 and 2009.

#### 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. As of December 31, 2010 and 2009, accumulated depreciation was \$42,665 and \$44,792, respectively.

#### Loan costs and amortization

Loan costs are amortized over the term of the loan using the straight-line method. Accounting principles generally accepted in the United States of America (GAAP) require that loan costs 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, 2010 and 2009 was \$3,537 and \$0, respectively.

## NeighborWorks<sup>®</sup> Capital Corporation

### NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2010 and 2009

Estimated amortization expense for each of the ensuing five years through December 31, 2015 is \$3,858.

#### 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 and did not have any unrelated business income for the years ended December 31, 2010 and 2009. 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.

#### 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.

#### 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

In July 2010, the Financial Accounting Standards Board (FASB) issued an amendment to Topic 310 of the FASB Codification through an Accounting Standards Update (ASU) titled *Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses* (ASU No. 2010-20). The objective of the amendment is to enhance disclosures about the credit quality of financing receivables and the allowance for credit losses in order to facilitate financial statement users' evaluation of the following three main criteria: 1)the

## NeighborWorks® Capital Corporation

### NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2010 and 2009

nature of the credit risk inherent in the entity's portfolio of financing receivables, 2) how that risk is analyzed and assessed in arriving at the allowance for credit losses, and 3) the changes and reasons for those changes in the allowance for credit losses. The effective date of ASU No. 2010-20 is for reporting periods ending after December 15, 2011. Management is in the process of evaluating the effect that the provisions of ASU No. 2010-20 will have on its financial statements.

#### Subsequent Events

Events that occur after the date of the statement of financial position but before the consolidated financial statements were available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the date of the statement of financial position are recognized in the accompanying financial statements. Subsequent events which reflect significant matters but which provide evidence about conditions that existed after the date of the statement of financial position, require disclosure in the accompanying notes. The date through which subsequent events have been evaluated is also the date on which the statements were available to be issued. The additional disclosures required by this standard are included in note 15.

#### Reclassification

Certain reclassifications have been made to the 2009 financial statement presentation to conform with the 2010 financial statement presentation. While the reclassification did not have an impact on total net assets or total changes in net assets, the reclassification did result in a decrease in unrestricted assets and a correlating increase in temporarily restricted net assets of \$95,624 as of the year ended December 31, 2009.

### 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 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 \$200,000 with a maximum loan term of 30 months; recourse

## **NeighborWorks<sup>®</sup> Capital Corporation**

### NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2010 and 2009

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.

Organizational Loan Pilot Loans - for funding to certain designated NWOs in the Rocky Mountain District, as defined by NeighborWorks<sup>®</sup> America, for the specific purpose of providing flexible capital to grow their lines of businesses. Loans provided for up to \$2.5 million with a maximum loan term of 60 months.

Mini-Permanent Loans - for funding of acquisition, renovation or purchase of renewable energy systems with maximum loan amounts of \$500,000 to \$1.5 million and a maximum loan term of 7 years. This loan product became available during the year ended December 31, 2010.

**NeighborWorks<sup>®</sup> Capital Corporation**

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2010 and 2009

The following is a summary of loans receivable at December 31, 2010 and 2009:

| Type                            | 2010            |                      | 2009            |                      |
|---------------------------------|-----------------|----------------------|-----------------|----------------------|
|                                 | Number of Loans | Net Loan Amount      | Number of Loans | Net Loan Amount      |
| Pre-development                 | 11              | \$ 2,400,000         | 13              | \$ 2,562,839         |
| Interim development             | 22              | 18,313,153           | 15              | 9,012,416            |
| Mini-Permanent                  | 2               | 1,670,167            | -               | -                    |
| Organizational loan pilot       | 2               | 3,500,000            | 2               | 4,500,000            |
| <b>Total</b>                    | <b>37</b>       | <b>25,883,320</b>    | <b>30</b>       | <b>16,075,255</b>    |
| Less: Allowance for loan losses |                 | <u>(1,627,226)</u>   |                 | <u>(928,882)</u>     |
| <b>Total</b>                    |                 | <b>\$ 24,256,094</b> |                 | <b>\$ 15,146,373</b> |
| Current portion                 |                 | <u>\$ 8,112,095</u>  |                 | <u>\$ 3,514,594</u>  |
| Long-term portion               |                 | <u>\$ 16,143,999</u> |                 | <u>\$ 11,631,779</u> |

Principal maturities of the remaining loans receivable as of December 31, 2010 are as follows:

|            |                      |
|------------|----------------------|
| 2011       | \$ 9,090,355         |
| 2012       | 6,915,000            |
| 2013       | 9,777,098            |
| Thereafter | <u>100,867</u>       |
|            | <u>\$ 25,883,320</u> |

Loan Delinquency Status

During the year ended December 31, 2010, a loan for \$75,000 was written off. For the year ended December 31, 2009, loans totaling \$702,377 were written off. Of this \$702,377, two loans, totaling \$678,000 were past due, and were written off during 2009. Another loan, with a remaining balance of \$24,377 after receipt of a partial repayment, was written off as well.

Accrued interest and other receivables from these notes at December 31, 2010 and 2009 totaled \$0 and \$54,596, respectively.

## NeighborWorks<sup>®</sup> Capital Corporation

### NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2010 and 2009

#### NOTE 4 - LINE OF CREDIT

The Organization did not have a line-of-credit available during the year ended December 31, 2010. A previous line-of-credit available from Merrill Lynch Community Development Company, LLC in an amount up to \$4,000,000 was terminated on November 15, 2009 as a result of a commitment entered into with Banc of America. For the year ended December 31, 2009, the line of credit bore 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 un-drawn amount was due quarterly. Interest expense related to the line for the year ended December 31, 2009 was \$0.

#### 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

The Organization established an unsecured note payable with the Banc of America Community Development Corporation during the year ended December 31, 2010. The note payable has an interest rate of 3.25% and a maturity of February 11, 2020. As of December 31, 2010, \$2,500,000 is outstanding on the note. Interest expense related to this note for the year ended December 31, 2010 totaled \$68,784.

During 2010, the Organization entered into four note payable arrangements from lenders that represent loan participations in outstanding loans receivable of the Organization. These loan participations bear interest ranging from 7% to 5% and have maturities ranging from five months to less than three years. Some of the loan participations provide for a servicing fee ranging from 0.15% to 0.25%. The balance of these notes payable for the year ended December 31, 2010 totaled \$1,628,064. Interest expense for the year ended December 31, 2010 was \$56,718.

The Organization has an unsecured note payable to The John D. and Catherine T. MacArthur Foundation (the Foundation) with an interest rate of 3% and a maturity of January 1, 2011. As of December 31, 2010 and 2009, the balance outstanding for the note payable totaled \$1,000,000. Interest expense related to the note payable to the Foundation for the years ended December 31, 2010 and 2009, totaled \$22,500 and \$11,250 respectively. Subsequent to year-end, the Foundation provided the Organization with an indefinite extension of the maturity on the loan while the loan undergoes a formal amendment. The amendment is anticipated to



**NeighborWorks<sup>®</sup> Capital Corporation**

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2010 and 2009

be completed before December 31, 2011. The terms of the original loan agreement are otherwise in effect until the amendment is complete.

The Organization has an unsecured note payable to The Calvert Social Investment Foundation with an interest rate of 4.50% and a maturity of September 30, 2013. The balance outstanding for the note payable for the years ended December 31, 2010 and December 31, 2009 totaled \$1,500,000 and \$1,150,000, respectively. On September 30, 2010, the note was increased by \$350,000 and the maturity extended to September 30, 2013. Interest expense related to the note payable to The Calvert Social Investment Foundation for the years ended December 31, 2010 and 2009 was \$55,688 and \$51,046, respectively.

The Organization has an unsecured note payable with Ally Bank (formerly GMAC Bank) in the amount of \$5,000,000. The note bears interest at 3.75% per annum and payable quarterly until maturity on July 1, 2013. As of December 31, 2010 and 2009, \$5,000,000 is outstanding. Interest expense related to the note was \$190,104 and \$190,104 for the years ended December 31, 2010 and 2009, respectively.

As of December 31, 2010, the Organization has one \$1,000,000 unsecured note payable to the U.S. Treasury Community Development Financial Institutions Fund (CDFI). As of December 31, 2010, \$666,667 remains outstanding on this note and is payable in two installments of \$333,333 and \$333,334 due on June 30, 2011 and June 30, 2012, respectively. This note bears interest at 2.63% per annum and is payable quarterly. As of December 31, 2009, the Organization had two unsecured notes payable totaling \$1,750,000. During 2010, principal payments totaling \$1,083,333 were made on these notes. For the year ended December 31, 2009, the two notes bore interest at rates ranging from 2.63% to 2.67%. For the years ended December 31, 2010 and 2009, interest expense of \$34,097 and \$46,324, respectively, was incurred on the respective notes.

**NeighborWorks® Capital Corporation**

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2010 and 2009

The following schedule lists the maturities of all notes payable at December 31<sup>st</sup>:

|            |                      |
|------------|----------------------|
| 2011       | \$ 2,283,333         |
| 2012       | 333,334              |
| 2013       | 7,178,064            |
| 2014       | -                    |
| 2015       | 500,000              |
| Thereafter | <u>2,000,000</u>     |
|            | <u>\$ 12,294,731</u> |

## NeighborWorks<sup>®</sup> Capital Corporation

### NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2010 and 2009

#### NOTE 7 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets as of December 31, 2010 and 2009 are as follows:

|   | 2010                |                     |  |                     |
|---|---------------------|---------------------|--|---------------------|
|   | 12/31/2009          | Contributions       | Satisfaction of<br>program<br>restrictions | 12/31/2010          |
| <b><u>Operations:</u></b>   |                     |                     |  |                     |
| NeighborWorks <sup>®</sup> America<br>Expendable Grants - Operations  | \$ -                | \$ -                | \$ -                                       | \$ -                |
| NeighborWorks <sup>®</sup> America<br>Expendable Grants - Energy<br>Loan Concept                            | 4,425               | -                   | (3,600)                                    | 825                 |
| Community Development Financial<br>Institutions Program - Technical<br>Assistance                           | 95,624              | -                   | -  | 95,624              |
| NeighborWorks <sup>®</sup> America<br>Expendable Grants - Home Depot Award                                  | -                   | 223,800             | -  | 223,800             |
| NeighborWorks <sup>®</sup> America<br>Expendable Grants - Home Depot Award<br>NeighborWorks America - Match | -                   | 50,000              | -  | 50,000              |
| NeighborWorks <sup>®</sup> America<br>Expendable Grants - Technical<br>Assistance                           | -                   | 305,000             | (50,000)                                   | 255,000             |
| Community Development Financial<br>Institutions Program - Financial<br>Assistance                           | -                   | 750,000             | (750,000)                                  | -                   |
| <b>Total Operations:</b>  | <b>100,049</b>      | <b>1,328,800</b>    | <b>(803,600)</b>                           | <b>625,249</b>      |
| <b><u>Lending activity:</u></b>   |                     |                     |  |                     |
| Loans written off, approved by<br>NeighborWorks <sup>®</sup> America for Release of<br>Restrictions:        | (702,377)           | -                   | (75,000)                                   | (777,377)           |
| Loan Loss Reserve Provision:  | 1,631,259           | -                   | 773,344                                    | 2,404,603           |
| <b>Total Lending activity:</b>  | <b>928,882</b>      | <b>-</b>            | <b>698,344</b>                             | <b>1,627,226</b>    |
| <b>Total</b>  | <b>\$ 1,028,931</b> | <b>\$ 1,328,800</b> | <b>\$ (105,256)</b>                        | <b>\$ 2,252,475</b> |

## NeighborWorks<sup>®</sup> Capital Corporation

### NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2010 and 2009

|  | 2009         |               |  |              |
|--|--------------|---------------|--|--------------|
|  | 12/31/2008   | Contributions | Satisfaction of<br>program<br>restrictions | 12/31/2009   |
| <b>Operations:</b>   |              |               |  |              |
| NeighborWorks <sup>®</sup> America<br>Expendable Grants - Operations                                 | \$ 100,000   | \$ -          | \$ (100,000)                               | \$ -         |
| NeighborWorks <sup>®</sup> America<br>Expendable Grants - Energy<br>Loan Concept                     | -            | 7,500         | (3,075)                                    | 4,425        |
| Community Development Financial<br>Institutions Program - Technical<br>Assistance                    | -            | 95,624        | -  | 95,624       |
| Total Operations:  | 100,000      | 103,124       | (103,075)                                  | 100,049      |
| <b>Lending activity:</b>   |              |               |  |              |
| Loans written off, approved by<br>NeighborWorks <sup>®</sup> America for Release of<br>Restrictions: | -            | -             | (702,377)                                  | (702,377)    |
| Loan Loss Reserve Provision  | 1,199,903    | -             | 431,356                                    | 1,631,259    |
| Total Lending activity:  | 1,199,903    | -             | (271,021)                                  | 928,882      |
| Total  | \$ 1,299,903 | \$ 103,124    | \$ (374,096)                               | \$ 1,028,931 |

## NeighborWorks<sup>®</sup> Capital Corporation

### NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2010 and 2009

#### NOTE 8 - PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets as of December 31, 2010 and 2009 are as follows:

|   | 2010          |               |  |               |
|---|---------------|---------------|--|---------------|
|   | 12/31/2009    | Contributions | Satisfaction of<br>program<br>restrictions | 12/31/2010    |
| NeighborWorks <sup>®</sup> America<br>Revolving Loan & Capital<br>Projects Fund | \$ 13,717,727 | \$ 2,898,253  | \$ -                                       | \$ 16,615,980 |
| Loan Loss Reserve Provision   | (1,631,259)   | -             | (773,344)                                  | (2,404,603)   |
| Total   | \$ 12,086,468 | \$ 2,898,253  | \$ (773,344)                               | \$ 14,211,377 |
|   | 2009          |               |  |               |
|   | 12/31/2008    | Contributions | Satisfaction of<br>Program<br>Restrictions | 12/31/2009    |
| NeighborWorks <sup>®</sup> America<br>Revolving Loan & Capital<br>Projects Fund | \$ 11,567,727 | \$ 2,150,000  | \$ -                                       | \$ 13,717,727 |
| Loan Loss Reserve Provision   | (1,199,903)   | -             | (431,356)                                  | (1,631,259)   |
| Total   | \$ 10,367,824 | \$ 2,150,000  | \$ (431,356)                               | \$ 12,086,468 |

#### NOTE 9 - LOAN COMMITMENTS - NWOs

As of December 31, 2010 and 2009, the Organization has committed to make new loans to various NWOs totaling \$2,540,000 and \$4,365,000, respectively.

## NeighborWorks<sup>®</sup> Capital Corporation

### NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2010 and 2009

#### 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, 2010 are summarized as follows:

|      |    |                |
|------|----|----------------|
| 2011 | \$ | 77,251         |
| 2012 |    | 79,557         |
| 2013 |    | <u>60,996</u>  |
|      | \$ | <u>217,804</u> |

Rent expense for the years ended December 31, 2010 and 2009 was \$76,764 and \$73,235, respectively.

#### NOTE 11 - PENSION PLAN

During 2010 and 2009, 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, 2010 and 2009 totaled \$28,676 and \$25,020, respectively.

#### NOTE 12 - CONCENTRATIONS

The Organization receives nearly its entire grant funding from NeighborWorks<sup>®</sup> America. This is the primary source of grant revenue to date.

As of December 31, 2010, the Organization's cash and cash equivalent balances held on deposit at financial institutions totaled \$5,112,486. Of this \$5,112,486, \$4,131,801 was held at Branch Banking and Trust Company (BB&T), \$472,865 was held at Bank of America, \$7,396 was held by PNC Bank (PNC), \$250,212 was held by Self Help Credit Union (SHCU) and \$250,212 was held by Self Help Federal Credit Union (SHFCU). BB&T, Bank of America, PNC and SHFCU are members of the Federal Deposit Insurance Corporation (FDIC). Deposit balances at these financial institutions are insured up to \$250,000 under the FDIC as of December 31, 2010. SHCU participates in the National Credit Union Administration (NCUA), which provides up to \$250,000 of insurance coverage per account.

For BB&T, the full \$4,131,801 is held in a combination of four interest bearing checking accounts and one money market account and is insured up to \$250,000.

## NeighborWorks<sup>®</sup> Capital Corporation

### NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2010 and 2009

For Bank of America, the full \$472,865 is held in an interest-bearing money market account and is insured up to \$250,000.

For SHFCU and SHCU, a total of \$500,424 is invested in money market accounts, of which \$425 was uninsured at December 31, 2010.

For PNC, of the \$7,396 held on deposit, \$4,920 is invested in a money market account and \$2,476 is held in non-interest bearing checking account and is fully insured.

#### NOTE 13 - RELATED PARTY TRANSACTIONS

NeighborWorks<sup>®</sup> Capital Corporation, 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, 2010 and 2009, the Organization had 7 and 13 loans outstanding, respectively, totaling \$3,899,060 and \$4,570,825 of loans receivable, respectively, to such entities or their affiliates. For the year ended December 31, 2010, NeighborWorks<sup>®</sup> Capital Corporation has extended loan commitments in the amount of \$1,200,000 to a NWO that has representation on its Board of Directors and/or its Loan Committee.

#### 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.

#### NOTE 15 - SUBSEQUENT EVENTS

Management has evaluated the activity of the Organization through March 30, 2011 (the date that the financial statements were available to be issued) and concluded that no subsequent events have occurred that would require recognition in the financial statements. However, management has determined that the following information warranted disclosure.

Subsequent to December 31, 2010, the Organization secured a revolving line of credit commitment from TD Bank, N.A. in the amount of \$1,500,000. The line of credit will bear interest at a floating interest rate equal to 300 basis points (3.00%) above the one month

**NeighborWorks<sup>®</sup> Capital Corporation**

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2010 and 2009

London Interbank Offered Rate (LIBOR). Interest will be payable monthly. The line of credit will expire on May 31, 2013. The line of credit is unsecured.



SUPPLEMENTAL INFORMATION

**NeighborWorks® Capital Corporation**

SCHEDULES OF FUNCTIONAL EXPENSES

Years ended December 31, 2010 and 2009

| Expenditures                      | 2010                |                        |                  |                     | 2009                |                        |                  |                     |
|-----------------------------------|---------------------|------------------------|------------------|---------------------|---------------------|------------------------|------------------|---------------------|
|                                   | Program activities  | Management and general | Fundraising      | Total               | Program activities  | Management and general | Fundraising      | Total               |
| Salaries and benefits             | \$ 449,409          | \$ 149,411             | \$ 27,872        | \$ 626,692          | \$ 432,372          | \$ 148,930             | \$ 31,028        | \$ 612,330          |
| Interest                          | 427,891             | -                      | -                | 427,891             | 298,724             | -                      | -                | 298,724             |
| Professional fees                 | 76,080              | 70,023                 | 1,127            | 147,230             | 140,301             | 99,134                 | 872              | 240,307             |
| Occupancy                         | 65,250              | 7,676                  | 3,838            | 76,764              | 62,250              | 7,323                  | 3,662            | 73,235              |
| Office expenses                   | 10,693              | 1,258                  | 629              | 12,580              | 21,947              | 2,582                  | 1,291            | 25,820              |
| Grant expense                     | 50,000              | -                      | -                | 50,000              | -                   | -                      | -                | -                   |
| Travel                            | 13,507              | 145                    | 871              | 14,523              | 16,176              | 174                    | 1,044            | 17,394              |
| Telephone                         | 10,765              | 1,266                  | 633              | 12,664              | 13,041              | 1,534                  | 767              | 15,342              |
| Special events and board retreats | 12,147              | -                      | 2,144            | 14,291              | 11,420              | -                      | 2,015            | 13,435              |
| Bank fees                         | 186                 | 10                     | -                | 196                 | 10,522              | 111                    | -                | 10,633              |
| Depreciation and amortization     | 12,294              | 1,029                  | 515              | 13,838              | 8,422               | 991                    | 495              | 9,908               |
| Marketing                         | 3,377               | -                      | 596              | 3,973               | 8,768               | -                      | 1,547            | 10,315              |
| Insurance                         | 5,023               | 591                    | 295              | 5,909               | 4,805               | 565                    | 283              | 5,653               |
| Miscellaneous                     | 3,621               | 428                    | 214              | 4,263               | 4,210               | 495                    | 248              | 4,953               |
| Repairs and maintenance           | 1,131               | 133                    | 67               | 1,331               | 3,937               | 463                    | 232              | 4,632               |
| Dues                              | 9,900               | 1,100                  | -                | 11,000              | 3,381               | 225                    | 902              | 4,508               |
| Staff development                 | 540                 | 32                     | 64               | 636                 | 3,351               | 197                    | 394              | 3,942               |
| Printing                          | 4,363               | 242                    | 242              | 4,847               | 1,218               | 68                     | 68               | 1,354               |
| Loan loss reserve                 | 773,344             | -                      | -                | 773,344             | 472,189             | -                      | -                | 472,189             |
|                                   | <u>\$ 1,929,521</u> | <u>\$ 233,344</u>      | <u>\$ 39,107</u> | <u>\$ 2,201,972</u> | <u>\$ 1,517,034</u> | <u>\$ 262,792</u>      | <u>\$ 44,848</u> | <u>\$ 1,824,674</u> |

**NeighborWorks<sup>®</sup> Capital Corporation**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Year ended December 31, 2010

| Federal Grantor/(Pass-through Grantor)<br>Program Titles                         | Federal<br>CFDA<br>Number | Federal<br>Expenditures     |
|--|---------------------------|-----------------------------|
| U.S. Department of Treasury passed through<br>NeighborWorks <sup>™</sup> America |                           |                             |
| Neighborhood Reinvestment Corporation Act:                                       |                           |                             |
| Capital Grant Funds  | 21.000                    | \$ 16,615,980               |
| Expendable Grant Funds   | 21.000                    | 655,000                     |
| Community Development Financial<br>Institutions Program:                         |                           |                             |
| Loan Program   | 21.020                    | 666,667                     |
| Financial Assistance   | 21.020                    | <u>750,000</u>              |
| Total Federal Programs   |                           | <u><u>\$ 18,687,647</u></u> |

**NeighborWorks<sup>®</sup> Capital Corporation**

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

December 31, 2010

**NOTE 1 - GENERAL**

The accompanying schedule of expenditures of Federal awards presents the activity of all Federal financial assistance programs of NeighborWorks<sup>®</sup> Capital Corporation. NeighborWorks<sup>®</sup> 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<sup>®</sup> Capital Corporation

We have audited the financial statements of NeighborWorks<sup>®</sup> Capital Corporation (a nonprofit organization) as of and for the year ended December 31, 2010, and have issued our report thereon dated March 30, 2011. 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<sup>®</sup> 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<sup>®</sup> Capital Corporation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of NeighborWorks<sup>®</sup> Capital Corporation's internal control over financial reporting.

*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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, 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<sup>®</sup> 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.

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  
March 30, 2011

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS  
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR  
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE  
IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Directors  
NeighborWorks<sup>®</sup> Capital Corporation

Compliance

We have audited NeighborWorks<sup>®</sup> Capital Corporation's compliance with the types of compliance requirements described in the (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on NeighborWorks<sup>®</sup> Capital Corporation's major federal programs for the year ended December 31, 2010. NeighborWorks<sup>®</sup> 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<sup>®</sup> Capital Corporation's management. Our responsibility is to express an opinion on NeighborWorks<sup>®</sup> 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<sup>®</sup> 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<sup>®</sup> Capital Corporation's compliance with those requirements.

In our opinion, NeighborWorks<sup>®</sup> Capital Corporation complied, in all material respects, with the 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, 2010.

### Internal Control Over Compliance

Management of NeighborWorks<sup>®</sup> Capital Corporation is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered NeighborWorks<sup>®</sup> Capital Corporation's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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<sup>®</sup> 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 a material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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 deficiencies, 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 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  
March 30, 2011



**NeighborWorks<sup>®</sup> Capital Corporation**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

December 31, 2010

**A. SUMMARY OF AUDITORS' RESULTS**

1. The auditor's report expresses an unqualified opinion on the financial statements of NeighborWorks<sup>®</sup> 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<sup>®</sup> 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<sup>®</sup> Capital Corporation expresses an unqualified opinion.
6. There are no audit findings relative to the major federal award programs for NeighborWorks<sup>®</sup> 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 \$560,629.
9. NeighborWorks<sup>®</sup> 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**