

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT

NEIGHBORWORKS[®] CAPITAL CORPORATION

DECEMBER 31, 2011 AND 2010

NeighborWorks[®] Capital Corporation

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITORS' REPORT	3
FINANCIAL STATEMENTS	
STATEMENTS OF FINANCIAL POSITION	5
STATEMENTS OF ACTIVITIES	6
STATEMENTS OF CASH FLOWS	8
NOTES TO FINANCIAL STATEMENTS	9
SUPPLEMENTAL INFORMATION	
SCHEDULES OF FUNCTIONAL EXPENSES	28
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	29
NOTES TO SCHEDULES OF EXPENDITURES OF FEDERAL AWARDS	30
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 <u>GOVERNMENT AUDITING STANDARDS</u>	31
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	33
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	35

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
NeighborWorks[®] Capital Corporation

We have audited the accompanying statements of financial position of NeighborWorks[®] Capital Corporation (a nonprofit organization) as of December 31, 2011 and 2010, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of NeighborWorks[®] Capital Corporation's management. Our responsibility is to express an opinion on these financial statements based on our 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[®] Capital Corporation as of December 31, 2011 and 2010, 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 April 20, 2012, on our consideration of NeighborWorks[®] Capital Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Our audits were conducted for the purpose of forming an opinion of the basic financial statements. The accompanying supplemental information on page 28 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards 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 basic 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 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic 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 basic financial statements as a whole.

Reznick Group, P.C.

Bethesda, Maryland
April 20, 2012

NeighborWorks® Capital Corporation
STATEMENTS OF FINANCIAL POSITION

December 31, 2011 and 2010

ASSETS	2011	2010
Current assets:		
Cash and cash equivalents		
Operations	\$ 1,282,023	\$ 952,470
Operating restricted	973,676	625,249
Operating reserve	415,000	415,000
Loan capital	1,399,046	1,541,389
Loan loss reserve	1,866,498	1,553,013
Accounts receivable	12,424	2,312
Loans receivable, net (note 3)	6,495,580	8,112,095
Interest receivable	70,888	81,811
Prepaid expenses	20,082	11,373
Total current assets	12,535,217	13,294,712
Property and equipment		
Office furniture and equipment, net	59,074	22,149
Leasehold improvements, net	4,274	6,838
Total property and equipment, net	63,348	28,987
Other assets:		
Loans receivable, net (note 3)	22,746,216	16,143,999
Deposits	7,500	7,500
Deferred loan fees, net	35,673	35,044
Total other assets	22,789,389	16,186,543
Total assets	\$ 35,387,954	\$ 29,510,242
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 52,996	\$ 39,924
Accrued interest	23,291	16,875
Interest reserve	284,350	32,643
Notes payable, current portion (note 5)	1,333,334	1,333,333
Loan participation payable, current portion (note 5)	-	950,000
Total current liabilities	1,693,971	2,372,775
Notes payable, net of current portion (note 5)	12,000,000	9,333,334
Loan participation payable, net of current portion (note 5)	728,387	678,064
Total liabilities	14,422,358	12,384,173
Commitments and contingencies	-	-
Net assets		
Unrestricted:		
Operating	1,374,108	1,024,443
Board designated - operating reserve	415,000	415,000
Board designated - lending capital	2,350,000	850,000
Loan loss reserve	(1,821,498)	(1,627,226)
Total unrestricted net assets	2,317,610	662,217
Temporarily restricted (note 6)	2,577,367	2,252,475
Permanently restricted (note 7)	16,070,619	14,211,377
Total net assets	20,965,596	17,126,069
Total liabilities and net assets	\$ 35,387,954	\$ 29,510,242

See notes to financial statements

NeighborWorks[®] Capital Corporation

STATEMENTS OF ACTIVITIES

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 Institution Fund grants	-	-	-	-	-	1,500,000	-	1,500,000
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
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	<u>2,225,076</u>	<u>-</u>	<u>1,500,000</u>	<u>96,486</u>	<u>3,821,562</u>	<u>324,892</u>	<u>1,859,242</u>	<u>6,005,696</u>
Expenses								
Program services								
Interest	505,808	-	-	-	505,808	-	-	505,808
Bad debt expense	-	-	-	290,758	290,758	-	-	290,758
Direct program expenses	1,032,962	-	-	-	1,032,962	-	-	1,032,962
Total program services	<u>1,538,770</u>	<u>-</u>	<u>-</u>	<u>290,758</u>	<u>1,829,528</u>	<u>-</u>	<u>-</u>	<u>1,829,528</u>
Support services								
Management and general	293,337	-	-	-	293,337	-	-	293,337
Fundraising	43,304	-	-	-	43,304	-	-	43,304
Total support services	<u>336,641</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>336,641</u>	<u>-</u>	<u>-</u>	<u>336,641</u>
Total expenses	<u>1,875,411</u>	<u>-</u>	<u>-</u>	<u>290,758</u>	<u>2,166,169</u>	<u>-</u>	<u>-</u>	<u>2,166,169</u>
Transfers	-	-	-	-	-	-	-	-
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	<u>\$ 1,374,108</u>	<u>\$ 415,000</u>	<u>\$ 2,350,000</u>	<u>\$ (1,821,498)</u>	<u>\$ 2,317,610</u>	<u>\$ 2,577,367</u>	<u>\$ 16,070,619</u>	<u>\$ 20,965,596</u>

(continued)

NeighborWorks[®] Capital Corporation

STATEMENTS OF ACTIVITIES - CONTINUED

Year ended December 31, 2010

	Unrestricted				Total unrestricted	Temporarily restricted	Permanently restricted	Total
	Operations	Operating reserve	Lending capital	Loan loss reserve				
Revenue								
NeighborWorks [™] America grants	\$ 300,000	\$ -	\$ -	\$ -	\$ 300,000	\$ 578,800	\$ 2,898,253	\$ 3,777,053
Community Development Financial 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

See notes to financial statements

NeighborWorks® Capital Corporation

STATEMENTS OF CASH FLOWS

Years ended December 31, 2011 and 2010

	2011	2010
Cash flows from operating activities		
Changes in net assets	\$ 3,839,527	\$ 3,502,787
Adjustments to reconcile changes in net assets to net cash provided by operating activities		
Depreciation and amortization, property and equipment	13,937	10,301
Amortization, deferred loan fees	4,732	3,537
Provision for loan loss	290,758	773,344
Changes in operating assets and liabilities		
Accounts receivable	(10,112)	4,270
Interest receivable	10,923	(27,215)
Prepaid expenses	(8,709)	(2,259)
Accounts payable and accrued liabilities	13,072	18,701
Accrued interest	6,416	3,937
Interest reserve	251,707	29,768
Net cash provided by operating activities	4,412,251	4,317,171
Cash flows from investing activities		
Advances on loans receivable	(15,521,000)	(14,167,890)
Repayments of loans receivable	10,244,540	4,284,825
Purchases of property and equipment	(48,298)	(6,618)
Net cash used in investing activities	(5,324,758)	(9,889,683)
Cash flows from financing activities		
Proceeds from notes payable	3,050,322	4,478,064
Payment of deferred loan fees	(5,361)	(31,340)
Repayments on notes payable	(1,283,332)	(1,083,333)
Net cash provided by financing activities	1,761,629	3,363,391
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	849,122	(2,209,122)
Cash and cash equivalents, beginning	5,087,121	7,296,242
Cash and cash equivalents, end	\$ 5,936,243	\$ 5,087,121
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	\$ 499,392	\$ 423,954
Significant noncash investing and financing activities:		
Loans receivable written off against the allowance for loan loss	\$ 51,486	\$ 75,000
Disposal of fully depreciated/amortized property and equipment	(26,635)	(12,428)

See notes to financial statements

NeighborWorks[®] Capital Corporation

NOTES TO FINANCIAL STATEMENTS

December 31, 2011 and 2010

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 December 31, 2007, the Organization entered into a five-year Master Investment Agreement with NeighborWorks[®] America which called for NeighborWorks[®] America to provide capital funds totaling up to \$20,000,000 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:

NeighborWorks[®] Capital Corporation

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2011 and 2010

- Unrestricted net assets - net resources of the Organization that bear no external restriction. These include the Organization's general operating net assets, Board of Director designated net assets for operating reserves and lending capital and loan loss reserves. During the years ended December 31, 2011 and 2010, the Board of Directors designated \$290,758 and \$773,344, respectively, of the Organization's net assets for loan loss provisions.
- 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.

NeighborWorks[®] Capital Corporation

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2011 and 2010

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, 2011, cash and cash equivalents include only unrestricted demand deposits with banks or government securities. The Organization places its cash with high credit-quality financial institutions that are in federally insured accounts or invested in government securities. Invested cash may exceed federally insured amounts at times.

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 rating of the borrower, the borrower's financial condition and real estate experience, project viability, collateral and current real estate conditions. At December 31, 2011 and 2010, the allowance for loan loss was \$1,866,498 and \$1,627,226, respectively, of which \$414,611 and \$978,260 relates to the current portion of loans receivable, respectively. During the years ended December 31, 2011 and 2010, \$51,486 and \$75,000 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 generally accepted accounting principles (GAAP) 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 fees for costs were recorded for the years ended December 31, 2011 and 2010.

NeighborWorks[®] Capital Corporation

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2011 and 2010

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, 2011 and 2010, accumulated depreciation and amortization was \$29,967 and \$42,665, respectively, net of disposals during 2011 and 2010 of \$26,635 and \$12,428, 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, 2011 and 2010 was \$4,732 and \$3,537, respectively. Estimated amortization expense for each of the ensuing five years through December 31, 2015 is \$4,907.

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, 2011 and 2010. 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 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.

NeighborWorks® Capital Corporation

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2011 and 2010

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.

Recent Accounting Pronouncements

During 2010, the Financial Accounting Standards Board (FASB) issued an update to the guidance contained in the Accounting Standards Codification (ASC) 310, Receivables. The new guidance requires additional information about the credit quality of financing receivables in the disclosures to financial statements including, but not limited to, nonaccrual and past due accounts, the allowance for credit losses, impaired loans, credit quality and account modifications. The guidance is effective for nonpublic entities for years ending on or after December 15, 2011. The Organization has implemented the requirements of this guidance into these financial statements. The adoption of this accounting guidance did not have a significant impact on the Organization's financial statements.

Subsequent Events

Events that occur after the date of the statement of financial position but before the 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 are included in note 15.

NeighborWorks[®] Capital Corporation

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2011 and 2010

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 \$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 \$3.0 million 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 \$3.0 million 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.

NeighborWorks® Capital Corporation

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2011 and 2010

The following is a summary of loans receivable at December 31, 2011 and 2010:

Type	2011		2010	
	Number of Loans	Net Loan Amount	Number of Loans	Net Loan Amount
Pre-development	12	\$ 3,050,000	11	\$ 2,400,000
Interim development	23	21,458,563	22	18,313,153
Mini-permanent	4	4,249,731	2	1,670,167
Organizational loan pilot	2	2,350,000	2	3,500,000
Total	41	31,108,294	37	25,883,320
Less: Allowance for loan losses		(1,866,498)		(1,627,226)
Total		29,241,796		24,256,094
Current portion		6,495,580		8,112,095
Long-term portion		\$ 22,746,216		\$ 16,143,999

Principal maturities of the remaining loans receivable as of December 31, 2011 are as follows:

2012	\$ 6,910,191
2013	14,626,187
2014	6,839,974
2015	-
2016	-
Thereafter	2,731,942
	<u>\$ 31,108,294</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

NeighborWorks[®] Capital Corporation

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2011 and 2010

past due 90 days or more cease to accrue except for loans that in the process of collection. When a loan is placed on non-accrual status, previously accrued and unpaid interest is reversed out of 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 as of 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	21,458,563	-	-	-	21,458,563	-
Mini-Permanent	4,249,731	-	-	-	4,249,731	-
Organizational loan pilot	2,350,000	-	-	-	2,350,000	-
	<u>\$ 31,108,294</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 31,108,294</u>	<u>\$ -</u>
Nonaccruing loans	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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.

NeighborWorks® Capital Corporation

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2011 and 2010

The table below details the Organization's loans by loan type according to their risk rating categories as of December 31, 2011:

	Good	Standard	Adequate	Questionable	Substandard	Doubtful	Total
Pre-development	\$ 550,000	\$ 1,800,000	\$ 500,000	\$ 200,000	\$ -	\$ -	\$ 3,050,000
Interim development	4,971,875	12,128,455	3,321,812	536,421	500,000	-	21,458,563
Mini-permanent	-	4,249,731	-	-	-	-	4,249,731
Organizational loan pilot	-	2,350,000	-	-	-	-	2,350,000
	<u>\$ 5,521,875</u>	<u>\$ 20,528,186</u>	<u>\$ 3,821,812</u>	<u>\$ 736,421</u>	<u>\$ 500,000</u>	<u>\$ -</u>	<u>\$ 31,108,294</u>
	Good	Standard	Adequate	Questionable	Substandard	Doubtful	Total
Current	\$ 5,521,875	\$ 20,528,186	\$ 3,821,812	\$ 736,421	\$ 500,000	\$ -	\$ 31,108,294
Past due 31-60 days	-	-	-	-	-	-	-
Past due 61-90 days	-	-	-	-	-	-	-
Past due 90+ days	-	-	-	-	-	-	-
	<u>\$ 5,521,875</u>	<u>\$ 20,528,186</u>	<u>\$ 3,821,812</u>	<u>\$ 736,421</u>	<u>\$ 500,000</u>	<u>\$ -</u>	<u>\$ 31,108,294</u>

The following table presents an analysis of the allowance for loan losses as of December 31, 2011:

	Pre-development	Interim development	Mini- permanent	Organizational loan pilot	Total
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>
	Pre-development	Interim development	Mini- permanent	Organizational loan pilot	Total
Allowance for loan losses					
Allocated	\$ -	\$ -	\$ -	\$ -	\$ -
General	183,000	1,287,514	254,984	141,000	1,866,498
	<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	21,458,563	4,249,731	2,350,000	31,108,294
	<u>\$ 3,050,000</u>	<u>\$ 21,458,563</u>	<u>\$ 4,249,731</u>	<u>\$ 2,350,000</u>	<u>\$ 31,108,294</u>

NeighborWorks® Capital Corporation

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2011 and 2010

Activity in the allowance for loan losses for the year ended December 31, 2010 was as follows:

Beginning balance	\$	928,882
Provision for loan losses		773,344
Write-offs		(75,000)
Recoveries		-
		<hr/>
Ending balance	\$	<u><u>1,627,226</u></u>

The Organization did not have any impaired loans as of December 31, 2011 and 2010.

NOTE 4 - 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, 2011 and 2010

NOTE 5 - NOTES PAYABLE AND LOAN PARTICIPATION PAYABLE

Notes Payable

All notes payable are unsecured. Debt financing provides the Organization with a source of capital that can be loaned to NOW borrowers through the various types of loan products available from the Organization. The Organization's notes payable consisted of the following as of December 31, 2011:

Lender	Maturity date	Schedule repayments				Principal balance at 12/31/2011	Principal balance at 12/31/2010
		Principal		Interest			
		Amount	Due	Annual rate	Due		
Ally Bank	7/1/2013	\$ 5,000,000	Maturity	3.75%	Quarterly	\$ 5,000,000	\$ 5,000,000
Bank of America	2/11/2020	500,000	2/11/2015	3.25%	Quarterly	4,000,000	2,500,000
		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	9/30/2013	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	1,000,000
		500,000	12/15/2012				
TD Bank	5/31/2014	1,500,000	Maturity	Float - 3.0% above 30-Day LIBOR	Monthly	1,500,000	-
U.S. Department of the Treasury CDFI Fund	8/11/2012	333,334	Maturity	2.63%	Quarterly	333,334	666,667
						<u>\$ 13,333,334</u>	<u>\$ 10,666,667</u>

The following schedule lists the maturities of all notes payable at December 31, 2011:

2012	\$ 1,333,334
2013	6,500,000
2014	1,500,000
2015	500,000
2016	500,000
Thereafter	<u>3,000,000</u>
Total notes payable	<u>\$ 13,333,334</u>

NeighborWorks® Capital Corporation

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2011 and 2010

Loan Participation Payable

In 2010, the Organization entered into loan participation agreements with Rural Community Assistance Corporation and Boston Community Loan Fund with respect to underlying loan receivables in which Rural Community and Boston Community purchased an interest. The Organization has the obligation to pass through payments with respect to interest at a rate of 5.85% and 7.00%, respectively, and all principal payments pursuant to such participation interest during the life of the agreements. Provided that no event of default exists on the underlying loans at the maturity of the agreements, the Organization has a further obligation to purchase Rural Community's and Boston Community's participation interests in the loans on August 12, 2013 and October 15, 2013, respectively. As of December 31, 2011 and 2010, the balance of these loan participations payable was \$728,387 and \$1,628,064, respectively. The balance of the underlying loans receivable, financed in part through these participations, as of December 31, 2011 and 2010 was \$2,740,000 and \$2,110,000, respectively.

As of December 31, 2011, the scheduled principal reduction of loan participation payable is as follows:

	2012	\$	-
	2013		<u>728,387</u>
Total loan participation payable		\$	<u><u>728,387</u></u>

NeighborWorks® Capital Corporation

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2011 and 2010

NOTE 6 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets as of December 31, 2011 and 2010 are as follows:

	2011			
	12/31/2010	Contributions	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	<u>625,249</u>	<u>2,000,000</u>	<u>(1,914,380)</u>	<u>710,869</u>
<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	<u>2,404,603</u>	-	<u>290,758</u>	<u>2,695,361</u>
Total Lending activity	<u>1,627,226</u>	-	<u>239,272</u>	<u>1,866,498</u>
Total	<u>\$ 2,252,475</u>	<u>\$ 2,000,000</u>	<u>\$ (1,675,108)</u>	<u>\$ 2,577,367</u>

NeighborWorks® Capital Corporation

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2011 and 2010

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

NeighborWorks[®] Capital Corporation

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2011 and 2010

NOTE 7 - PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets as of December 31, 2011 and 2010 are as follows:

	2011			
	12/31/2010	Contributions	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	<u>(2,404,603)</u>	<u>-</u>	<u>(290,758)</u>	<u>(2,695,361)</u>
Total	<u>\$ 14,211,377</u>	<u>\$ 2,150,000</u>	<u>\$ (290,758)</u>	<u>\$ 16,070,619</u>
	2010			
	12/31/2009	Contributions	Satisfaction of program restrictions	12/31/2010
NeighborWorks [®] America Revolving Loan & Capital Projects Fund	\$ 13,717,727	\$ 2,898,253	\$ -	\$ 16,615,980
Loan Loss Reserve Provision	<u>(1,631,259)</u>	<u>-</u>	<u>(773,344)</u>	<u>(2,404,603)</u>
Total	<u>\$ 12,086,468</u>	<u>\$ 2,898,253</u>	<u>\$ (773,344)</u>	<u>\$ 14,211,377</u>

NOTE 8 - LOAN COMMITMENTS - NWOs

As of December 31, 2011 and 2010, the Organization has committed to make new loans to various NWOs totaling \$0 and \$2,540,000, respectively.

NeighborWorks[®] Capital Corporation

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2011 and 2010

NOTE 9 - LEASE OBLIGATIONS

On July 3, 2008, the Organization entered into a non-cancelable five-year operating lease for office space commencing in October 2008. Future minimum rent payments due under the lease as of December 31, 2011 are summarized as follows:

2012	\$	79,557
2013		<u>60,996</u>
	\$	<u>140,553</u>

Rent expense for the years ended December 31, 2011 and 2010 was \$78,438 and \$76,764, respectively.

NOTE 10 - PENSION PLAN

During 2011 and 2010, 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, 2011 and 2010 totaled \$33,125 and \$28,676, respectively.

NOTE 11 - CONCENTRATIONS

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

As of December 31, 2011, the Organization's cash and cash equivalent balances held on deposit at financial institutions totaled \$5,936,243. Of this \$5,936,243, \$3,128,384 was held at Branch Banking and Trust Company (BB&T), \$1,462,014 was held at PNC Bank (PNC), \$802,820 was held by TD Bank (TD), \$250,000 was held by Self Help Credit Union (SHCU), \$250,000 was held by Self Help Federal Credit Union (SHFCU) and \$43,025 was held at Bank of America. BB&T, Bank of America, PNC, TD and SHFCU are members of the Federal Deposit Insurance Corporation (FDIC). Except for amounts held in qualifying noninterest-bearing transaction accounts, which are fully insured through December 31, 2013, deposit balances at these financial institutions are insured up to \$250,000 under the FDIC as of December 31, 2011. SHCU participates in the National Credit Union Administration (NCUA), which provides up to \$250,000 of insurance coverage per account.

NeighborWorks[®] Capital Corporation

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2011 and 2010

For BB&T, the full \$3,128,384 is held in a combination of four interest-bearing checking accounts and one money market account and is insured up to \$250,000.

For PNC, \$300,000 of the full \$1,462,014 is held in one noninterest-bearing checking account and is fully insured and the remaining \$1,162,014 is held in three money market accounts and is insured up to \$250,000.

For TD, \$52,820 of the full \$802,820 is held in one noninterest-bearing checking account and is fully insured and the remaining \$750,000 is held in three no penalty withdrawal Certificates of Deposit and is insured up to \$250,000.

For SHFCU, the full \$250,000 is invested in a money market account and is fully insured.

For SHCU, the full \$250,000 is invested in a money market account and is fully insured.

For Bank of America, the full \$43,025 is held in an interest-bearing money market account and is fully insured.

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, 2011 and 2010, the Organization had five and seven loans outstanding, respectively, totaling \$2,631,089 and \$3,899,060 of loans receivable, respectively, to such entities or their affiliates.

NeighborWorks[®] Capital Corporation

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2011 and 2010

NOTE 13 - LENDING CAPITAL

The Organization's lending capital consists of unsecured loans from financial institutions, government agencies, foundations and loan participations (note 5) combined with board designated unrestricted net assets and permanently restricted net assets (note 7) associated with lending capital. As required by GAAP, net assets associated with lending capital, including funds designated by the Board of Directors to function as lending capital, are classified and reported based upon the existence of donor-imposed restrictions. The composition, by source, of total lending capital at December 31, 2011 and December 31, 2010 is as follows:

	<u>2011</u>	<u>2010</u>
Notes payable	\$ 13,333,334	\$ 10,666,667
Loan participation payable	728,387	1,628,064
Board designated - lending capital	2,350,000	850,000
Permanently restricted	<u>16,070,619</u>	<u>14,211,377</u>
 Total lending capital	 <u>\$ 32,482,340</u>	 <u>\$ 27,356,108</u>

As of December 31, 2011 and 2010, total lending capital deployed as loans receivable, net of the allowance for loan losses, was \$29,241,796 and \$24,256,094, respectively.

NOTE 14 - SUBSEQUENT EVENTS

Management has evaluated the activity of the Organization through April 20, 2012 (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, 2011, the Organization secured a term loan from PNC Bank in the amount of \$2,000,000 that allows for a one-year draw period. The outstanding principal amounts of this term loan will bear a fixed rate of interest of 3.50%, payable monthly. The term loan will expire on February 1, 2017.

SUPPLEMENTAL INFORMATION

NeighborWorks® Capital Corporation

SCHEDULES OF FUNCTIONAL EXPENSES

Years ended December 31, 2011 and 2010

Expenditures	2011				2010			
	Program activities	Management and general	Fundraising	Total	Program activities	Management and general	Fundraising	Total
Salaries and benefits	\$ 511,030	\$ 165,884	\$ 32,412	\$ 709,326	\$ 449,409	\$ 149,411	\$ 27,872	\$ 626,692
Interest	505,808	-	-	505,808	427,891	-	-	427,891
Professional fees	76,336	113,306	25	189,667	76,080	70,023	1,127	147,230
Occupancy	66,672	7,844	3,922	78,438	65,250	7,676	3,838	76,764
Office expenses	8,525	1,003	501	10,029	10,693	1,258	629	12,580
Grant expense	283,800	-	-	283,800	50,000	-	-	50,000
Travel	19,192	206	1,238	20,636	13,507	145	871	14,523
Telephone	12,014	1,413	707	14,134	10,765	1,266	633	12,664
Special events and board retreats	7,232	-	1,276	8,508	12,147	-	2,144	14,291
Bank fees	273	14	-	287	186	10	-	196
Depreciation and amortization, property and equipment	11,846	1,394	697	13,937	8,757	1,029	515	10,301
Amortization, deferred loan fees	4,732	-	-	4,732	3,537	-	-	3,537
Marketing	9,128	-	1,611	10,739	3,377	-	596	3,973
Insurance	5,389	634	317	6,340	5,023	591	295	5,909
Miscellaneous	2,529	297	149	2,975	3,621	428	214	4,263
Repairs and maintenance	673	79	40	792	1,131	133	67	1,331
Dues	9,008	1,001	-	10,009	9,900	1,100	-	11,000
Staff development	2,490	146	293	2,929	540	32	64	636
Printing	2,093	116	116	2,325	4,363	242	242	4,847
Loan loss reserve	290,758	-	-	290,758	773,344	-	-	773,344
	<u>\$ 1,829,528</u>	<u>\$ 293,337</u>	<u>\$ 43,304</u>	<u>\$ 2,166,169</u>	<u>\$ 1,929,521</u>	<u>\$ 233,344</u>	<u>\$ 39,107</u>	<u>\$ 2,201,972</u>

NeighborWorks® Capital Corporation

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year ended December 31, 2011

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	\$ 17,937,117
Expendable Grant Funds	21.000	<u>684,625</u>
		<u>18,621,742</u>
Community Development Financial Institutions Fund Program:		
Loan Program	21.020	333,334
Technical Assistance	21.020	79,755
Financial Assistance	21.020	<u>2,250,000</u>
		<u>2,663,089</u>
Total Federal Programs		<u><u>\$ 21,284,831</u></u>

NeighborWorks[®] Capital Corporation

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

December 31, 2011

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

To the Board of Directors
NeighborWorks[®] Capital Corporation

We have audited the financial statements of NeighborWorks[®] Capital Corporation as of and for the year ended December 31, 2011, and have issued our report thereon dated April 20, 2012. 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

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

A 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[®] 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 pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Reznick Group, P.C.

Bethesda, Maryland
April 20, 2012

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[®] Capital Corporation

Compliance

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 NeighborWorks[®] Capital Corporation's major federal programs for the year ended December 31, 2011. NeighborWorks[®] Capital Corporation's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of NeighborWorks[®] Capital Corporation's management. Our responsibility is to express an opinion on NeighborWorks[®] Capital Corporation's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations." Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about NeighborWorks[®] Capital Corporation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of NeighborWorks[®] Capital Corporation's compliance with those requirements.

In our opinion, NeighborWorks[®] Capital Corporation complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2011.

Internal Control Over Compliance

Management of NeighborWorks[®] 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[®] 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[®] 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 pass-through entities is not intended to be and should not be used by anyone other than these specified parties.

Reznick Group, P.C.

Bethesda, Maryland
April 20, 2012

NeighborWorks[®] Capital Corporation

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

December 31, 2011

A. SUMMARY OF AUDITORS' RESULTS

1. The auditors' report expresses an unqualified opinion on the financial statements of NeighborWorks[®] Capital Corporation.
2. No significant deficiencies related to the audit of the financial statements are reported in the 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.
3. No instances of noncompliance material to the financial statements of NeighborWorks[®] Capital Corporation were disclosed during the audit.
4. No significant deficiencies related to the audit of the major federal awards programs are reported in the 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.
5. The auditors' report on compliance for the major federal award programs for NeighborWorks[®] Capital Corporation expresses an unqualified opinion.
6. There are no audit findings relative to the major federal award programs for NeighborWorks[®] Capital Corporation.
7. Major programs:
 - Department of Treasury - Community Development Financial Institutions Fund, CFDA No. 21.020
 - Department of Treasury - Neighborhood Reinvestment Corporation Act, CFDA No. 21.000
8. The threshold for distinguishing Type A and B programs was \$638,544.
9. NeighborWorks[®] Capital Corporation qualified as a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENT AUDIT - NONE

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