



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

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

**December 31, 2014 and 2013**

# NeighborWorks® Capital Corporation

## Index

	<u>Page</u>
Independent Auditor's Report	2
Financial Statements	
Statements of Financial Position	4
Statements of Activities	6
Statements of Cash Flows	8
Notes to Financial Statements	9
Supplementary Information	
Schedules of Functional Expenses	25
Schedule of Expenditures of Federal Awards	26
Notes to Schedule of Expenditures of Federal Awards	27
Independent Auditor's Report on Internal Control over Financial Reporting and Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	28
Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control over Compliance Required by OMB Circular A-133	30
Schedule of Findings and Questioned Costs	32

## Independent Auditor's Report

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

### Report on the Financial Statements

We have audited the accompanying financial statements of NeighborWorks<sup>®</sup> Capital Corporation (a nonprofit organization), which comprise the statement of financial position as of December 31, 2014 and 2013, and the related statements of activities, and cash flows for the years then ended, and the related notes to the financial statements.

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

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

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

## *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of NeighborWorks<sup>®</sup> Capital Corporation as of December 31, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## *Other Matters*

### *Other Information*

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedules of functional expenses are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

### *Other Reporting Required by Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 17, 2015, on our consideration of NeighborWorks<sup>®</sup> Capital Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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<sup>®</sup> Capital Corporation's internal control over financial reporting and compliance.



Bethesda, Maryland  
April 17, 2015

**NeighborWorks® Capital Corporation**

**Statements of Financial Position  
December 31, 2014 and 2013**

	<u>Assets</u>	
	2014	2013
Current assets:		
Cash and cash equivalents		
Operations	\$ 2,644,191	\$ 2,358,255
Operating restricted	215,927	296,821
Operating reserve	496,551	415,000
Loan capital	6,847,937	7,035,713
Loan loss reserve	1,085,005	922,362
Accounts receivable	37,399	27,956
Grant receivable	603,577	858,955
Loans receivable, net (Note 3)	16,960,110	9,564,802
Interest receivable	88,505	56,378
Prepaid expenses	29,676	21,857
	<u>29,008,878</u>	<u>21,558,099</u>
Property and equipment		
Office furniture and equipment, net	24,165	21,505
Leasehold improvements, net	-	-
	<u>24,165</u>	<u>21,505</u>
Loans receivable, net (Note 3)	<u>39,408,907</u>	<u>24,881,406</u>
Other assets:		
Deposits	7,500	7,500
Deferred loan fees, net	88,406	74,282
	<u>95,906</u>	<u>81,782</u>
Total assets	<u>\$ 68,537,856</u>	<u>\$ 46,542,792</u>

**NeighborWorks® Capital Corporation**

**Statements of Financial Position  
December 31, 2014 and 2013**

Liabilities and Net Assets

	<u>2014</u>	<u>2013</u>
Current liabilities:		
Accounts payable and accrued liabilities	\$ 217,757	\$ 181,824
Accrued interest	75,780	50,936
Interest reserve (Note 5)	51,943	101,821
Notes payable, current portion (Note 6)	<u>8,250,000</u>	<u>-</u>
Total current liabilities	8,595,480	334,581
Notes payable (Note 6)	29,238,045	18,750,000
Equity equivalent investments (Note 6)	<u>1,000,000</u>	<u>1,000,000</u>
Total liabilities	<u>38,833,525</u>	<u>20,084,581</u>
Commitments and contingencies	-	-
Net assets		
Unrestricted:		
Operating	3,052,759	2,314,973
Board designated - operating reserve	496,551	415,000
Board designated - lending capital	3,771,703	2,862,748
Loan loss reserve	<u>(1,999,473)</u>	<u>(2,153,695)</u>
Total unrestricted net assets	5,321,540	3,439,026
Temporarily restricted (Note 7)	2,812,034	3,252,650
Permanently restricted (Note 8)	<u>21,570,757</u>	<u>19,766,535</u>
Total net assets	<u>29,704,331</u>	<u>26,458,211</u>
Total liabilities and net assets	<u>\$ 68,537,856</u>	<u>\$ 46,542,792</u>

See Notes to Financial Statements.

**NeighborWorks® Capital Corporation**

**Statements of Activities  
Year Ended December 31, 2014**

	Unrestricted				Total unrestricted	Temporarily restricted	Permanently restricted	Total
	Operations	Operating reserve	Lending capital	Loan loss reserve				
<b>Revenue</b>								
NeighborWorks® America grants	\$ 200,000	\$ -	\$ -	\$ -	\$ 200,000	\$ -	\$ 2,150,000	\$ 2,350,000
Community Development Financial Institutions Fund	-	-	-	-	-	603,577	-	603,577
Contributions	-	-	-	-	-	-	-	-
Loan fee income, net of participation	421,623	-	-	-	421,623	-	-	421,623
Interest income - loans	2,304,721	-	-	-	2,304,721	-	-	2,304,721
Interest income - investments	9,436	-	-	-	9,436	-	-	9,436
Loan service fee	19,372	-	-	-	19,372	-	-	19,372
Net assets released from restrictions:								
Satisfaction of program restrictions	31,016	-	858,955	500,000	1,389,971	(1,044,193)	(345,778)	-
<b>Total revenue</b>	<b>2,986,168</b>	<b>-</b>	<b>858,955</b>	<b>500,000</b>	<b>4,345,123</b>	<b>(440,616)</b>	<b>1,804,222</b>	<b>5,708,729</b>
<b>Expenses</b>								
Program services								
Interest	743,935	-	-	-	743,935	-	-	743,935
(Recovery) provision for loan loss	-	-	(50,000)	345,778	295,778	-	-	295,778
Direct program expenses	1,034,741	-	-	-	1,034,741	-	-	1,034,741
<b>Total program services</b>	<b>1,778,676</b>	<b>-</b>	<b>(50,000)</b>	<b>345,778</b>	<b>2,074,454</b>	<b>-</b>	<b>-</b>	<b>2,074,454</b>
Support services								
Management and general	320,052	-	-	-	320,052	-	-	320,052
Fundraising	68,103	-	-	-	68,103	-	-	68,103
<b>Total support services</b>	<b>388,155</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>388,155</b>	<b>-</b>	<b>-</b>	<b>388,155</b>
<b>Total expenses</b>	<b>2,166,831</b>	<b>-</b>	<b>(50,000)</b>	<b>345,778</b>	<b>2,462,609</b>	<b>-</b>	<b>-</b>	<b>2,462,609</b>
Transfers	(81,551)	81,551	-	-	-	-	-	-
Increase (decrease) in net assets	737,786	81,551	908,955	154,222	1,882,514	(440,616)	1,804,222	3,246,120
Net assets, beginning of year	2,314,973	415,000	2,862,748	(2,153,695)	3,439,026	3,252,650	19,766,535	26,458,211
Net assets, end of year	<u>\$ 3,052,759</u>	<u>\$ 496,551</u>	<u>\$ 3,771,703</u>	<u>\$ (1,999,473)</u>	<u>\$ 5,321,540</u>	<u>\$ 2,812,034</u>	<u>\$ 21,570,757</u>	<u>\$ 29,704,331</u>

**NeighborWorks® Capital Corporation**

**Statements of Activities  
Year Ended December 31, 2013**

	Unrestricted				Total unrestricted	Temporarily restricted	Permanently restricted	Total
	Operations	Operating reserve	Lending capital	Loan loss reserve				
Revenue								
NeighborWorks® America grants Community Development Financial Institutions Fund	\$ 175,000	\$ -	\$ -	\$ -	\$ 175,000	\$ -	\$ 2,175,000	\$ 2,350,000
Contributions	-	-	-	-	-	858,955	-	858,955
Loan fee income, net of participation	246,196	-	-	-	246,196	-	-	246,196
Interest income - loans	1,828,510	-	-	-	1,828,510	-	-	1,828,510
Interest income - investments	14,300	-	-	-	14,300	-	-	14,300
Loan service fee	18,778	-	-	-	18,778	-	-	18,778
Net assets released from restrictions:								
Satisfaction of program restrictions	-	-	-	396,887	396,887	376,700	(773,587)	-
<b>Total revenue</b>	<b>2,282,784</b>	<b>-</b>	<b>-</b>	<b>396,887</b>	<b>2,679,671</b>	<b>1,235,655</b>	<b>1,401,413</b>	<b>5,316,739</b>
Expenses								
Program services								
Interest	603,253	-	-	-	603,253	-	-	603,253
(Recovery) provision for loan loss	-	-	(200,248)	773,587	573,339	-	-	573,339
Direct program expenses	921,242	-	-	-	921,242	-	-	921,242
<b>Total program services</b>	<b>1,524,495</b>	<b>-</b>	<b>(200,248)</b>	<b>773,587</b>	<b>2,097,834</b>	<b>-</b>	<b>-</b>	<b>2,097,834</b>
Support services								
Management and general	287,994	-	-	-	287,994	-	-	287,994
Fundraising	66,966	-	-	-	66,966	-	-	66,966
<b>Total support services</b>	<b>354,960</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>354,960</b>	<b>-</b>	<b>-</b>	<b>354,960</b>
<b>Total expenses</b>	<b>1,879,455</b>	<b>-</b>	<b>(200,248)</b>	<b>773,587</b>	<b>2,452,794</b>	<b>-</b>	<b>-</b>	<b>2,452,794</b>
Transfers	-	-	-	-	-	-	-	-
Increase (decrease) in net assets	403,329	-	200,248	(376,700)	226,877	1,235,655	1,401,413	2,863,945
Net assets, beginning of year	1,911,644	415,000	2,662,500	(1,776,995)	3,212,149	2,016,995	18,365,122	23,594,266
<b>Net assets, end of year</b>	<b>\$ 2,314,973</b>	<b>\$ 415,000</b>	<b>\$ 2,862,748</b>	<b>\$ (2,153,695)</b>	<b>\$ 3,439,026</b>	<b>\$ 3,252,650</b>	<b>\$ 19,766,535</b>	<b>\$ 26,458,211</b>

See Notes to Financial Statements.



**NeighborWorks® Capital Corporation**

**Statements of Cash Flows  
Years Ended December 31, 2014 and 2013**

	2014	2013
Cash flows from operating activities		
Changes in net assets	\$ 3,246,120	\$ 2,863,945
Adjustments to reconcile changes in net assets to net cash provided by operating activities		
Depreciation and amortization, property and equipment	19,952	23,160
Amortization, deferred loan fees	18,328	39,018
Provision for loan loss	345,778	773,587
Changes in operating assets and liabilities		
Grant receivable	255,378	(858,955)
Accounts receivable	(9,443)	(19,225)
Interest receivable	(32,127)	19,871
Prepaid expenses	(7,819)	(5,675)
Accounts payable and accrued liabilities	35,933	79,515
Accrued interest	24,844	17,487
Interest reserve	(49,878)	(91,149)
Deposits		
Net cash provided by operating activities	3,847,066	2,841,579
Cash flows from investing activities		
Advances on loans receivable	(35,965,955)	(20,892,283)
Repayments of loans receivable	13,697,368	14,217,079
Purchases of property and equipment	(22,612)	(2,026)
Net cash (used in) investing activities	(22,291,199)	(6,677,230)
Cash flows from financing activities		
Proceeds from notes payable	23,238,045	13,750,000
Repayments on notes payable	(4,500,000)	(8,000,000)
Payment of deferred loan fees	(32,452)	(41,872)
Net cash provided by financing activities	18,705,593	5,708,128
Net increase in cash and cash equivalents	261,460	1,872,477
Cash and cash equivalents, beginning	11,028,151	9,155,674
Cash and cash equivalents, end	\$ 11,289,611	\$ 11,028,151
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	\$ 720,677	\$ 585,766
Significant noncash investing and financing activities:		
Loans receivable written off against the allowance for loan loss	\$ 500,000	\$ 396,887
Disposal of fully depreciated/amortized property and equipment	15,247	7,264
	\$ 515,247	\$ 404,151

See Notes to Financial Statements.

# NeighborWorks® Capital Corporation

## Notes to Financial Statements December 31, 2014 and 2013

### 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 deliver the flexible capital needed by NeighborWorks® America affiliates to provide affordable homes and strengthen communities. The Organization fulfills its mission by providing the NeighborWorks® America affiliates with low-cost capital for which they would not otherwise have access. The Organization's capital is available for the acquisition, preservation, construction, sale, financing or ownership of affordable single-family and multi-family properties and commercial projects. 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 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

## NeighborWorks® Capital Corporation

### Notes to Financial Statements December 31, 2014 and 2013

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 related to fundraising activities, 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, 2014, cash and cash equivalents include only unrestricted demand deposits with banks or government securities. The Organization places its cash with high credit quality financial institutions that are federally insured or invested in government securities. Invested cash may exceed federally insured amounts at times.

#### **Loans receivable**

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

## NeighborWorks® Capital Corporation

### Notes to Financial Statements December 31, 2014 and 2013

#### **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, 2014 and 2013, the allowance for loan loss was \$2,044,473 and \$2,198,695, respectively, of which \$672,378 and \$610,520 relates to the current portion of loans receivable, respectively. During the years ended December 31, 2014 and 2013, \$500,000 and \$396,887, of loans were written off. During the years ended December 31, 2014 and 2013, the Organization recognized recovery on loans receivable previously written off of \$50,000 and \$200,248, respectively. Since inception, as of December 31, 2014 and 2013, the Organization has cumulatively had \$1,725,750 and \$1,225,750, respectively, of loans receivable written off and \$390,248 and \$340,248, respectively, of recoveries of loans receivable previously written off.

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

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

#### **Deferred revenue**

The Organization earns fees and incurs costs associated with originating loans receivable during the normal course of business. 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, 2014 and 2013.

#### **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, 2014 and 2013, accumulated depreciation and amortization was \$74,103 and \$69,398, respectively, net of disposals during 2014 and 2013 of \$15,247 and \$7,264, respectively.

## **NeighborWorks® Capital Corporation**

### **Notes to Financial Statements December 31, 2014 and 2013**

#### **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, 2014 and 2013 was \$18,328 and \$39,018, respectively. Estimated amortization expense for each of the ensuing years through December 31, 2019 is \$27,220, \$20,040, \$10,070, \$5,639 and \$5,639, 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, 2014 and 2013. 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 2011 remain open for examination.

#### **Functional expense allocation**

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

#### **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.

## NeighborWorks® Capital Corporation

### Notes to Financial Statements December 31, 2014 and 2013

#### Subsequent events

Material subsequent events have been considered for recognition and disclosure in these financial statements through April 17, 2015, the date the financial statements were available to be issued.

#### 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 36 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 \$4,000,000 with a maximum loan term of 48 months on a recourse basis secured by a mortgage or other collateral and are repayable upon closing of construction or permanent closing.
- 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 \$4,000,000 and a maximum loan term of seven years on a recourse basis secured by a mortgage or other collateral.

## NeighborWorks® Capital Corporation

### Notes to Financial Statements December 31, 2014 and 2013

The following is a summary of loans receivable at December 31, 2014 and 2013:

Type	2014		2013	
	Number of loans	Net loan amount	Number of loans	Net loan amount
Pre-development	16	\$ 4,665,000	14	\$ 3,800,000
Interim development	40	44,645,971	26	29,435,445
Mini-permanent	14	9,102,519	6	3,409,458
Total	<u>70</u>	<u>58,413,490</u>	<u>46</u>	<u>36,644,903</u>
Less: Allowance for loan losses		<u>(2,044,473)</u>		<u>(2,198,695)</u>
Total		56,369,017		34,446,208
Current portion		<u>16,960,110</u>		<u>9,564,802</u>
Long-term portion		<u>\$ 39,408,907</u>		<u>\$ 24,881,406</u>

Principal maturities of the remaining loans receivable as of December 31, 2014 are as follows:

2015	\$ 17,632,488
2016	13,316,953
2017	11,984,438
2018	6,693,490
2019	2,299,954
2020	-
2021	5,818,167
2022	668,000
	<u>\$ 58,413,490</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 interest except for loans that are in the process of collection. When a loan is placed on non-accrual status, previously accrued and unpaid interest is reversed out of interest income. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

## NeighborWorks® Capital Corporation

### Notes to Financial Statements December 31, 2014 and 2013

An aging of past due loans, by loan type for the years December 31, 2014 and 2013:

December 31, 2014	Current	31-60 days past due	61-90 days past due	90+ days past due	Total	Nonaccruing loans
Pre-development	\$ 4,665,000	\$ -	\$ -	\$ -	\$ 4,665,000	\$ -
Interim development	44,645,971	-	-	-	44,645,971	-
Mini-Permanent	9,102,519	-	-	-	9,102,519	-
	<u>\$ 58,413,490</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 58,413,490</u>	<u>\$ -</u>
December 31, 2013	Current	31 - 60 days past due	61 - 90 days past due	90+ days past due	Total	Nonaccruing loans
Pre-development	\$ 3,800,000	\$ -	\$ -	\$ -	\$ 3,800,000	\$ -
Interim development	29,435,445	-	-	-	29,435,445	-
Mini-Permanent	3,409,458	-	-	-	3,409,458	-
	<u>\$ 36,644,903</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 36,644,903</u>	<u>\$ -</u>

### Risk management

The Organization has lending policies and procedures 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, and mini-permanent) by reviewing the following criteria: NeighborWorks® America's 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 uncollectible loan. The Organization conducts a comprehensive review of all outstanding loans at least annually.

As part of the Organization's risk rating analysis, a corresponding reserve has been allocated to each loan in the loan portfolio. The total of these reserves as indicated by the Organization's risk rating analysis for the years ended December 31, 2014 and 2013 was \$2,032,560 (3.48% of the loan portfolio) and \$1,492,224 (4.07% of the loan portfolio), respectively. Additionally, the Organization records and maintains an overall minimum allowance for loan losses of at least 3.50% of the loan portfolio as required by various investors' covenants for the year ended December 31, 2014, for the year ended December 31, 2013, the required overall minimum allowance for loan losses was 6.00%. For the years ended December 31, 2014 and 2013, the allowance for loan losses per this requirement was \$2,044,473 and \$2,198,695, respectively. The Organization, as required by its financial policy, maintains a deposit account for loan losses based on a specific calculation relating to risk rating by loan type.



# NeighborWorks® Capital Corporation

## Notes to Financial Statements December 31, 2014 and 2013

The table below details the Organization's loans by loan type according to their risk rating categories for the years December 31, 2014 and 2013:

December 31, 2014	Good	Standard	Adequate	Questionable	Substandard	Doubtful	Total
Pre-development	\$ 1,250,000	\$ 3,215,000	\$ 200,000	\$ -	\$ -	\$ -	\$ 4,665,000
Interim development	7,547,313	33,995,094	2,793,563	310,000	-	-	\$ 44,645,971
Mini-permanent	1,368,600	5,293,392	2,440,527	-	-	-	\$ 9,102,519
	<u>\$ 10,165,913</u>	<u>\$ 42,503,486</u>	<u>\$ 5,434,090</u>	<u>\$ 310,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 58,413,490</u>
	Good	Standard	Adequate	Questionable	Substandard	Doubtful	Total
Current	\$ 10,165,913	\$ 42,503,486	\$ 5,434,090	\$ 310,000	\$ -	\$ -	\$ 58,413,490
Past due 31- 60 days	-	-	-	-	-	-	-
Past due 61 - 90 days	-	-	-	-	-	-	-
Past due 90+ days	-	-	-	-	-	-	-
	<u>\$ 10,165,913</u>	<u>\$ 42,503,486</u>	<u>\$ 5,434,090</u>	<u>\$ 310,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 58,413,490</u>
	Good	Standard	Adequate	Questionable	Substandard	Doubtful	Total
December 31, 2013							
Pre-development	\$ 650,000	\$ 2,450,000	\$ 200,000	\$ -	\$ 500,000	\$ -	\$ 3,800,000
Interim development	9,036,173	18,801,709	745,253	852,311	-	-	29,435,446
Mini-permanent	-	3,109,457	300,000	-	-	-	3,409,457
	<u>\$ 9,686,173</u>	<u>\$ 24,361,166</u>	<u>\$ 1,245,253</u>	<u>\$ 852,311</u>	<u>\$ 500,000</u>	<u>\$ -</u>	<u>\$ 36,644,903</u>
	Good	Standard	Adequate	Questionable	Substandard	Doubtful	Total
Current	\$ 9,686,173	\$ 24,361,166	\$ 1,245,253	\$ 852,311	\$ 500,000	\$ -	\$ 36,644,903
Past due 31 - 60 days	-	-	-	-	-	-	-
Past due 61 - 90 days	-	-	-	-	-	-	-
Past due 90+ days	-	-	-	-	-	-	-
	<u>\$ 9,686,173</u>	<u>\$ 24,361,166</u>	<u>\$ 1,245,253</u>	<u>\$ 852,311</u>	<u>\$ 500,000</u>	<u>\$ -</u>	<u>\$ 36,644,903</u>

## NeighborWorks® Capital Corporation

### Notes to Financial Statements December 31, 2014 and 2013

The following table presents an analysis of the allowance for loan losses for the years ended December 31, 2014 and 2013, the Organizational loan pilot type of loan ceased to be available after FY 2010:

December 31, 2014	Pre-development	Interim development	Mini-permanent	Organizational loan pilot	Total
Beginning balance	\$ 352,500	\$ 1,641,627	\$ 204,568	\$ -	\$ 2,198,695
(Recovery) provision for loan losses	310,775	(129,018)	114,021	-	295,778
Write-off	(500,000)	-	-	-	(500,000)
Recoveries	-	50,000	-	-	50,000
Ending balance	<u>\$ 163,275</u>	<u>\$ 1,562,609</u>	<u>\$ 318,589</u>	<u>\$ -</u>	<u>\$ 2,044,473</u>
	Pre-development	Interim development	Mini-permanent	Organizational loan pilot	Total
Allowance for loan losses					
Allocated	\$ 137,450	\$ 1,566,259	\$ 328,851	\$ -	\$ 2,032,560
General	25,825	(3,650)	(10,261)	-	11,913
	<u>\$ 163,275</u>	<u>\$ 1,562,609</u>	<u>\$ 318,589</u>	<u>\$ -</u>	<u>\$ 2,044,473</u>
Loans					
Impaired loans	\$ -	\$ -	\$ -	\$ -	\$ -
Non-impaired loans	4,665,000	44,645,971	9,102,519	-	58,413,490
	<u>\$ 4,665,000</u>	<u>\$ 44,645,971</u>	<u>\$ 9,102,519</u>	<u>\$ -</u>	<u>\$ 58,413,490</u>
December 31, 2013	Pre-development	Interim development	Mini-permanent	Organizational loan pilot	Total
Beginning balance	\$ 162,000	\$ 1,304,526	\$ 241,469	\$ 114,000	\$ 1,821,995
(Recovery) provision for loan losses	190,500	533,740	(36,901)	(114,000)	573,339
Write-off	-	(396,887)	-	-	(396,887)
Recoveries	-	200,248	-	-	200,248
Ending balance	<u>\$ 352,500</u>	<u>\$ 1,641,627</u>	<u>\$ 204,568</u>	<u>\$ -</u>	<u>\$ 2,198,695</u>
	Pre-development	Interim development	Mini-permanent	Organizational loan pilot	Total
Allowance for loan losses					
Allocated	\$ 352,500	\$ 1,014,492	\$ 125,233	\$ -	\$ 1,492,225
General	-	627,135	79,335	-	706,470
	<u>\$ 352,500</u>	<u>\$ 1,641,627</u>	<u>\$ 204,568</u>	<u>\$ -</u>	<u>\$ 2,198,695</u>
Loans					
Impaired loans	\$ -	\$ -	\$ -	\$ -	\$ -
Non-impaired loans	3,800,000	29,435,445	3,409,458	-	36,644,903
	<u>\$ 3,800,000</u>	<u>\$ 29,435,445</u>	<u>\$ 3,409,458</u>	<u>\$ -</u>	<u>\$ 36,644,903</u>

The Organization did not have any loan modifications that were considered troubled debt restructurings for the years ended December 31, 2014 and 2013. The Organization determined that the allowance for loan losses was adequate and the Organization did not have any impaired loans for the years ended December 31, 2014 and 2013.

## NeighborWorks® Capital Corporation

### Notes to Financial Statements December 31, 2014 and 2013

#### 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, 2014 and 2013. There was no gain or loss recognized on the sale of these participation interests. The total balance of loan participations serviced was \$9,639,885 and \$10,390,927 as of December 31, 2014 and 2013, 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, 2014 and 2013, respectively.

#### Note 5 - Interest reserve

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

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

All notes payable and equity equivalent investments ("EQ2") are unsecured. Debt financing provides the Organization with a source of capital that can be loaned to NeighborWorks® America affiliate borrowers through the various types of loan products available from the Organization. Additionally, certain of these note payable and equity equivalent investments contain covenants that require the Organization to provide reporting on a periodic basis and to meet and maintain specific financial ratios. As of December 31, 2014, 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, 2014 and 2013:

Lender	Total credit facility commitments at 12/31/2014	Maturity date	Schedule repayments				Principal balance at 12/31/2014	Principal balance at 12/31/2013
			Principal		Interest			
			Amount	Due	Annual rate	Due		
Ally Bank	\$ 6,250,000	12/21/2015	\$ 250,000 250,000 250,000 5,500,000	3/31/2015 6/30/2015 9/30/2015 12/21/2015	3.25%	Quarterly	\$ 6,250,000	\$ 6,250,000
Bank of America	8,000,000	12/24/2023	2,000,000 2,000,000 2,000,000 2,000,000	12/24/2020 12/24/2021 12/24/2022 12/24/2023	3.25%	Quarterly	8,000,000	4,000,000
Branch Banking & Trust (BB&T)	3,000,000	12/1/2016	3,000,000	Maturity	Prime - 3.25%	Monthly	3,000,000	-
The Calvert Investment Foundation	2,000,000	12/31/2015	2,000,000	Maturity	4.50%	Semi-Annual	2,000,000	2,000,000
Capital One Bank	1,000,000	10/1/2018	1,000,000	Maturity	1.00%	Annual	1,000,000	1,000,000
Morgan Stanley	4,000,000	12/17/2019	4,000,000	Maturity	30 day LIBOR + 2.50% with 2.74% Floor	Monthly	4,000,000	1,000,000

# NeighborWorks® Capital Corporation

## Notes to Financial Statements December 31, 2014 and 2013

Lender	Total credit facility commitments at 12/31/2014	Maturity date	Schedule repayments				Principal balance at 12/31/2014	Principal balance at 12/31/2013
			Principal		Interest			
			Amount	Due	Annual rate	Due		
PNC Bank	2,000,000	2/1/2017	2,000,000	Maturity	3.50%	Monthly	2,000,000	2,000,000
TD Bank	2,250,000	5/31/2016	1,500,000	Maturity	3.0%+ 30 Day LIBOR	Monthly	2,250,000	1,500,000
CDFI Fund	488,045	6/30/2024	488,045	Maturity	2.00%	Semi-Annual	488,045	-
Deutsche Bank	5,000,000	9/24/2016	5,000,000	Maturity	30 Day LIBOR + 2.5%	Quarterly	5,000,000	-
Wells Fargo	7,000,000	12/19/2017	4,000,000	Maturity	2.65% + 30 Day LIBOR	Monthly	3,500,000	1,000,000
Charles Schwab Bank	7,500,000	12/22/2016	7,500,000	Maturity	90-day LIBOR + 2.75% with a floor of 3.50%	Quarterly	-	-
<b>Total notes payable</b>	<b>48,488,045</b>						<b>37,488,045</b>	<b>18,750,000</b>
<b>Equity equivalent investments</b>								
Wells Fargo EQ2	1,000,000	9/19/2022	1,000,000	Maturity	2.00%	Quarterly	1,000,000	1,000,000
<b>Total equity equivalent investments</b>	<b>1,000,000</b>						<b>1,000,000</b>	<b>1,000,000</b>
<b>Total notes payable and equity equivalent investments</b>	<b>\$ 49,488,045</b>						<b>\$ 38,488,045</b>	<b>\$ 19,750,000</b>

Undrawn commitments on credit facilities at December 31, 2014 and 2013 were \$11,000,000 and \$13,000,000, respectively.

The following schedule lists the maturities of all notes payable and equity equivalent investments at December 31, 2014:

2015	\$ 8,250,000
2016	10,250,000
2017	5,500,000
2018	1,000,000
2019	4,000,000
Thereafter	<u>9,488,045</u>
	<u>\$ 38,488,045</u>

# NeighborWorks® Capital Corporation

## Notes to Financial Statements December 31, 2014 and 2013

During June 2015, the Organization is expected to finalize a commitment from the CDFI Fund for the debt portion of the FY 2014 Financial Assistance Award provided to the Organization in September 2014 in the amount of \$512,000.

### Note 7 - Temporarily restricted net assets

Temporarily restricted net assets as of December 31, 2014 and 2013 are as follows:

	2014			
	12/31/2013	Contributions received (contributions refunded)	Satisfaction of program restrictions	
<b><u>Operations</u></b>				
NeighborWorks® America Expendable Grants - Home Depot Award	\$ 178,800	\$ -	\$ (14,816)	\$ 163,984
NeighborWorks® America Expendable Grants - Home Depot Award NeighborWorks® America - Match	16,200	-	(16,200)	-
Community Development Financial Institutions Program - Financial Assistance	858,955	603,577	(858,955)	603,577
Total Operations	<u>1,053,955</u>	<u>603,577</u>	<u>(889,971)</u>	<u>767,561</u>
<b><u>Lending Activity</u></b>				
Loans written off, approved by NeighborWorks® America for Release of Restrictions	(1,225,750)	-	(500,000)	(1,725,750)
Loan Loss Reserve Provision	3,424,445	-	345,778	3,770,223
Total Lending activity	<u>2,198,695</u>	<u>-</u>	<u>(154,222)</u>	<u>2,044,473</u>
Total	<u>\$ 3,252,650</u>	<u>\$ 603,577</u>	<u>\$ (1,044,193)</u>	<u>\$ 2,812,034</u>

# NeighborWorks® Capital Corporation

## Notes to Financial Statements December 31, 2014 and 2013

	2013			
	12/31/2012	Contributions received (contributions refunded)	Satisfaction of program restrictions	12/31/2013
<b><u>Operations</u></b>				
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
Community Development Financial Institutions Program - Financial Assistance	-	858,955	-	858,955
Total Operations	195,000	858,955	-	1,053,955
<b><u>Lending Activity</u></b>				
Loans written off, approved by NeighborWorks® America for Release of Restrictions	(828,863)	-	(396,887)	(1,225,750)
Loan Loss Reserve Provision	2,650,858	-	773,587	3,424,445
Total Lending activity	1,821,995	-	376,700	2,198,695
Total	\$ 2,016,995	\$ 858,955	\$ 376,700	\$ 3,252,650

### Note 8 - Permanently restricted net assets

Permanently restricted net assets as of December 31, 2014 and 2013 are as follows:

	2014			
	12/31/2013	Contributions received (contributions refunded)	Satisfaction of program restrictions	12/31/2014
NeighborWorks® America Revolving Loan & Capital Projects Fund	\$ 23,190,980	\$ 2,150,000	\$ -	\$ 25,340,980
Loan Loss Reserve Provision	(3,424,445)	-	(345,778)	(3,770,223)
Total	\$ 19,766,535	\$ 2,150,000	\$ (345,778)	\$ 21,570,757
	2013			
	12/31/2012	Contributions received (contributions refunded)	Satisfaction of program restrictions	12/31/2013
NeighborWorks® America Revolving Loan & Capital Projects Fund	\$ 21,015,980	\$ 2,175,000	\$ -	\$ 23,190,980
Loan Loss Reserve Provision	(2,650,858)	-	(773,587)	(3,424,445)
Total	\$ 18,365,122	\$ 2,175,000	\$ (773,587)	\$ 19,766,535

## NeighborWorks® Capital Corporation

### Notes to Financial Statements December 31, 2014 and 2013

#### Note 9 - Loan commitments - NeighborWorks® America affiliates

As of December 31, 2014 and 2013, the Organization has committed to make loans to various NeighborWorks® America affiliates totaling \$19,931,190 and \$10,340,217, 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 20, 2013, an amendment to the lease was executed, extending the lease for five years until March 31, 2019 and changing premises. Future minimum rent payments due under the lease as of December 31, 2014 are summarized as follows:

2015	\$	80,645
2016		83,069
2017		85,548
2018		88,119
2019		<u>22,138</u>
	\$	<u><u>359,519</u></u>

Rent expense for the years ended December 31, 2014 and 2013 was \$84,648 and \$81,638, respectively.

#### Note 11 - Pension plan

During 2014 and 2013, 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, 2014 and 2013 totaled \$45,165 and \$37,536, 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, 2014 and 2013, the Organization had eight and nine loans outstanding totaling \$5,292,906 and \$6,294,500, respectively, of loans receivable, respectively, to such entities or their affiliates.

## NeighborWorks® Capital Corporation

### Notes to Financial Statements December 31, 2014 and 2013

#### 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, 2014 and December 31, 2013 is as follows:

	<u>2014</u>	<u>2013</u>
Notes payable and EQ2s	\$ 38,488,045	\$ 19,750,000
Undrawn credit facility commitments	11,000,000	13,000,000
Board designated - lending capital	3,771,703	2,862,748
Permanently restricted	<u>21,570,757</u>	<u>19,766,535</u>
Total available lending capital	<u>\$ 74,830,505</u>	<u>\$ 55,379,283</u>

As of December 31, 2014 and 2013, total lending capital deployed as loans receivable, net of the allowance for loan losses, was \$ 56,369,017 and \$34,446,208, respectively.



## **Supplementary Information**

NeighborWorks® Capital Corporation

Schedules of Functional Expenses  
Years Ended December 31, 2014 and 2013

Expenditures	2014				2013			
	Program services	Management and general	Fundraising	Total	Program services	Management and general	Fundraising	Total
Salaries and benefits	\$ 653,629	\$ 219,047	\$ 61,429	\$ 934,105	\$ 553,728	\$ 181,490	\$ 38,665	\$ 773,883
Interest	743,935	-	-	743,935	603,253	-	-	603,253
Service fee expense	17,800	-	-	17,800	16,103	-	-	16,103
Professional fees	80,273	79,818	1,956	162,047	61,048	88,121	6,167	155,336
Occupancy	76,183	8,465	-	84,648	69,392	8,164	4,082	81,638
Office expenses	16,202	1,620	180	18,002	13,568	1,592	798	15,958
Grant expense	31,016	-	-	31,016	-	-	-	-
Travel	18,804	1,106	2,212	22,122	28,339	305	1,828	30,472
Telephone	14,892	1,752	876	17,520	13,505	1,589	795	15,889
Special events and board retreats	7,305	1,289	-	8,594	11,794	-	2,081	13,875
Depreciation and amortization, property and equipment	17,042	2,716	194	19,952	19,685	2,317	1,158	23,160
Amortization, deferred loan fees	18,328	-	-	18,328	39,018	-	-	39,018
Marketing	48,262	-	-	48,262	51,446	-	9,079	60,525
Insurance	14,218	1,673	836	16,727	10,425	1,227	613	12,265
Miscellaneous	4,761	937	22	5,720	4,333	431	216	4,980
Repairs and maintenance	1,972	197	-	2,169	8,711	1,060	512	10,283
Dues	7,133	793	-	7,926	10,020	1,113	-	11,133
Staff development	4,100	482	241	4,823	6,587	388	775	7,750
Printing	2,821	157	157	3,135	3,540	197	197	3,934
Provision for loan loss	295,778	-	-	295,778	573,339	-	-	573,339
	<u>\$ 2,074,454</u>	<u>\$ 320,052</u>	<u>\$ 68,103</u>	<u>\$ 2,462,609</u>	<u>\$ 2,097,834</u>	<u>\$ 287,994</u>	<u>\$ 66,966</u>	<u>\$ 2,452,794</u>

**NeighborWorks® Capital Corporation**

**Schedule of Expenditures of Federal Awards  
Year Ended December 31, 2014**

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	\$ 23,615,230
Expendable Grant Funds	21.000	<u>216,200</u>
		<u>23,831,430</u>
Community Development Financial Institutions Fund Program:		
Financial Assistance	21.020	<u>2,847,000</u>
		<u>2,847,000</u>
Total Federal Programs		<u><u>\$ 26,678,430</u></u>

## NeighborWorks® Capital Corporation

### Notes to Schedule of Expenditures of Federal Awards December 31, 2014

#### **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  
Compliance and Other Matters Based on an Audit of Financial Statements  
Performed in Accordance with *Government Auditing Standards*

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

We have audited, 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<sup>®</sup> Capital Corporation, which comprise the statement of financial position as of December 31, 2014, 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 17, 2015.

#### Internal Control over Financial Reporting

In planning and performing our audit of the financial statements we considered NeighborWorks<sup>®</sup> 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<sup>®</sup> Capital Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of NeighborWorks<sup>®</sup> 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<sup>®</sup> 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 black ink that reads "Cohn Reznick LLP". The signature is written in a cursive, flowing style.

Bethesda, Maryland  
April 17, 2015

Independent Auditor's Report on Compliance for Each Major Federal Program and  
on Internal Control over Compliance Required by OMB Circular A-133

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

Report on Compliance for Each Major Program

We have audited NeighborWorks<sup>®</sup> Capital Corporation's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of NeighborWorks<sup>®</sup> Capital Corporation's major federal programs for the year ended December 31, 2014. NeighborWorks<sup>®</sup> Capital Corporation's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

*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<sup>®</sup> 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<sup>®</sup> 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<sup>®</sup> Capital Corporation's compliance.

*Opinion on Each Major Program*

In our opinion, NeighborWorks<sup>®</sup> Capital Corporation complied in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2014.


## 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 requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a 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 that testing based on the requirements of *OMB Circular A-133*. Accordingly, this report is not suitable for any other purpose.



Bethesda, Maryland  
April 17, 2015



**NeighborWorks® Capital Corporation**

**Schedule of Findings and Questioned Costs  
December 31, 2014**

**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 - Neighborhood Reinvestment Corporation Act, CFDA  
No. 21.000
8. The threshold for distinguishing Type A and B programs was \$800,353
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