

NeighborWorks[®] Capital Corporation

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

December 31, 2012 and 2011

NeighborWorks® Capital Corporation

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Independent Auditor's Report

To the Board of Directors
NeighborWorks[®] Capital Corporation

Report on the Financial Statements

We have audited the accompanying financial statements of NeighborWorks[®] Capital Corporation, which comprise the statement of financial position as of December 31, 2012, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conduct 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. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of NeighborWorks® Capital Corporation as of December 31, 2012, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

The financial statements of NeighborWorks® Capital Corporation as of December 31, 2011, were audited by Reznick Group, P.C. (Reznick) whose report dated April 20, 2012, expressed an unmodified opinion on those statements. CohnReznick LLP is the current auditor as a result of a business combination between Reznick, who is referred to herein as other auditors, and J.H. Cohn LLP.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying 2012 supplementary information on page 27 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 as a whole. The 2011 supplementary information on page 27 was subjected to the auditing procedures applied in the 2011 audit of the basic financial statements by other auditors, whose report on such information stated that it was fairly stated in all material respects in relation to the 2011 financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated April 19, 2013, 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 in considering NeighborWorks[®] Capital Corporation's internal compliance over financial reporting and compliance.

A handwritten signature in cursive script that reads "Cohn Reznick LLP".

Bethesda, Maryland
April 19, 2013

NeighborWorks® Capital Corporation

Statements of Financial Position

December 31, 2012 and 2011

Assets

	<u>2012</u>	<u>2011</u>
Current assets:		
Cash and cash equivalents		
Operations	\$ 1,844,673	\$ 1,282,023
Operating restricted	387,970	973,676
Operating reserve	415,000	415,000
Loan capital	4,686,036	1,399,046
Loan loss reserve	1,821,995	1,866,498
Accounts receivable	8,731	12,424
Loans receivable, net (Note 3)	13,895,383	6,495,580
Interest receivable	76,249	70,888
Prepaid expenses	16,182	20,082
Total current assets	<u>23,152,219</u>	<u>12,535,217</u>
Property and equipment		
Office furniture and equipment, net	40,929	59,074
Leasehold improvements, net	1,710	4,274
Total property and equipment, net	<u>42,639</u>	<u>63,348</u>
Other assets:		
Loans receivable, net (Note 3)	14,649,208	22,017,829
Deposits	7,500	7,500
Deferred loan fees, net	71,428	35,673
Total other assets	<u>14,728,136</u>	<u>22,061,002</u>
Total assets	<u>\$ 37,922,994</u>	<u>\$ 34,659,567</u>

Liabilities and Net Assets

Current liabilities:		
Accounts payable and accrued liabilities	\$ 102,309	\$ 52,996
Accrued interest	33,449	23,291
Interest reserve	192,970	284,350
Notes payable, current portion (Note 5)	-	1,333,334
Total current liabilities	<u>328,728</u>	<u>1,693,971</u>
Notes payable, net of current portion (Note 5)	13,000,000	12,000,000
Equity equivalent investments (Note 5)	1,000,000	-
Total liabilities	<u>14,328,728</u>	<u>13,693,971</u>
Commitments and contingencies	-	-
Net assets		
Unrestricted:		
Operating	1,911,644	1,374,108
Board designated - operating reserve	415,000	415,000
Board designated - lending capital	2,662,500	2,350,000
Loan loss reserve	(1,776,995)	(1,821,498)
Total unrestricted net assets	<u>3,212,149</u>	<u>2,317,610</u>
Temporarily restricted (Note 6)	2,016,995	2,577,367
Permanently restricted (Note 7)	18,365,122	16,070,619
Total net assets	<u>23,594,266</u>	<u>20,965,596</u>
Total liabilities and net assets	<u>\$ 37,922,994</u>	<u>\$ 34,659,567</u>

See notes to financial statements

NeighborWorks® Capital Corporation

Statements of Activities

Year ended December 31, 2012

	Unrestricted				Total unrestricted	Temporarily restricted	Permanently restricted	Total
	Operations	Operating reserve	Lending capital	Loan loss reserve				
Revenue								
NeighborWorks® America grants Community Development Financial Institution Fund	\$ 250,000	\$ -	\$ -	\$ -	\$ 250,000	\$ -	\$ 2,250,000	\$ 2,500,000
Contributions	-	-	-	-	-	-	-	-
Contributions	2,343	-	-	-	2,343	156,631	-	158,974
Loan fee income, net of participation	155,747	-	-	-	155,747	-	-	155,747
Interest income - loans	1,588,137	-	-	-	1,588,137	-	-	1,588,137
Interest income - investments	23,995	-	-	-	23,995	-	-	23,995
Loan service fee	5,870	-	-	-	5,870	-	-	5,870
Net assets released from restrictions:								
Satisfaction of program restrictions	500,000	-	172,500	-	672,500	(717,003)	44,503	-
Total revenue	2,526,092	-	172,500	-	2,698,592	(560,372)	2,294,503	4,432,723
Expenses								
Program services								
Interest	472,517	-	-	-	472,517	-	-	472,517
(Recovery) provision for loan loss	-	-	(140,000)	(44,503)	(184,503)	-	-	(184,503)
Direct program expenses	1,188,204	-	-	-	1,188,204	-	-	1,188,204
Total program services	1,660,721	-	(140,000)	(44,503)	1,476,218	-	-	1,476,218
Support services								
Management and general	282,863	-	-	-	282,863	-	-	282,863
Fundraising	44,972	-	-	-	44,972	-	-	44,972
Total support services	327,835	-	-	-	327,835	-	-	327,835
Total expenses	1,988,556	-	(140,000)	(44,503)	1,804,053	-	-	1,804,053
Increase (decrease) in net assets	537,536	-	312,500	44,503	894,539	(560,372)	2,294,503	2,628,670
Net assets, beginning of year	1,374,108	415,000	2,350,000	(1,821,498)	2,317,610	2,577,367	16,070,619	20,965,596
Net assets, end of year	<u>\$ 1,911,644</u>	<u>\$ 415,000</u>	<u>\$ 2,662,500</u>	<u>\$ (1,776,995)</u>	<u>\$ 3,212,149</u>	<u>\$ 2,016,995</u>	<u>\$ 18,365,122</u>	<u>\$ 23,594,266</u>

(continued)

NeighborWorks® Capital Corporation

Statements of Activities - Continued

Year ended December 31, 2011

	Unrestricted				Total unrestricted	Temporarily restricted	Permanently restricted	Total
	Operations	Operating reserve	Lending capital	Loan loss reserve				
Revenue								
NeighborWorks® America grants	\$ 350,000	\$ -	\$ -	\$ -	\$ 350,000	\$ 500,000	\$ 2,150,000	\$ 3,000,000
Community Development Financial Fund	-	-	-	-	-	1,500,000	-	1,500,000
Contributions	-	-	-	-	-	-	-	-
Loan fee income, net of participation	150,671	-	-	-	150,671	-	-	150,671
Interest income - loans	1,328,587	-	-	-	1,328,587	-	-	1,328,587
Interest income - investments	26,438	-	-	-	26,438	-	-	26,438
Loan service fee	-	-	-	-	-	-	-	-
Net assets released from restrictions:								
Satisfaction of program restrictions	369,380	-	1,500,000	96,486	1,965,866	(1,675,108)	(290,758)	-
Total revenue	2,225,076	-	1,500,000	96,486	3,821,562	324,892	1,859,242	6,005,696
Expenses								
Program services								
Interest	505,808	-	-	-	505,808	-	-	505,808
(Recovery) provision for loan loss	-	-	-	290,758	290,758	-	-	290,758
Direct program expenses	1,032,962	-	-	-	1,032,962	-	-	1,032,962
Total program services	1,538,770	-	-	290,758	1,829,528	-	-	1,829,528
Support services								
Management and general	293,337	-	-	-	293,337	-	-	293,337
Fundraising	43,304	-	-	-	43,304	-	-	43,304
Total support services	336,641	-	-	-	336,641	-	-	336,641
Total expenses	1,875,411	-	-	290,758	2,166,169	-	-	2,166,169
Increase (decrease) in net assets	349,665	-	1,500,000	(194,272)	1,655,393	324,892	1,859,242	3,839,527
Net assets, beginning of year	1,024,443	415,000	850,000	(1,627,226)	662,217	2,252,475	14,211,377	17,126,069
Net assets, end of year	\$ 1,374,108	\$ 415,000	\$ 2,350,000	\$ (1,821,498)	\$ 2,317,610	\$ 2,577,367	\$ 16,070,619	\$ 20,965,596

See notes to financial statements

NeighborWorks® Capital Corporation

Statements of Cash Flows

Years ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities		
Changes in net assets	\$ 2,628,670	\$ 3,839,527
Adjustments to reconcile changes in net assets to net cash provided by operating activities		
Depreciation and amortization, property and equipment	23,535	13,937
Amortization, deferred loan fees	8,404	4,732
(Recovery) provision for loan loss	(44,503)	290,758
Changes in operating assets and liabilities		
Accounts receivable	3,693	(10,112)
Interest receivable	(5,361)	10,923
Prepaid expenses	3,900	(8,709)
Accounts payable and accrued liabilities	49,313	13,072
Accrued interest	10,158	6,416
Interest reserve	<u>(91,380)</u>	<u>251,707</u>
Net cash provided by operating activities	<u>2,586,429</u>	<u>4,412,251</u>
Cash flows from investing activities		
Advances on loans receivable	(8,635,387)	(15,470,677)
Repayments of loans receivable	8,648,708	9,294,540
Purchases of property and equipment	<u>(2,826)</u>	<u>(48,298)</u>
Net cash provided by (used in) investing activities	<u>10,495</u>	<u>(6,224,435)</u>
Cash flows from financing activities		
Proceeds from notes payable	1,000,000	2,999,999
Repayments on notes payable	(1,333,334)	(5,361)
Proceeds from equity equivalent investments	1,000,000	-
Payment of deferred loan fees	<u>(44,159)</u>	<u>(5,361)</u>
Net cash provided by financing activities	<u>622,507</u>	<u>2,989,277</u>
Net increase in cash and cash equivalents	3,219,431	849,122
Cash and cash equivalents, beginning	<u>5,936,243</u>	<u>5,087,121</u>
Cash and cash equivalents, end	<u>\$ 9,155,674</u>	<u>\$ 5,936,243</u>
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	<u>\$ 462,359</u>	<u>\$ 499,392</u>
Significant noncash investing and financing activities:		
Loans receivable written off against the allowance for loan loss	\$ -	\$ 51,486
Disposal of fully depreciated/amortized property and equipment	-	<u>(26,635)</u>
	<u>\$ -</u>	<u>\$ 24,851</u>

See notes to financial statements

NeighborWorks[®] Capital Corporation

Notes to Financial Statements

December 31, 2012 and 2011

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, the Organization relocated its offices from Cleveland, Ohio to Silver Spring, Maryland. The Organization 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.

On September 30, 2012, the Organization agreed to enter into another five-year Master Investment Agreement with NeighborWorks[®] America which called for NeighborWorks[®] America to consider providing \$1,000,000 to \$2,500,000 annually in capital funds for the duration of the agreement to support the mission of the Organization.

The mission of the Organization is to serve NeighborWorks[®] America organizations (NWOs), which are located throughout the United States, by developing and offering loan capital for important community development projects in their respective communities. The Organization fulfills its mission by providing NWOs with low-cost capital for which they would not otherwise have access. The Organization capital is available for the acquisition, preservation, construction, sale, financing or ownership of affordable single-family and multi-family properties and commercial projects. Primarily, the Organization receives support in the form of federal grants.

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[®] 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

NeighborWorks[®] Capital Corporation

Notes to Financial Statements - Continued

December 31, 2012 and 2011

assets, Board of Director designated net assets for operating reserves and lending capital and loan loss reserves.

- **Temporarily restricted net assets** - NeighborWorks[®] 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[®] 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. A correlating amount of bad debt expense is recognized as part of the change in unrestricted net assets as the estimates of applicable increases and recoveries in the provision of the allowance for loan loss are measured. Temporarily restricted net assets also result from timing differences between receipt of funds and the incurrence of related expenses. The Organization reports revenue of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction is met, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.
- **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.

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 or with provisions that provide liquidity enhancement. At December 31, 2012, cash and cash equivalents include only unrestricted demand deposits with banks or government securities. The Organization places its cash with high credit-quality

NeighborWorks® Capital Corporation

Notes to Financial Statements - Continued

December 31, 2012 and 2011

financial institutions that are federally insured or invested in government securities. Invested cash may exceed federally insured amounts at times.

Loans Receivable

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

Allowance for Loan Loss

The allowance for loan loss is periodically adjusted to a level that, in management's judgment, is adequate to provide for estimated probable losses from loans. The amount of the allowance is based on management's formal review and analysis of potential losses. Management's review process considers NeighborWorks® America's rating of the borrower, the borrower's financial condition and real estate experience, project viability, collateral and current real estate conditions. At December 31, 2012 and 2011, the allowance for loan loss was \$1,821,995 and \$1,866,498, respectively, of which \$895,450 and \$414,611 relates to the current portion of loans receivable, respectively. During the years ended December 31, 2012 and 2011, \$0 and \$51,486, of loans were written off. During the years ended December 31, 2012 and 2011, the Organization recognized recovery on loans receivable previously written off of \$140,000 and \$0, respectively.

Sales of Loans Receivable

The Organization accounts for transfer and servicing of financial assets based on the financial and servicing assets it controls and liabilities it has incurred. During 2012, the Organization changed its method of recognizing transfers of financial assets. The Organization derecognizes financial assets when control has been surrendered and derecognizes liabilities when extinguished. This method conforms more closely with current industry practice. While there was no change in net assets as of and for the year ended December 31, 2011, the adoption of this accounting change reduced total assets and total liabilities, respectively, by \$728,387 on the accompanying statements of financial position as of December 31, 2011.

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 generally accepted accounting principles (GAAP) for accounting for

NeighborWorks® Capital Corporation

Notes to Financial Statements - Continued

December 31, 2012 and 2011

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 fees for costs were recorded for the years ended December 31, 2012 and 2011.

Property and Equipment

Property and equipment are stated at cost. Depreciation is computed on the straight-line basis over the estimated useful lives of the assets ranging from three to seven years. The Organization capitalizes assets that cost \$1,000 or more. Leasehold improvements are amortized over the shorter of their useful lives or the term of the associated lease. As of December 31, 2012 and 2011, accumulated depreciation and amortization was \$53,502 and \$29,967, respectively, net of disposals during 2012 and 2011 of \$0 and \$26,635, respectively.

Loan Costs and Amortization

Loan costs are amortized over the term of the loan using the straight-line method. In accordance with GAAP loan costs are to be amortized over the term of the loan using the effective yield method; however, the effect of using the straight-line method is not materially different from the results that would have been obtained under the effective yield method. Amortization expense for the years ended December 31, 2012 and 2011 was \$8,404 and \$4,732, respectively. Estimated amortization expense for each of the ensuing years through December 31, 2017 is \$14,984, \$14,373, \$12,288, \$7,346, and \$5,821, respectively.

Income Taxes

The Organization has applied for and received a determination letter from the Internal Revenue Service (IRS) to be treated as a tax-exempt entity pursuant to Section 501(c)(3) of the Internal Revenue Code and did not have any unrelated business income for the years ended December 31, 2012 and 2011. Due to its tax-exempt status, the Organization is not subject to income taxes. The Organization is required to file and does file tax returns with the IRS and other taxing authorities. Accordingly, these financial statements do not reflect a provision for income taxes, and the Organization has no other tax positions which must be considered for disclosure.

Tax returns filed by the Organization are subject to examination by the IRS for a period of three years. While no tax returns of the Organization are currently being examined by the IRS, tax returns filed since 2009 remain open for examination.

NeighborWorks® Capital Corporation

Notes to Financial Statements - Continued

December 31, 2012 and 2011

Functional Expense Allocation

The cost of providing various programs and other activities has been summarized on a functional basis in the Statements of Activities and in the accompanying Schedules of Functional Expenses. Accordingly, expenses are recorded 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.

Subsequent Events

Material subsequent events have been considered for recognition and disclosure in these financial statements through April 19, 2013, the date the financial statements were available to be issued.

Reclassifications

Certain reclassifications have been made to the 2011 financial statement presentation in order to conform to the 2012 financial statement presentation. Specifically, in order to more accurately present assets and liabilities pursuant to the Organization's adoption of the accounting guidance pertaining to transfer and servicing of financial assets, the Organization now derecognizes financial assets when control has been surrendered and derecognizes liabilities when extinguished. Under the former treatment, total assets and total liabilities included the amounts of financial assets that were transferred to and serviced by the Organization. The reclassification resulted in a decrease in total assets and total liabilities of \$728,387 for the year ended December 31, 2011.

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

NeighborWorks® Capital Corporation

Notes to Financial Statements - Continued

December 31, 2012 and 2011

studies, appraisals, architectural and engineering expenses, legal fees and earnest money deposits. Loans generally provided for up to \$400,000 with a maximum loan term of 30 months; recourse basis and repayable upon closing of interim, construction or permanent financing.

Interim Development Loans - for funding needed to bridge borrowers from the early due diligence phase of a project to the point when construction or permanent financing closes. Funds are typically used for acquisition, critical repairs and pre-development or other costs associated with securing construction/permanent financing. Loans provided for up to \$3,000,000 with a maximum loan term of 36 months; recourse basis with a strong preference for mortgage or other collateral and are repayable upon closing of construction or permanent closing.

Mini-Permanent Loans - for funding of acquisition and renovation of multi-family or commercial property or purchase of renewable energy systems with maximum loan amounts of \$500,000 to \$3,000,000 and a maximum loan term of seven years.

Organizational Loan Pilot Loans - for funding to certain designated NWOs in the Rocky Mountain District, as defined by NeighborWorks® 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.

The following is a summary of loans receivable at December 31, 2012 and 2011:

Type	2012		2011	
	Number of Loans	Net Loan Amount	Number of Loans	Net Loan Amount
Pre-development	10	\$ 2,700,000	12	\$ 3,050,000
Interim development	22	21,742,107	22	20,130,176
Mini-permanent	6	4,024,479	4	4,249,731
Organizational loan pilot	3	1,900,000	3	2,950,000
Total	<u>41</u>	30,366,586	<u>41</u>	30,379,907
Less: Allowance for loan losses		<u>(1,821,995)</u>		<u>(1,866,498)</u>
Total		28,544,591		28,513,409
Current portion		<u>13,895,383</u>		<u>6,495,580</u>
Long-term portion		<u>\$ 14,649,208</u>		<u>\$ 22,017,829</u>

NeighborWorks® Capital Corporation

Notes to Financial Statements - Continued

December 31, 2012 and 2011

Principal maturities of the remaining loans receivable as of December 31, 2012 are as follows:

2013	\$ 14,718,607
2014	7,630,273
2015	5,480,000
2016	1,999,711
2017	<u>537,995</u>
	<u><u>\$ 30,366,586</u></u>

Past-Due Loans

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

An aging of past due loans, by loan type for the years December 31, 2012 and 2011:

December 31, 2012	Current	31-60 Days Past Due	61-90 Days Past Due	90+ Days Past Due	Total	Nonaccruing loans
Pre-development	\$ 2,700,000	\$ -	\$ -	\$ -	\$ 2,700,000	\$ -
Interim development	21,742,107	-	-	-	21,742,107	-
Mini-Permanent	4,024,479	-	-	-	4,024,479	-
Organizational loan pilot	1,900,000	-	-	-	1,900,000	-
	<u>\$ 30,366,586</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 30,366,586</u>	<u>\$ -</u>

December 31, 2011	Current	31 - 60 Days Past Due	61 - 90 Days Past Due	90+ Days Past Due	Total	Nonaccruing loans
Pre-development	\$ 3,050,000	\$ -	\$ -	\$ -	\$ 3,050,000	\$ -
Interim development	20,130,176	-	-	-	20,130,176	-
Mini-Permanent	4,249,731	-	-	-	4,249,731	-
Organizational loan pilot	2,950,000	-	-	-	2,950,000	-
	<u>\$ 30,379,907</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 30,379,907</u>	<u>\$ -</u>

NeighborWorks[®] Capital Corporation

Notes to Financial Statements - Continued

December 31, 2012 and 2011

Risk Management

The Organization has lending policies and procedures in place to underwrite and monitor loans for its portfolio. For each loan, the Organization conducts a risk rating analysis based on the loan type (pre-development, interim development, mini-permanent and organizational loan pilot) by reviewing the following criteria: NeighborWorks[®] America rating, financial condition, real estate development capacity and experience, project viability, collateral, take-out financing status and the local real estate market. Each criterion is rated. The six rating categories are: good, standard, adequate, questionable, substandard and doubtful. When the risk rating on a loan has been listed as doubtful, it is considered to be a partially or fully uncollectable loan. The Organization conducts a comprehensive review of all outstanding loans at least annually.

As part of the Organization's risk rating analysis, a corresponding reserve has been allocated to each loan in the loan portfolio. The total of these reserves as indicated by the Organization's risk rating analysis for the years ended December 31, 2012 and 2011 was \$1,524,609 (5% of the loan portfolio) and \$1,377,978 (4.5% of the loan portfolio), respectively. Additionally, the Organization records and maintains an overall minimum allowance for loan losses of at least 6% of the loan portfolio as required by various investors' covenants. For the years ended December 31, 2012 and 2011, the allowance for loan losses was \$1,821,995 and \$1,866,498, respectively. The Organization, as required by its financial policy, maintains a deposit account equal to the overall allowance for loan losses.

NeighborWorks® Capital Corporation

Notes to Financial Statements - Continued

December 31, 2012 and 2011

The table below details the Organization's loans by loan type according to their risk rating categories for the years December 31, 2012 and 2011:

December 31, 2012	Good	Standard	Adequate	Questionable	Substandard	Doubtful	Total
Pre-development	\$ 750,000	\$ 1,450,000	\$ 500,000	\$ -	\$ -	\$ -	\$ 2,700,000
Interim development	7,176,500	10,011,500	2,199,758	1,724,349	-	630,000	21,742,107
Mini-permanent	-	4,024,479	-	-	-	-	4,024,479
Organizational loan pilot	-	1,900,000	-	-	-	-	1,900,000
	<u>\$ 7,926,500</u>	<u>\$ 17,385,979</u>	<u>\$ 2,699,758</u>	<u>\$ 1,724,349</u>	<u>\$ -</u>	<u>\$ 630,000</u>	<u>\$ 30,366,586</u>
	Good	Standard	Adequate	Questionable	Substandard	Doubtful	Total
Current	\$ 7,926,500	\$ 17,385,979	\$ 2,699,758	\$ 1,724,349	\$ -	\$ 630,000	\$ 30,366,586
Past due 31- 60 days	-	-	-	-	-	-	-
Past due 61 - 90 days	-	-	-	-	-	-	-
Past due 90+ days	-	-	-	-	-	-	-
	<u>\$ 7,926,500</u>	<u>\$ 17,385,979</u>	<u>\$ 2,699,758</u>	<u>\$ 1,724,349</u>	<u>\$ -</u>	<u>\$ 630,000</u>	<u>\$ 30,366,586</u>
	Good	Standard	Adequate	Questionable	Substandard	Doubtful	Total
December 31, 2011							
Pre-development	\$ 550,000	\$ 1,800,000	\$ 500,000	\$ 200,000	\$ -	\$ -	\$ 3,050,000
Interim development	4,971,875	10,800,068	3,321,812	536,421	500,000	-	20,130,176
Mini-permanent	-	4,249,731	-	-	-	-	4,249,731
Organizational loan pilot	-	2,950,000	-	-	-	-	2,950,000
	<u>\$ 5,521,875</u>	<u>\$ 19,799,799</u>	<u>\$ 3,821,812</u>	<u>\$ 736,421</u>	<u>\$ 500,000</u>	<u>\$ -</u>	<u>\$ 30,379,907</u>
	Good	Standard	Adequate	Questionable	Substandard	Doubtful	Total
Current	\$ 5,521,875	\$ 19,799,799	\$ 3,821,812	\$ 736,421	\$ 500,000	\$ -	\$ 30,379,907
Past due 31 - 60 days	-	-	-	-	-	-	-
Past due 61 - 90 days	-	-	-	-	-	-	-
Past due 90+ days	-	-	-	-	-	-	-
	<u>\$ 5,521,875</u>	<u>\$ 19,799,799</u>	<u>\$ 3,821,812</u>	<u>\$ 736,421</u>	<u>\$ 500,000</u>	<u>\$ -</u>	<u>\$ 30,379,907</u>

NeighborWorks® Capital Corporation

Notes to Financial Statements - Continued

December 31, 2012 and 2011

The following table presents an analysis of the allowance for loan losses for the years ended December 31, 2012 and 2011:

<u>December 31, 2012</u>	<u>Pre- development</u>	<u>Interim development</u>	<u>Mini- permanent</u>	<u>Organizational loan pilot</u>	<u>Total</u>
Beginning balance	\$ 183,000	\$ 1,287,514	\$ 254,984	\$ 141,000	\$ 1,866,498
(Recovery) provision for loan losses	(21,000)	(122,988)	(13,515)	(27,000)	(184,503)
Write-off	-	-	-	-	-
Recoveries	-	140,000	-	-	140,000
Ending balance	<u>\$ 162,000</u>	<u>\$ 1,304,526</u>	<u>\$ 241,469</u>	<u>\$ 114,000</u>	<u>\$ 1,821,995</u>
	<u>Pre- development</u>	<u>Interim development</u>	<u>Mini- permanent</u>	<u>Organizational loan pilot</u>	<u>Total</u>
Allowance for loan losses					
Allocated	\$ 111,000	\$ 1,222,875	\$ 120,734	\$ 70,000	\$ 1,524,609
General	51,000	81,651	120,735	44,000	297,386
	<u>\$ 162,000</u>	<u>\$ 1,304,526</u>	<u>\$ 241,469</u>	<u>\$ 114,000</u>	<u>\$ 1,821,995</u>
Loans					
Impaired loans	\$ -	\$ -	\$ -	\$ -	\$ -
Non-impaired loans	2,700,000	21,742,107	4,024,479	1,900,000	30,366,586
	<u>\$ 2,700,000</u>	<u>\$ 21,742,107</u>	<u>\$ 4,024,479</u>	<u>\$ 1,900,000</u>	<u>\$ 30,366,586</u>
	<u>Pre- development</u>	<u>Interim development</u>	<u>Mini- permanent</u>	<u>Organizational loan pilot</u>	<u>Total</u>
<u>December 31, 2011</u>					
Beginning balance	\$ 269,500	\$ 1,149,621	\$ 50,105	\$ 158,000	\$ 1,627,226
(Recovery) provision for loan losses	(86,500)	189,379	204,879	(17,000)	290,758
Write-off	-	(51,486)	-	-	(51,486)
Recoveries	-	-	-	-	-
Ending balance	<u>\$ 183,000</u>	<u>\$ 1,287,514</u>	<u>\$ 254,984</u>	<u>\$ 141,000</u>	<u>\$ 1,866,498</u>
	<u>Pre- development</u>	<u>Interim development</u>	<u>Mini- permanent</u>	<u>Organizational loan pilot</u>	<u>Total</u>
Allowance for loan losses					
Allocated	\$ 144,000	\$ 967,997	\$ 153,982	\$ 112,000	\$ 1,377,979
General	39,000	319,517	101,002	29,000	488,519
	<u>\$ 183,000</u>	<u>\$ 1,287,514</u>	<u>\$ 254,984</u>	<u>\$ 141,000</u>	<u>\$ 1,866,498</u>
Loans					
Impaired loans	\$ -	\$ -	\$ -	\$ -	\$ -
Non-impaired loans	3,050,000	20,130,176	4,249,731	2,950,000	30,379,907
	<u>\$ 3,050,000</u>	<u>\$ 20,130,176</u>	<u>\$ 4,249,731</u>	<u>\$ 2,950,000</u>	<u>\$ 30,379,907</u>

The Organization did not have any loan modifications that were considered troubled debt restructurings for the years ended December 31, 2012 and 2011. The Organization determined that the allowance for loan losses was adequate and the

NeighborWorks® Capital Corporation

Notes to Financial Statements - Continued

December 31, 2012 and 2011

Organization did not have any impaired loans for the years ended December 31, 2012 and 2011.

Note 4 - Transfer of Loans, Other Off-Balance Sheet Assets and Servicing

The Organization has entered into certain loan participation agreements with other organizations. The Organization has accounted for these loan participations as sales as of December 31, 2012 and 2011. There was no gain or loss recognized on the sale of these participation interests. The total balance of loan participations serviced was \$6,193,301 and \$728,387 as of December 31, 2012 and 2011, respectively.

The Organization has retained the servicing rights on participations recorded as sales. The total amount of the servicing fees charged approximates the cost of servicing and, accordingly, the Organization has not recorded a servicing asset or servicing liability as of December 31, 2012 and 2011, 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.

NeighborWorks® Capital Corporation

Notes to Financial Statements - Continued

December 31, 2012 and 2011

Note 6 - Notes Payable and Equity Equivalent Investments

All notes payable and equity equivalent investments (EQ2) are unsecured. Debt financing provides the Organization with a source of capital that can be loaned to NWO borrowers through the various types of loan products available from the Organization. Additionally, certain of these note payable and equity equivalent investments contain covenants that require the Organization to provide reporting on a periodic basis and to meet and maintain specific financial ratios. As of December 31, 2012, the Organization was in compliance with all covenants. The Organization's notes payable and equity equivalent investments consisted of the following as of December 31, 2012 and 2011:

Lender	Total credit facility commitments at 12/31/2012	Maturity date	Schedule repayments				Principal balance at 12/31/2012	Principal balance at 12/31/2011
			Principal		Interest			
			Amount	Due	Annual rate	Due		
Notes payable								
Ally Bank	\$ 6,250,000	12/21/2015	\$ 250,000	3/31/2015	3.25%	Quarterly	\$ 5,000,000	\$ 5,000,000
			250,000	6/30/2015				
			250,000	9/30/2015				
			4,250,000	12/21/2015				
Bank of America	4,000,000	2/11/2020	500,000	2/11/2015	3.25%	Quarterly	4,000,000	4,000,000
			500,000	2/11/2016				
			500,000	2/11/2017				
			500,000	2/11/2018				
			1,000,000	2/11/2019				
			1,000,000	2/11/2020				
The Calvert Social Investment Foundation	2,000,000	12/31/2015	1,500,000	Maturity	4.50%	Semi-Annual	1,500,000	1,500,000
MacArthur Foundation	-	12/15/2012	500,000	7/1/2012	3.00%	Quarterly	-	1,000,000
			500,000	12/15/2012				
Morgan Stanley - line of credit	4,000,000	8/31/2015	-	Maturity	2.5% + LIBOR	Monthly	-	-
PNC Bank	2,000,000	2/1/2017	1,000,000	Maturity	3.50%	Monthly	1,000,000	-
TD Bank	1,500,000	5/31/2014	1,500,000	Maturity	Float - 3.0% above 30-Day LIBOR	Monthly	1,500,000	1,500,000
U.S. Department of the Treasury CDFI Fund	-	8/11/2012	333,334	Maturity	2.63%	Quarterly	-	333,334
Wells Fargo - line of credit	<u>4,000,000</u>	9/1/2015	-	Maturity	2.65% + LIBOR	Monthly	<u>-</u>	<u>-</u>
Total notes payable	<u>23,750,000</u>						<u>13,000,000</u>	<u>13,333,334</u>
Equity equivalent investments								
Wells Fargo EQ2	<u>1,000,000</u>	9/19/2022	1,000,000	Maturity	2.00%	Quarterly	<u>1,000,000</u>	<u>-</u>
Total equity equivalent investments	<u>1,000,000</u>						<u>1,000,000</u>	<u>-</u>
Total notes payable and equity equivalent investments	<u>\$ 24,750,000</u>						<u>\$ 14,000,000</u>	<u>\$ 13,333,334</u>

Undrawn commitments at December 31, 2012 and 2011 were \$10,750,000 and \$0, respectively.

NeighborWorks® Capital Corporation

Notes to Financial Statements - Continued

December 31, 2012 and 2011

The following schedule lists the maturities of all notes payable and equity equivalent investments at December 31, 2012:

2013	\$	-
2014		1,500,000
2015		7,000,000
2016		500,000
2017		1,500,000
Thereafter		<u>3,500,000</u>
	\$	<u><u>14,000,000</u></u>

Note 7 - Temporarily Restricted Net Assets

Temporarily restricted net assets as of December 31, 2012 and 2011 are as follows:

	2012			
	12/31/2011	Contributions received (contributions refunded)	Satisfaction of program restrictions	12/31/2012
Operations				
Community Development Financial Institutions Program - Technical Assistance	\$ 15,869	\$ (15,869)	\$ -	\$ -
NeighborWorks® America Expendable Grants - Home Depot Award	178,800	-	-	178,800
NeighborWorks® America Expendable Grants - Home Depot Award NeighborWorks America - Match	16,200	-	-	16,200
NeighborWorks® America Expendable Grants - Technical Assistance	500,000	-	(500,000)	-
Opportunity Finance Network Starbucks JOBS for USA Grant	-	172,500	(172,500)	-
Total Operations	<u>710,869</u>	<u>156,631</u>	<u>(672,500)</u>	<u>195,000</u>
Lending activity				
Loans written off, approved by NeighborWorks® America for Release of Restrictions	(828,863)	-	-	(828,863)
Loan Loss Reserve Provision	2,695,361	-	(44,503)	2,650,858
Total Lending activity	<u>1,866,498</u>	<u>-</u>	<u>(44,503)</u>	<u>1,821,995</u>
Total	<u>\$ 2,577,367</u>	<u>\$ 156,631</u>	<u>\$ (717,003)</u>	<u>\$ 2,016,995</u>

NeighborWorks® Capital Corporation

Notes to Financial Statements - Continued

December 31, 2012 and 2011

	2011			
	12/31/2010	Contributions received (contributions refunded)	Satisfaction of program restrictions	12/31/2011
<u>Operations</u>				
NeighborWorks® America Expendable Grants - Energy Loan Concept	\$ 825	\$ -	\$ (825)	\$ -
Community Development Financial Institutions Program - Technical Assistance	95,624	-	(79,755)	15,869
NeighborWorks® America Expendable Grants - Home Depot Award	223,800	-	(45,000)	178,800
NeighborWorks® America Expendable Grants - Home Depot Award NeighborWorks America - Match	50,000	-	(33,800)	16,200
NeighborWorks® America Expendable Grants - Technical Assistance	255,000	500,000	(255,000)	500,000
Community Development Financial Institutions Program - Financial Assistance	-	1,500,000	(1,500,000)	-
Total Operations	625,249	2,000,000	(1,914,380)	710,869
<u>Lending activity</u>				
Loans written off, approved by NeighborWorks® America for Release of Restrictions	(777,377)	-	(51,486)	(828,863)
Loan Loss Reserve Provision	2,404,603	-	290,758	2,695,361
Total Lending activity	1,627,226	-	239,272	1,866,498
Total	\$ 2,252,475	\$ 2,000,000	\$ (1,675,108)	\$ 2,577,367

NeighborWorks® Capital Corporation

Notes to Financial Statements - Continued

December 31, 2012 and 2011

Note 8 - Permanently Restricted Net Assets

Permanently restricted net assets as of December 31, 2012 and 2011 are as follows:

	2012			
	12/31/2011	Contributions received (contributions refunded)	Satisfaction of program restrictions	12/31/2012
NeighborWorks® America Revolving Loan & Capital Projects Fund	\$ 18,765,980	\$ 2,250,000	\$ -	\$ 21,015,980
Loan Loss Reserve Provision	(2,695,361)	-	44,503	(2,650,858)
Total	\$ 16,070,619	\$ 2,250,000	\$ 44,503	\$ 18,365,122
	2011			
	12/31/2010	Contributions received (contributions refunded)	Satisfaction of program restrictions	12/31/2011
NeighborWorks® America Revolving Loan & Capital Projects Fund	\$ 16,615,980	\$ 2,150,000	\$ -	\$ 18,765,980
Loan Loss Reserve Provision	(2,404,603)	-	(290,758)	(2,695,361)
Total	\$ 14,211,377	\$ 2,150,000	\$ (290,758)	\$ 16,070,619

Note 9 - Loan Commitments - NWOS

As of December 31, 2012 and 2011, the Organization has committed to make new loans to various NWOs totaling \$5,750,000 and \$0, respectively.

Note 10 - Lease Obligations

On July 3, 2008, the Organization entered into a non-cancelable five-year operating lease for office space commencing in October 2008. On December 21, 2012, an amendment to the lease was executed, extending the lease for three years until September 30, 2016. Future minimum rent payments due under the lease as of December 31, 2012 are summarized as follows:

2013	\$ 78,468
2014	70,386
2015	72,495
2016	55,593
	\$ 276,942

NeighborWorks® Capital Corporation

Notes to Financial Statements - Continued

December 31, 2012 and 2011

Rent expense for the years ended December 31, 2012 and 2011 was \$80,628 and \$78,438, respectively.

Note 11 - Pension Plan

During 2012 and 2011, the Organization maintained a defined contribution pension plan pursuant to section 401(k) of the Internal Revenue Code. Employer contributions to the plan during the years ended December 31, 2012 and 2011 totaled \$29,381 and \$33,125, respectively.

Note 12 - Related Party Transactions

The Organization, or its predecessors, has extended loans to entities or their affiliates that have had representation on its Board of Directors and/or its Loan Committee. For the years ended December 31, 2012 and 2011, the Organization had seven and five loans outstanding, respectively, totaling \$3,162,000 and \$2,631,089 of loans receivable, respectively, to such entities or their affiliates.

Note 13 - Available Lending Capital

The Organization's available lending capital consists of unsecured loans from financial institutions, government agencies and foundations combined with board designated unrestricted net assets and permanently restricted net assets (Note 8) associated with lending capital. As required by GAAP, net assets associated with lending capital, including funds designated by the Board of Directors to function as lending capital, are classified and reported based upon the existence of donor-imposed restrictions. The composition, by source, of total lending capital at December 31, 2012 and December 31, 2011 is as follows:

	<u>2012</u>	<u>2011</u>
Notes payable and EQ2s	\$ 14,000,000	\$ 13,333,334
Undrawn credit facility commitments	10,750,000	-
Board designated - lending capital	2,662,500	2,350,000
Permanently restricted	<u>18,365,122</u>	<u>16,070,619</u>
Total available lending capital	<u>\$ 45,777,622</u>	<u>\$ 31,753,953</u>

As of December 31, 2012 and 2011, total lending capital deployed as loans receivable, net of the allowance for loan losses, was \$28,544,591 and \$28,513,409, respectively.

Supplementary Information

NeighborWorks® Capital Corporation

Schedules of Functional Expenses

Years ended December 31, 2012 and 2011

Expenditures	2012				2011			
	Program services	Management and general	Fundraising	Total	Program services	Management and general	Fundraising	Total
Salaries and benefits	\$ 417,401	\$ 176,683	\$ 31,262	\$ 625,346	\$ 511,030	\$ 165,884	\$ 32,412	\$ 709,326
Interest	472,517	-	-	472,517	505,808	-	-	505,808
Service fee expense	13,674	-	-	13,674	-	-	-	-
Professional fees	64,801	88,982	334	154,117	76,336	113,306	25	189,667
Occupancy	68,534	8,063	4,031	80,628	66,672	7,844	3,922	78,438
Office expenses	7,718	908	454	9,080	8,525	1,003	501	10,029
Grant expense	500,000	-	-	500,000	283,800	-	-	283,800
Travel	11,546	124	745	12,415	19,192	206	1,238	20,636
Telephone	12,716	1,496	748	14,960	12,014	1,413	707	14,134
Special events and board retreats	-	-	-	-	7,232	-	1,276	8,508
Bank fees	542	29	-	571	273	14	-	287
Depreciation and amortization, property and equipment	20,004	2,354	1,177	23,535	11,846	1,394	697	13,937
Amortization, deferred loan fees	8,404	-	-	8,404	4,732	-	-	4,732
Marketing	23,323	-	4,116	27,439	9,128	-	1,611	10,739
Insurance	6,821	803	401	8,025	5,389	634	317	6,340
Miscellaneous	4,832	566	284	5,682	2,529	297	149	2,975
Repairs and maintenance	12,747	1,500	750	14,997	673	79	40	792
Dues	8,925	992	-	9,917	9,008	1,001	-	10,009
Staff development	5,229	308	615	6,152	2,490	146	293	2,929
Printing	987	55	55	1,097	2,093	116	116	2,325
(Recovery) provision for loan loss	(184,503)	-	-	(184,503)	290,758	-	-	290,758
	<u>\$ 1,476,218</u>	<u>\$ 282,863</u>	<u>\$ 44,972</u>	<u>\$ 1,804,053</u>	<u>\$ 1,829,528</u>	<u>\$ 293,337</u>	<u>\$ 43,304</u>	<u>\$ 2,166,169</u>

NeighborWorks® Capital Corporation

Schedule of Expenditures of Federal Awards

Year ended December 31, 2012

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	\$ 20,187,117
Expendable Grant Funds	21.000	<u>750,000</u>
		<u>20,937,117</u>
Community Development Financial Institutions Fund Program:		
Financial Assistance	21.020	<u>2,250,000</u>
		<u>2,250,000</u>
Total Federal Programs		<u><u>\$ 23,187,117</u></u>

NeighborWorks® Capital Corporation

Notes to Schedule of Expenditures of Federal Awards

December 31, 2012

Note 1 - General

The accompanying schedule of expenditures of federal awards presents the activity of all Federal financial assistance programs of the Organization. The Organization'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 includes the federal grant activity for NeighborWorks® Capital Corporation and is presented on the accrual basis of accounting. The information in the schedule of expenditures of federal awards is presented in accordance with the requirements of OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations." Therefore, some amounts presented in the schedule may differ from amounts presented in or used in the preparation of the financial statements.

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

To the Board of Directors
NeighborWorks® Capital Corporation

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of NeighborWorks® Capital Corporation, which comprise the statement of financial position as of December 31, 2012, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements and have issued our report thereon dated April 19, 2013.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

A handwritten signature in cursive script that reads "Cohn Reznick LLP".

Bethesda, Maryland
April 19, 2013

Independent Auditor's 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[®] Capital Corporation

Report on Compliance for Each Major Program

We have audited NeighborWorks[®] 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 each of NeighborWorks[®] Capital Corporation's major federal programs for the year ended December 31, 2012. NeighborWorks[®] Capital Corporation's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of NeighborWorks[®] Capital Corporation's major federal programs based on our audit of the types of compliance requirements referred to above.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States; and *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations (OMB Circular A-133)*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the major federal programs occurred. An audit includes examining, on a test basis, evidence about NeighborWorks[®] Capital Corporation's compliance with these requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance with each major program. However, our audit does not provide a legal determination of NeighborWorks[®] Capital Corporation's compliance.

Opinion on Each Major Program

In our opinion, NeighborWorks[®] Capital Corporation complied in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012.

Report on Internal Control over Compliance

Management of NeighborWorks[®] Capital Corporation is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit, we considered NeighborWorks[®] Capital Corporation's internal control over compliance with the types of requirements that could have a direct and material effect on each major program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with *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[®] Capital Corporation's internal control over compliance.

A deficiency in *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 and correct, noncompliance with a type of compliance requirements of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a *material weakness* in internal control over compliance, yet important enough to merit the attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be *material weaknesses* or *significant deficiencies*. We did not identify any deficiencies in internal control over

compliance that we consider to be material weaknesses, as defined above. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of our testing based on the requirements of *OMB Circular A-133*. Accordingly, this report is not suitable for any other purpose.

CohnReznick LLP

Bethesda, Maryland
April 19, 2013

NeighborWorks® Capital Corporation

Schedule of Findings and Questioned Costs

December 31, 2012

A. Summary of Auditor's Results

1. The auditor's report expresses an unmodified opinion on the financial statements of NeighborWorks® Capital Corporation.
2. No material weaknesses or significant deficiencies related to the audit of the financial statements are reported in the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards.
3. No instances of noncompliance material to the financial statements of NeighborWorks® Capital Corporation were disclosed during the audit.
4. No material weaknesses or significant deficiencies related to the audit of the major federal awards programs are reported in the Independent Auditor's 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.
5. The auditor's report on compliance for the major federal award programs for NeighborWorks® Capital Corporation expresses an unmodified 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 \$695,614.
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

None