

**NeighborWorks® Capital Corporation**

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

**December 31, 2021 and 2020**

# NeighborWorks® Capital Corporation

## Index

	<u>Page</u>
Independent Auditor's Report	2
Financial Statements	
Statements of Financial Position	5
Statements of Activities	7
Statements of Functional Expenses	9
Statements of Cash Flows	10
Notes to Financial Statements	11
Supplementary Information	
Schedule of Expenditures of Federal Awards	33
Notes to Schedule of Expenditures of Federal Awards	34
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 <i>Government Auditing Standards</i>	35
Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control over Compliance in Accordance with the Uniform Guidance	37
Schedule of Findings and Questioned Costs	40

## Independent Auditor's Report

To the Board of Directors  
NeighborWorks® Capital Corporation

Report on the Audit of the Financial Statements

### *Opinion*

We have audited the financial statements of NeighborWorks® Capital Corporation (a nonprofit organization), which comprise the statements of financial position as of December 31, 2021 and 2020, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of NeighborWorks® Capital Corporation as of December 31, 2021 and 2020, 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.

### *Basis for Opinion*

We conducted our audit in accordance with auditing standards generally accepted in the United States of America ("GAAS") and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statement section of our report. We are required to be independent of NeighborWorks® Capital Corporation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Responsibilities of Management for the Financial Statements*

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about NeighborWorks® Capital Corporation's ability to continue as a going concern for one year after the date that the financial statements are issued.

### *Auditor's Responsibilities for the Audit of the Financial Statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a

material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 NeighborWorks® Capital Corporation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about NeighborWorks® Capital Corporation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

#### *Supplementary Information*

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* ("CFR") Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, 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 27, 2022 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 solely 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 effectiveness of NeighborWorks® Capital Corporation's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering NeighborWorks® Capital Corporation's internal control over financial reporting and compliance.

*CohnReznick LLP*

Bethesda, Maryland  
April 27, 2022

**NeighborWorks® Capital Corporation**

**Statements of Financial Position  
December 31, 2021 and 2020**

Assets

	<u>2021</u>	<u>2020</u>
Current assets		
Cash and cash equivalents		
Operations	\$ 3,371,647	\$ 2,270,026
Operating restricted	24,330	24,228
Operating borrower escrows - restricted	110,783	-
Loan capital	5,800,940	4,265,384
Investments - marketable securities	525,357	520,398
Accounts receivable	19,605	52,638
Loans receivable, net (Note 4)	38,629,803	32,483,521
Interest receivable	234,452	352,424
Prepaid expenses	56,944	59,487
	<u>48,773,861</u>	<u>40,028,106</u>
Interest receivable, net of current portion	<u>192,505</u>	<u>209,323</u>
Loans receivable, net (Note 4)	<u>57,753,461</u>	<u>65,931,839</u>
Property and equipment		
Office furniture and equipment, net	69,268	83,517
Leasehold improvements, net	4,358	5,780
	<u>73,626</u>	<u>89,297</u>
Total property and equipment, net	<u>73,626</u>	<u>89,297</u>
Other assets	<u>10,900</u>	<u>10,500</u>
Total assets	<u>\$ 106,804,353</u>	<u>\$ 106,269,065</u>

**NeighborWorks® Capital Corporation**

**Statements of Financial Position  
December 31, 2021 and 2020**

Liabilities and Net Assets

	<u>2021</u>	<u>2020</u>
Current liabilities		
Accounts payable and accrued liabilities	\$ 307,583	\$ 379,168
Borrower escrow and interest reserve	110,783	-
Accrued interest	163,983	129,222
Notes payable, current portion (Note 6)	5,000,000	13,500,000
Equity equivalent investments, current portion (Note 6)	<u>1,000,000</u>	<u>-</u>
Total current liabilities	<u>6,582,349</u>	<u>14,008,390</u>
Notes payable, net of current portion and unamortized debt issuance costs (Note 6)	45,822,896	42,379,734
Equity equivalent investments (Note 6)	<u>3,000,000</u>	<u>4,000,000</u>
Total liabilities	<u>55,405,245</u>	<u>60,388,124</u>
Net assets		
Without donor restrictions		
Operating	8,529,606	7,518,900
Board designated - lending capital	21,531,623	17,201,358
Loan loss reserve	<u>(5,027,804)</u>	<u>(5,955,000)</u>
Total net assets without donor restrictions	<u>25,033,425</u>	<u>18,765,258</u>
With donor restrictions		
Restricted until first use (Note 7)	5,172,032	6,099,228
Restricted until donor release (Note 7)	<u>21,193,651</u>	<u>21,016,455</u>
Total net assets with donor restrictions	<u>26,365,683</u>	<u>27,115,683</u>
Total net assets	<u>51,399,108</u>	<u>45,880,941</u>
Total liabilities and net assets	<u>\$ 106,804,353</u>	<u>\$ 106,269,065</u>

See Notes to Financial Statements.

## NeighborWorks® Capital Corporation

### Statement of Activities Year Ended December 31, 2021

	Without donor restrictions			With donor restrictions		Total	
	Operations	Lending capital	Loan loss reserve	Total without donor restrictions	Restricted until first use		Restricted until donor release
Revenue							
NeighborWorks™ America grants	\$ -	\$ -	\$ -	\$ -	\$ 2,500,000	\$ -	\$ 2,500,000
Community Development Financial Institutions Fund grants	-	-	-	-	1,826,265	-	1,826,265
Loan fee income, net of participation	323,617	-	-	323,617	-	-	323,617
Interest income - loans	5,429,555	-	-	5,429,555	-	-	5,429,555
Interest income - investments	20,753	-	-	20,753	-	-	20,753
Loan service fee	6,124	-	-	6,124	-	-	6,124
Other income	-	4,000	-	4,000	-	-	4,000
Net assets released from restrictions							
Satisfaction of program restrictions	-	4,326,265	750,000	5,076,265	(5,253,461)	177,196	-
<b>Total revenue</b>	<b>5,780,049</b>	<b>4,330,265</b>	<b>750,000</b>	<b>10,860,314</b>	<b>(927,196)</b>	<b>177,196</b>	<b>10,110,314</b>
Expenses							
Program services							
Interest	1,656,210	-	-	1,656,210	-	-	1,656,210
Recovery for loan loss	-	-	(177,196)	(177,196)	-	-	(177,196)
Program expenses	2,350,991	-	-	2,350,991	-	-	2,350,991
<b>Total program services</b>	<b>4,007,201</b>	<b>-</b>	<b>(177,196)</b>	<b>3,830,005</b>	<b>-</b>	<b>-</b>	<b>3,830,005</b>
Support services							
Management and general	477,914	-	-	477,914	-	-	477,914
Fundraising	284,228	-	-	284,228	-	-	284,228
<b>Total support services</b>	<b>762,142</b>	<b>-</b>	<b>-</b>	<b>762,142</b>	<b>-</b>	<b>-</b>	<b>762,142</b>
<b>Total expenses</b>	<b>4,769,343</b>	<b>-</b>	<b>(177,196)</b>	<b>4,592,147</b>	<b>-</b>	<b>-</b>	<b>4,592,147</b>
Increase (decrease) in net assets	1,010,706	4,330,265	927,196	6,268,167	(927,196)	177,196	5,518,167
Net assets, beginning of year	7,518,900	17,201,358	(5,955,000)	18,765,258	6,099,228	21,016,455	45,880,941
Net assets, end of year	<b>\$ 8,529,606</b>	<b>\$ 21,531,623</b>	<b>\$ (5,027,804)</b>	<b>\$ 25,033,425</b>	<b>\$ 5,172,032</b>	<b>\$ 21,193,651</b>	<b>\$ 51,399,108</b>



## NeighborWorks® Capital Corporation

### Statement of Activities Year Ended December 31, 2020

	Without donor restrictions			With donor restrictions		Total	
	Operations	Lending capital	Loan loss reserve	Total without donor restrictions	Restricted until first use		Restricted until donor release
Revenue							
NeighborWorks™ America grants	\$ -	\$ -	\$ -	\$ -	\$ 2,500,000	\$ -	\$ 2,500,000
Community Development Financial Institution Fund grants	-	-	-	-	-	-	-
Loan fee income, net of participation	251,336	-	-	251,336	-	-	251,336
Interest income - loans	5,528,495	-	-	5,528,495	-	-	5,528,495
Interest income - investments	45,739	-	-	45,739	-	-	45,739
Loan service fee	3,622	-	-	3,622	-	-	3,622
Other income	-	-	-	-	-	-	-
Net assets released from restrictions							
Satisfaction of program restrictions	-	2,600,000	836,775	3,436,775	(8,970)	(3,427,805)	-
Total revenue	<u>5,829,192</u>	<u>2,600,000</u>	<u>836,775</u>	<u>9,265,967</u>	<u>2,491,030</u>	<u>(3,427,805)</u>	<u>8,329,192</u>
Expenses							
Program services							
Interest	1,642,234	-	-	1,642,234	-	-	1,642,234
Provision for loan loss	-	-	3,427,805	3,427,805	-	-	3,427,805
Program expenses	2,443,940	-	-	2,443,940	-	-	2,443,940
Total program services	<u>4,086,174</u>	<u>-</u>	<u>3,427,805</u>	<u>7,513,979</u>	<u>-</u>	<u>-</u>	<u>7,513,979</u>
Support services							
Management and general	451,966	-	-	451,966	-	-	451,966
Fundraising	183,906	-	-	183,906	-	-	183,906
Total support services	<u>635,872</u>	<u>-</u>	<u>-</u>	<u>635,872</u>	<u>-</u>	<u>-</u>	<u>635,872</u>
Total expenses	<u>4,722,046</u>	<u>-</u>	<u>3,427,805</u>	<u>8,149,851</u>	<u>-</u>	<u>-</u>	<u>8,149,851</u>
Increase (decrease) in net assets	1,107,146	2,600,000	(2,591,030)	1,116,116	2,491,030	(3,427,805)	179,341
Net assets, beginning of year	6,411,754	14,601,358	(3,363,970)	17,649,142	3,608,198	24,444,260	45,701,600
Net assets, end of year	<u>\$ 7,518,900</u>	<u>\$ 17,201,358</u>	<u>\$ (5,955,000)</u>	<u>\$ 18,765,258</u>	<u>\$ 6,099,228</u>	<u>\$ 21,016,455</u>	<u>\$ 45,880,941</u>

See Notes to Financial Statements.

## NeighborWorks® Capital Corporation

### Statements of Functional Expenses Year Ended December 31, 2021 and 2020

Expenditures	2021				2020			
	Program services	Management and general	Fundraising	Total	Program services	Management and general	Fundraising	Total
Salaries and benefits	\$ 1,625,993	\$ 370,772	\$ 218,642	\$ 2,215,407	\$ 1,649,577	\$ 331,140	\$ 133,350	\$ 2,114,067
Interest	1,656,210	-	-	1,656,210	1,642,234	-	-	1,642,234
Service fee expense	9,775	-	-	9,775	96,444	-	-	96,444
Professional fees	264,281	53,235	41,810	359,326	298,585	72,558	29,488	400,631
Occupancy	107,318	20,122	6,707	134,147	102,918	19,297	6,432	128,647
Office expenses	6,630	663	74	7,367	18,761	1,876	208	20,845
Travel	3,774	222	444	4,440	19,408	1,142	2,283	22,833
Telephone	26,775	3,150	1,575	31,500	27,855	3,277	1,639	32,771
Special events and board retreats	8,288	1,463	-	9,751	5,043	890	-	5,933
Depreciation and amortization, property and equipment	28,268	7,537	1,885	37,690	19,575	5,221	1,305	26,101
Marketing	88,978	-	9,886	98,864	59,828	-	6,648	66,476
Insurance	22,826	2,685	1,343	26,854	17,438	2,052	1,026	20,516
Miscellaneous	30,332	5,355	-	35,687	23,585	4,162	-	27,747
Repairs and maintenance	96,620	9,662	1,074	107,356	84,336	8,434	937	93,707
Dues	17,279	1,920	-	19,199	10,164	1,129	-	11,293
Staff development	5,768	679	339	6,786	3,356	395	197	3,948
Printing	8,086	449	449	8,984	7,067	393	393	7,853
(Recovery) provision for loan loss	(177,196)	-	-	(177,196)	3,427,805	-	-	3,427,805
	<u>\$ 3,830,005</u>	<u>\$ 477,914</u>	<u>\$ 284,228</u>	<u>\$ 4,592,147</u>	<u>\$ 7,513,979</u>	<u>\$ 451,966</u>	<u>\$ 183,906</u>	<u>\$ 8,149,851</u>

See Notes to Financial Statements.

## NeighborWorks® Capital Corporation

### Statements of Cash Flows Years Ended December 31, 2021 and 2020

	2021	2020
Cash flows from operating activities		
Changes in net assets	\$ 5,518,167	\$ 179,341
Adjustments to reconcile changes in net assets to net cash provided by operating activities		
Depreciation and amortization, property and equipment	37,690	26,101
Amortization, debt issuance costs	48,038	30,284
(Recovery) provision for loan loss	(177,196)	3,427,805
Unrealized gain on investments	(4,006)	(4,216)
Changes in operating assets and liabilities		
Accounts receivable	33,033	70,495
Interest receivable	134,790	(248,015)
Prepaid expenses	2,543	(24,252)
Other assets	(400)	2,162
Accounts payable and accrued liabilities	(71,585)	5,064
Borrower escrow and interest reserve	110,783	-
Accrued interest	34,761	(42,862)
Net cash provided by operating activities	5,666,618	3,421,907
Cash flows from investing activities		
Advances on loans receivable	(31,437,370)	(35,313,307)
Repayments of loans receivable	33,646,662	27,460,297
Purchases of property and equipment	(22,019)	(26,458)
Proceeds from sales of investments in marketable securities	249,047	275,000
Purchases of investments in marketable securities	(250,000)	(275,000)
Net cash provided by (used in) investing activities	2,186,320	(7,879,468)
Cash flows from financing activities		
Proceeds from notes payable	23,500,000	29,000,000
Repayments on notes payable	(28,500,000)	(24,850,000)
Debt issuance costs paid	(104,876)	(20,299)
Net cash (used in) provided by financing activities	(5,104,876)	4,129,701
Net increase (decrease) in cash and cash equivalents	2,748,062	(327,860)
Cash and cash equivalents, beginning	6,559,638	6,887,498
Cash and cash equivalents, end	\$ 9,307,700	\$ 6,559,638
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	\$ 1,573,411	\$ 1,654,812
Significant noncash investing and financing activities:		
Loans receivable written off against the allowance for loan loss	\$ 750,000	\$ 836,775
Disposal of fully depreciated property and equipment	\$ 6,107	\$ 7,657

See Notes to Financial Statements.

## NeighborWorks® Capital Corporation

### Notes to Financial Statements December 31, 2021 and 2020

#### Note 1 - Organization

The NeighborWorks® Capital Corporation (the "Organization") is incorporated in the state of Colorado and is a national non-profit community development loan fund serving NeighborWorks® America's affiliates in all 50 states, the territory of Puerto Rico and the District of Columbia. The Organization is certified by the U.S. Department of the Treasury (the "Treasury") as a Community Development Financial Institution ("CDFI").

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 flexible capital which is available for the acquisition, preservation, construction, of affordable single-family and multi-family properties and commercial projects. The Organization is supported primarily by interest income on loans receivable and federal awards received that are passed through NeighborWorks® America from the Treasury.

The Organization operates under a Master Investment Agreement ("MIA") with NeighborWorks® America which allows for the provision of capital funds to support the mission of the Organization on an annual basis. On December 18, 2020, the Organization entered into a five-year Master Investment Agreement with NeighborWorks® America, which called for NeighborWorks® America to consider providing \$1,000,000 to \$5,000,000 annually in capital funds for the duration of the agreement to support the mission of the Organization. This is the fourth Master Investment Agreement extension and renewal. The initial MIA was executed December 28, 2007.

#### 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 MIA. The Organization is required to report information regarding its financial position and activities in two classes of net assets as follows:

- **Net assets without donor restrictions** - generally, net assets of the Organization that bear no donor restriction. These include the Organization's general operating net assets, lending capital, and loan loss reserves. Additionally, in accordance with the MIA, capital funds received from NeighborWorks® America with no identified restriction are recorded as increases in net assets without donor restrictions for use in operations.
- **Net assets with donor restrictions** - generally, net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Additionally, in accordance with the MIA, net assets with donor restrictions are further classified as follows:
  - **Restricted until first use** ("First Use") - NeighborWorks® America - capital funds that are allowed to be transferred from net assets restricted until donor release 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 net assets restricted until donor release, while recoveries in the provision of the allowance of loan

## NeighborWorks® Capital Corporation

### Notes to Financial Statements December 31, 2021 and 2020

loss are recorded as additions to net assets restricted until first use. A correlating amount of bad debt expense is recognized as part of the change in net assets without donor restrictions as the estimates of applicable increases and recoveries in the provision of the allowance for loan loss are measured. Net assets restricted until first use for these funds can also result from timing differences between receipt of loan funds and the deployment of loan funds in accordance with donor stipulations. Additionally, the Organization reports revenue of cash and other assets from sources other than NeighborWorks® America as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction is met, net assets restricted until first use are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

- **Restricted until donor release** ("Donor Release") - NeighborWorks® America - capital funds that are 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. These funds are not to be used for non-capitalizable purposes such as paying operating and day-to-day expenses of the Organization.

During the years ended December 31, 2021 and 2020, \$0 in capital funds with no identified restriction were received by the Organization. First Use capital funds of \$2,500,000 were received by the Organization during the years ended December 31, 2021 and 2020 and were recorded as a component of net assets with donor restrictions. During the years ended December 31, 2021 and 2020, these funds were deployed for prescribed eligible purposes and were reclassified to net assets without donor restrictions - lending capital. During the years ended December 31, 2021 and 2020, \$750,000 and \$836,775, respectively, were upon request and consent released from Donor Release.

The MIA contains certain financial and production covenants. During 2021 and 2020, the Organization sought and was granted waivers to certain covenants related to production. As of December 31, 2021 and 2020 there were no known compliance issues.

#### **Contributions**

The Organization recognizes contributions when cash, securities or other assets and an unconditional promise to give is received. Conditional promises to give - that is, those with a measurable performance or other barrier and a right of return - are not recognized until the conditions on which they depend have been met.

#### **Cash and cash equivalents**

The Organization's cash management policy includes a minimum requirement of cash equal to 90 days of operating expenses (less debt expense and noncash charges) based on the current board approved budget and an additional \$1,000,000 in liquid assets.

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, 2021 and 2020, 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.

## NeighborWorks® Capital Corporation

### Notes to Financial Statements December 31, 2021 and 2020

#### **Investments - marketable securities**

The Organization's cash management policy requires the maintenance of an investment account with a maximum of \$1,000,000. These funds may be invested in permitted investments including US Treasury Obligations, US Government Agency debt, Certificates of Deposit, mutual funds invested in US Treasury or US Government Obligations, Certificates of Deposit Registry Services, or Repurchase Agreements collateralized with US Government or Government Agency securities. All permitted investments must have maturities of two years or less with the preponderance in maturities of one year or less. As of December 31, 2021 and 2020, investments - marketable securities consist of amounts held in certificates of deposit with carrying values of \$525,357 and \$520,398, respectively, which approximates fair value. During the years ended December 31, 2021 and 2020, unrealized gains on investments were \$4,006 and \$4,216, respectively, and are included as a component of investments and interest income on the accompanying statements of activities.

#### **Fair value measurements**

The Organization follows the accounting and disclosure standards pertaining to fair value measurements for qualifying assets and liabilities. Fair value is defined as the price that NeighborWorks Capital would receive upon selling an asset or pay to settle a liability in an orderly transaction between market participants. The values of debt and equity securities and mutual funds are based on their quoted market prices. Gains and losses that result from market fluctuations are recognized in the statement of activities in the period such fluctuations occur.

The Organization uses a framework for measuring fair value that includes a hierarchy that categorizes and prioritizes the sources used to measure and disclose fair value. This hierarchy is broken down into three levels based on inputs that market participants would use in valuing the financial instruments based on market data obtained from sources independent of the Organization. Inputs refer broadly to the assumptions that market participants would use in pricing the financial instrument, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the financial instrument developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset developed based on the best information available. The three-tier hierarchy of inputs is summarized in the three broad levels as follows:

Level 1 - Inputs that reflect unadjusted quoted prices in active markets for identical assets at the measurement date.

Level 2 - Inputs other than quoted prices that are observable for the asset either directly or indirectly, including inputs in markets that are not considered to be active.

Level 3 - Inputs that are unobservable and which require significant judgment or estimation.

An asset or liability's level within the framework is based upon the lowest level of any input that is significant to the fair value measurement.

The fair value of the Organization's investments in its certificates of deposit as of December 31, 2021 and 2020 are based on inputs that are observable directly and are deemed to be Level 2 financial instruments.

## NeighborWorks® Capital Corporation

### Notes to Financial Statements December 31, 2021 and 2020

#### **Operating borrower escrows - restricted**

The escrow cash accounts are restricted cash accounts representing reserve accounts held for borrowers and intended for specific purposes and associated with permanent loans extended to borrowers. Reserves include i) repair and replacement reserves designated for capital improvements as well as ii) interest/operating reserves.

#### **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.

#### **Interest Receivable**

Interest receivables arise from timing differences between date of recognition and date of receipt of payment and or because contractually the interest has been deferred. If the deferral of the interest payment is longer than 12 months, the interest receivable will be classified as noncurrent. The accrual of interest is discontinued on loans that become past due 90 days or more and for which collateral is inadequate to cover principal and interest, or immediately if management believes, after considering economic and business conditions and collection efforts, that a borrower's financial condition is such that partial or full collection is doubtful. When a loan is placed on nonaccrual status, all previously accrued but uncollected interest is reversed against current period interest income. Future collections are applied first to principal and then to interest until such loans are brought current, at which time loans may be returned to accrual status. The long term interest receivable contains \$192,505 and \$209,323 in deferred interest as of December 31, 2021 and 2020, respectively.

#### **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 the borrower's financial condition, property performance, real estate development staff capacity and experience, project viability, collateral, take-out financing, local real estate market, and project operating feasibility. For the year ended December 31, 2020, the allowance was increased to \$6,000,000 because of the uncertainty associated with the COVID-19 pandemic, the duration and full impact of which could not be accurately predicted by Management. For the year ended December 31, 2021, the allowance was reduced to 5% of the total loan receivable balance after Management's review of the portfolio and related risks. At December 31, 2021 and 2020, the allowance for loan loss was \$5,072,804 and \$6,000,000, respectively, of which \$1,908,991 and \$1,958,541 relates to the current portion of loans receivable, respectively. The Organization's practice is to write off any loan or portion of a loan when the loan is determined by management to be uncollectible due to the borrower's failure to meet repayment terms, the borrower's deteriorating or deteriorated financial conditions, or for other reasons. During the years ended December 31, 2021 and 2020, the organization wrote off a portion of one loan totaling \$750,000 and two loans totaling \$836,775, respectively. During the years ended December 31, 2021 and 2020, the Organization recognized no recovery on loans receivable previously written off. Since its inception in 2000, as of December 31, 2021 and 2020, the Organization has cumulatively had \$3,312,525 and \$2,562,525 of loans receivable written off, respectively, and \$390,248 of recoveries of loans receivable previously written off.

## NeighborWorks® Capital Corporation

### Notes to Financial Statements December 31, 2021 and 2020

#### **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 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. In accordance with generally accepted accounting principles ("GAAP"), the portion of these costs that are attributable to originating loans receivable are to be netted against related fees earned and net origination fees are to be deferred and recognized as an adjustment to interest income over the life of the loan. The Organization instead recognizes loan origination fees as revenue when the loan closes and recognizes loan origination costs as expenses as they are incurred. The effect of recognizing loan origination fees and loan origination costs in this manner is immaterial, and management analyzes the projected difference each quarter to make sure the financial statements are not materially misstated.

#### **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, 2021 and 2020, accumulated depreciation and amortization were \$152,927 and \$121,344, respectively, net of disposals during 2021 and 2020 of \$6,107 and \$7,657, respectively. There were no losses on disposals of property and equipment during the years ended December 31, 2021 and 2020. Depreciation and amortization expense for the years ended December 31, 2021 and 2020 were \$37,690 and \$26,101, respectively.

#### **Debt issuance costs**

Debt issuance costs, net of accumulated amortization, are reported as a direct deduction from the face amount of the mortgage loan payable to which such costs relate. Amortization of debt issuance costs is reported as a component of interest expense and is computed over the term of the loan using the straight-line method. In accordance with GAAP, debt issuance 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, 2021 and 2020 was \$48,038 and \$30,284, respectively. Estimated amortization expense for each of the ensuing years through December 31, 2026 is \$47,628, \$40,628, \$19,084, \$8,957 and \$5,899, 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. 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 2018 remain open for examination.



## NeighborWorks® Capital Corporation

### Notes to Financial Statements December 31, 2021 and 2020

#### **Functional expense allocation**

The cost of providing various programs and other activities has been summarized on a functional basis in the accompanying statements of functional expenses. Accordingly, expenses are recorded to program services, management and general or fundraising based on management's classification of costs related to different functions. Costs not directly attributable to a function, including depreciation, amortization, interest, and other occupancy costs, are allocated to a function based on estimates of time and costs of the specific expenses utilized.

#### **Use of estimates**

The preparation of financial statements in conformity with 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.

#### **Risks and uncertainties - COVID-19**

In early 2020, an outbreak of a novel strain of coronavirus ("COVID-19") emerged globally. The World Health Organization on March 11, 2020 declared a global pandemic which has continued to create uncertainty and extraordinary change for the Organization, its clients, its communities and the country as a whole. In response to the pandemic, the Organization rapidly deployed its business continuity plan and continues to take steps to protect the health and safety of its employees and its clients. Given the fluidity of the situation, management cannot estimate the duration and full impact of the COVID-19 pandemic on the economy, financial markets and Organization's financial condition and results of operations.

The Organization's response to the pandemic included steps widely recommended by bank regulatory agencies, although the Organization is not a regulated entity, including: adding scenarios and stress testing to the analytics performed regularly, increasing allowance for loan loss, working with clients to accommodate loan deferrals and modifications due to impacts of COVID-19, encouraging continued liquidity to clients. The Organization increased oversight and analysis of all credits during this time. The Organization has not yet experienced charge-offs related to COVID-19, nor is it anticipating any material charge-offs or deterioration in credit quality due to COVID-19. The Organization will continue to monitor credits closely and will continue to track loans that had payment term modifications in response to COVID or were new COVID-19 loans made with capitalized interest.

#### **New accounting pronouncements**

The Financial Accounting Standards Board ("FASB") has issued new guidance related to the accounting for leases. This guidance will require lessees to recognize a right-of-use asset and related lease liability for all leases, with a limited exception for short-term leases. Leases will be classified as either finance or operating, with the classification affecting the pattern of expense recognition in the statement of activities. Currently, leases are classified as either capital or operating, with only capital leases recognized on the statement of financial position. The reporting of lease-related expenses in the statement of activities and cash flows will be generally consistent with current guidance. The guidance is effective for the Organization for fiscal years beginning after December 15, 2021. When adopted, the new guidance will be applied using a modified retrospective transition method to the beginning of the year of adoption. The Organization is currently evaluating the impact to the financial statements under the new guidance.

## NeighborWorks® Capital Corporation

### Notes to Financial Statements December 31, 2021 and 2020

In June 2016, the FASB issued Accounting Standards Update ("ASU") 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* ("ASU 2016-13"), which creates a new credit impairment standard for financial instruments. The new standard will require management to make a current estimate of expected credit losses as opposed to current U.S. generally accepted accounting principles which delayed recognition until loss was probable. As a result of the ASU, management will be required to perform an assessment of expected credit losses on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. ASU 2016-13 is applicable to loans, debt securities, trade receivables, net investments in leases, off-balance-sheet credit exposures, reinsurance receivables and any other financial assets not excluded from the scope that have a contractual right to receive cash. In the period of adoption, the Organization will record a cumulative-effect adjustment to changes in net assets and in subsequent years, changes in the current expected credit loss for the reporting period will be reported on the statement of activities. Expanded disclosures will also be required. The ASU along with certain related ASUs clarifying the scope of ASU 2016-13 and providing transition relief will be effective for fiscal years beginning after December 15, 2022. The Organization is currently evaluating the impact of adopting this new guidance on the financial statements.

In March 2020, the FASB issued ASU 2020-04, Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting. The amendments in this Update provide option expedients and exceptions for applying generally accepted accounting principles (GAAP) to contracts, hedging relationships, and other transactions affected by reference rate reform if certain criteria are met. The amendments in this Update apply only to contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be continued because of reference rate reform. The expedients and exceptions provided by the amendments do not apply to contract modifications made and hedging relationships entered into or evaluated after December 31, 2022, except for hedging relationships existing as of December 31, 2022, that an entity has elected certain optional expedients for and that are retained through the end of the hedging relationship. The ASU will be effective for fiscal years beginning after December 15, 2022. The Organization is currently evaluating the impact of adopting this new guidance on the financial statements.

#### **Subsequent events**

Events that occur after the statement of financial position date 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 statement of financial position date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the statement of financial position date require disclosure in the accompanying notes. Management evaluated the activity of the Organization through April 27, 2022, (the date the financial statements were available to be issued) and concluded that other than the subsequent event discussed below that no subsequent events have occurred that would require recognition in the financial statements or disclosure in the notes to the financial statements.

In March 2022, the Organization formed a wholly-owned subsidiary, NC PLF LLC ("Subsidiary"), for the purpose of facilitating long term capital for permanent loans. The subsidiary will borrow funds from a lender which will be used to buy participations in permanent loans made by the Organization for terms of up to 18 years. The Organization will provide up to a 20% top loss guaranty on the participations held by the subsidiary. The Organization anticipates closing on the financing in the second quarter of 2022.

## NeighborWorks® Capital Corporation

### Notes to Financial Statements December 31, 2021 and 2020

#### Note 3 - Availability and liquidity

The following represents NeighborWorks Capital's financial assets at December 31, 2021 and 2020:

	2021	2020
Financial assets at year end		
Cash and cash equivalents	\$ 9,307,700	\$ 6,559,638
Investments - marketable securities	525,357	520,398
Accounts receivable	19,605	52,638
Interest receivable	234,452	352,424
Total financial assets	10,087,114	7,485,098
Less: Financial assets not available for general		
Cash - operating restricted	(24,330)	(24,228)
Cash - operating borrower escrows	(110,783)	-
Cash - loan capital	(5,800,940)	(4,265,384)
Total assets available over the next 12 months to meet general expenditures	\$ 4,151,061	\$ 3,195,486

The current loans receivable are principally funded using notes payable. As loans are repaid and converted to cash, the proceeds will be applied to the applicable outstanding notes payable not used to meet general expenditures and, as a result, are not reflected in the table above. The Organization's policy is to maintain financial assets to meet 90 days of operating expenses (less debt expense and noncash expense) based on the current board approved budget and an additional \$1,000,000 in liquid assets. The Organization can invest up to 30% of cash but not to exceed \$900,000, which may be invested in permitted investments. Permitted investments include US Treasury Obligations, US Government Agency debt, Certificates of Deposit, mutual funds invested in US Treasury or US Government Obligations, Certificates of Deposit Registry Services, or Repurchase Agreements collateralized with US Government or Government Agency securities. All investments have maturities of two years or less with the preponderance in maturities of one year or less.

#### Note 4 - Loans receivable

##### Loans receivable

The Organization offers the following loan products of varying terms and maturities:

- Predevelopment 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 \$500,000 with a maximum loan term of 36 months on a recourse basis and repayable upon closing of interim, construction or permanent financing.
- Acquisition-Land Loans - for funding needed for purchase of land to be developed for multifamily, single-family and mixed-use projects. Loans generally provided for up to \$7,500,000 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.

## NeighborWorks® Capital Corporation

### Notes to Financial Statements December 31, 2021 and 2020

- Building Acquisition Loans - for funding needed for purchase of operating multifamily or commercial building(s). Loans generally provided for up to \$7,500,000 with a maximum loan term of 60 months for operating property on a recourse basis secured by a mortgage or other collateral and are repayable upon closing of construction or permanent closing.
- Construction Loans - for funding of construction of property. Loans generally provided for up to \$7,500,000 with a maximum loan term of 36 months for single phase or 60 months for multi-phase on a recourse basis secured by a mortgage or other collateral and are repayable upon closing of permanent financing or sale of development property(ies).
- Enterprise Loans (formerly Organizational) - for funding to address the enterprise level capital needs of NeighborWorks America affiliates. Loans generally provided for up to \$4,000,000 with a maximum loan term of 60 months and can be used to provide low-cost capital and grants to implement business assessment, strategic planning, and capacity building work.
- Mezzanine/Equity Loans - for funding of acquisition or preservation of multifamily property with repayment from new long-term financing after changes to the property performance. Loans generally provided for up to \$2,000,000 with a maximum loan term of 120 months on a recourse basis secured against ownership interest.
- 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 \$7,500,000 and a maximum loan term of 84 months on a recourse basis secured by a mortgage or other collateral.
- Permanent Loans - for funding of acquisition and renovation of small multi-family property with maximum loan amounts of \$7,500,000 and a maximum loan term of 8 to 18 years on a recourse basis secured by a mortgage or other collateral primarily on a recourse basis.

**NeighborWorks® Capital Corporation**

**Notes to Financial Statements  
December 31, 2021 and 2020**

The following is a summary of loans receivable as of December 31, 2021, and 2020:

Type	2021		2020	
	Number of loans	Net loan amount	Number of loans	Net loan amount
Predevelopment	14	\$ 16,001,171	16	\$ 14,585,086
Acquisition - Land	13	22,865,085	13	25,681,051
Bridge	-	-	4	1,967,969
Building acquisition	8	8,585,195	14	13,988,636
Construction	9	11,030,433	7	13,274,876
Enterprise	16	12,757,684	15	13,254,779
Mezzanine/equity	-	-	1	1,439,387
Mini-Permanent	9	10,683,908	11	10,844,231
Permanent	14	19,532,592	9	9,379,345
<b>Total</b>	<b>83</b>	<b>101,456,068</b>	<b>90</b>	<b>104,415,360</b>
Less: Allowance for loan losses		<u>(5,072,804)</u>		<u>(6,000,000)</u>
<b>Total</b>		<b>96,383,264</b>		<b>98,415,360</b>
Current portion		<u>38,629,803</u>		<u>32,483,521</u>
Long-term portion		<u>\$ 57,753,461</u>		<u>\$ 65,931,839</u>

Principal maturities of the remaining loans receivable as of December 31, 2021, are as follows:

2022	\$ 39,828,109
2023	19,111,581
2024	12,062,108
2025	8,679,131
2026	2,955,212
2027	1,988,642
2028	2,830,569
2029	395,323
2030	1,437,292
2031	10,077,362
2035	352,935
2036	1,302,031
2038	435,773
	<u>\$ 101,456,068</u>

**Past-due loans**

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

## NeighborWorks® Capital Corporation

### Notes to Financial Statements December 31, 2021 and 2020

income. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

An aging of past due loans, by loan type for the years ended December 31, 2021, and 2020:

December 31, 2021	Current	31-60 days past due	61-90 days past due	90+ days past due	Total	Nonaccruing loans
Predevelopment	\$ 16,001,171	\$ -	\$ -	\$ -	\$ 16,001,171	-
Acquisition - land	22,865,085	-	-	-	22,865,085	-
Bridge	-	-	-	-	-	-
Building acquisition	8,585,195	-	-	-	8,585,195	-
Construction	3,190,371	-	-	7,840,062	11,030,433	7,840,062
Enterprise	12,757,684	-	-	-	12,757,684	-
Mezzanine/equity	-	-	-	-	-	-
Mini-Permanent	9,002,034	-	-	1,681,874	10,683,908	1,681,874
Permanent	19,532,592	-	-	-	19,532,592	-
	<u>\$ 91,934,132</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,521,936</u>	<u>\$ 101,456,068</u>	<u>\$ 9,521,936</u>
Nonaccruing loans	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,521,936</u>	<u>\$ 9,521,936</u>	

  

December 31, 2020	Current	31-60 days past due	61-90 days past due	90+ days past due	Total	Nonaccruing loans
Predevelopment	\$ 14,585,086	\$ -	\$ -	\$ -	\$ 14,585,086	\$ -
Acquisition - land	25,681,051	-	-	-	25,681,051	-
Bridge	1,967,969	-	-	-	1,967,969	-
Building acquisition	13,988,636	-	-	-	13,988,636	-
Construction	8,266,087	-	-	5,008,789	13,274,876	5,008,789
Enterprise	13,254,779	-	-	-	13,254,779	-
Mezzanine/equity	1,439,387	-	-	-	1,439,387	-
Mini-Permanent	9,157,992	-	1,686,239	-	10,844,231	-
Permanent	9,379,345	-	-	-	9,379,345	-
	<u>\$ 97,720,332</u>	<u>\$ -</u>	<u>\$ 1,686,239</u>	<u>\$ 5,008,789</u>	<u>\$ 104,415,360</u>	<u>\$ 5,008,789</u>
Nonaccruing loans	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,008,789</u>	<u>\$ 5,008,789</u>	

As of December 31, 2021, and 2020 there are two non-accruing loans totaling \$9,521,936 and one non-accruing loan totaling \$5,008,789, respectively. The Organization entered into a workout plan documented in a limited forbearance and modification agreement on December 16, 2020, with the borrower for the Spruce Ridge Phase II loan, which was placed on non-accrual as of September 30, 2020. The plan provided for additional funding to complete the construction of a Low-Income Housing Tax Credit financed multifamily project and, in Management's opinion, represents the highest recovery of the principal balance of the loan. The project was issued a Certificate of Occupancy in December 2021 and is currently in lease-up. The loan balance will be reduced at stabilization and conversion to permanent financing with the pay-in of the investor's tax credit installment. The loan balance was charged off by \$750,000 at year end 2021.

Additionally, another borrower was placed on non-accrual as of June 30, 2021 due to slower than anticipated lease-up of the building's commercial space. A long-term modification and deferral of the loan went into effect in December 2021. Further payments have been deferred through September 2023, with the requirement that all cashflow available during that period go towards payments. At the end of the period, the remaining deferred balance will be due.

## NeighborWorks® Capital Corporation

### Notes to Financial Statements December 31, 2021 and 2020

#### **Risk management**

The Organization revised its lending policies and procedures during 2021 to underwrite and monitor loans for its portfolio. For each loan, the Organization conducts a risk rating analysis based on the loan type (predevelopment, acquisition - land, bridge, building acquisition, construction, enterprise, mezzanine/equity, mini-permanent, permanent) by reviewing the following criteria: financial condition, property performance, real estate development staff capacity and experience, project viability, collateral, take-out financing, local real estate market, and project operating feasibility. Each criterion is rated, and an overall rating is determined based on the primary source of repayment. The six rating categories are P-1, P-2, P-3, 4 (questionable), 5 (substandard), and 6 (doubtful). When the risk rating on a loan has been listed as questionable or substandard, the loan is deemed to not be performing as expected and a loss on a loan is considered possible but has not yet been determined. 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, 2021, and 2020 was \$4,067,843 (4% of the loan portfolio) and \$3,801,174 (3.6% of the loan portfolio), respectively. Additionally, in accordance with various investors' covenants, the Organization is required to maintain an overall minimum allowance for loan losses of at least 5% of the loan portfolio and records an adjustment to the allowance for loan losses as necessary to satisfy this covenant ("covenant adjustment"). The covenant adjustment is assessed based on the overall risk-rated analysis of the loan portfolio and, should the overall allocated allowance for loan losses be below 5%, a covenant adjustment is recorded based on the total allowance for loan losses by product type until the allowance for losses by product type is 5%. During the year ended December 31, 2020, due to continued uncertainty regarding the impacts of COVID-19 and the increase to non-accruing loans, the Board of Directors approved an increase to the loan loss reserve to \$6,000,000 exceeding established investor covenants. In 2021, this was adjusted to 5% (\$5,072,804) of the total loan receivable balance reflecting the Organization's view of credit quality and the impact of COVID-19 on the portfolio.

## NeighborWorks® Capital Corporation

### Notes to Financial Statements December 31, 2021 and 2020

The table below details the Organization's loans by loan type according to their risk rating categories for the years December 31, 2021 and 2020:

December 31, 2021	P-1	P-2	P-3	Questionable	Substandard	Doubtful	Total
Predevelopment	\$ -	\$ 2,285,122	\$ 13,716,049	\$ -	\$ -	\$ -	\$ 16,001,171
Acquisition - land	-	14,801,313	6,759,282	1,304,490	-	-	22,865,085
Bridge	-	-	-	-	-	-	-
Building acquisition	-	835,367	7,749,828	-	-	-	8,585,195
Construction	-	-	947,692	2,242,679	7,840,062	-	11,030,433
Enterprise	-	-	12,757,684	-	-	-	12,757,684
Mezzanine/equity	-	-	-	-	-	-	-
Mini-Permanent	-	6,759,487	2,242,547	1,681,874	-	-	10,683,908
Permanent	-	17,426,041	798,076	1,308,475	-	-	19,532,592
	<u>\$ -</u>	<u>\$ 42,107,330</u>	<u>\$ 44,971,158</u>	<u>\$ 6,537,518</u>	<u>\$ 7,840,062</u>	<u>\$ -</u>	<u>\$ 101,456,068</u>
	P-1	P-2	P-3	Questionable	Substandard	Doubtful	Total
Current	\$ -	\$ 42,107,330	\$ 44,971,158	\$ 4,855,644	-	-	\$ 91,934,132
Past due 31- 60 days	-	-	-	-	-	-	-
Past due 61 - 90 days	-	-	-	-	-	-	-
Past due 90+ days	-	-	-	1,681,874	7,840,062	-	9,521,936
	<u>\$ -</u>	<u>\$ 42,107,330</u>	<u>\$ 44,971,158</u>	<u>\$ 6,537,518</u>	<u>\$ 7,840,062</u>	<u>\$ -</u>	<u>\$ 101,456,068</u>
	P-1	P-2	P-3	Questionable	Substandard	Doubtful	Total
Predevelopment	\$ -	\$ 10,484,749	\$ 4,100,337	\$ -	\$ -	\$ -	\$ 14,585,086
Acquisition - land	-	16,385,251	7,938,531	1,357,269	-	-	25,681,051
Bridge	-	890,000	1,077,969	-	-	-	1,967,969
Building acquisition	-	3,249,311	10,739,325	-	-	-	13,988,636
Construction	-	6,023,408	-	2,242,679	5,008,789	-	13,274,876
Enterprise	-	-	13,254,779	-	-	-	13,254,779
Mezzanine/equity	-	-	1,439,387	-	-	-	1,439,387
Mini-Permanent	70,584	5,183,823	3,903,585	1,686,239	-	-	10,844,231
Permanent	-	6,746,184	2,633,161	-	-	-	9,379,345
	<u>\$ 70,584</u>	<u>\$ 48,962,726</u>	<u>\$ 45,087,074</u>	<u>\$ 5,286,187</u>	<u>\$ 5,008,789</u>	<u>\$ -</u>	<u>\$ 104,415,360</u>
	P-1	P-2	P-3	Questionable	Substandard	Doubtful	Total
Current	\$ 70,584	\$ 48,962,726	\$ 45,087,074	\$ 3,599,948	\$ -	\$ -	\$ 97,720,332
Past due 31- 60 days	-	-	-	-	-	-	-
Past due 61 - 90 days	-	-	-	-	-	-	-
Past due 90+ days	-	-	-	1,686,239	5,008,789	-	6,695,028
	<u>\$ 70,584</u>	<u>\$ 48,962,726</u>	<u>\$ 45,087,074</u>	<u>\$ 5,286,187</u>	<u>\$ 5,008,789</u>	<u>\$ -</u>	<u>\$ 104,415,360</u>



## NeighborWorks® Capital Corporation

### Notes to Financial Statements December 31, 2021 and 2020

The following table presents an analysis of the allowance for loan losses for the years ended December 31, 2021 and 2020:

December 31, 2021	Pre-development	Acquisition - land	Bridge	Building Acquisition	Construction	Enterprise	Mezzanine/Equity	Mini-Permanent	Permanent	Total
Beginning balance	\$ 838,100	\$ 1,475,705	\$ 113,085	\$ 803,826	\$ 762,811	\$ 761,657	\$ 82,712	\$ 623,140	\$ 538,964	\$ 6,000,000
(Recovery) provision for loan losses	(38,042)	(332,451)	(113,085)	(374,566)	538,711	(123,773)	(82,712)	(88,944)	437,666	(177,196)
Write-off	-	-	-	-	(750,000)	-	-	-	-	(750,000)
Recoveries	-	-	-	-	-	-	-	-	-	-
<b>Ending balance</b>	<b>\$ 800,058</b>	<b>\$ 1,143,254</b>	<b>\$ -</b>	<b>\$ 429,260</b>	<b>\$ 551,522</b>	<b>\$ 637,884</b>	<b>\$ -</b>	<b>\$ 534,196</b>	<b>\$ 976,630</b>	<b>\$ 5,072,804</b>
	Pre-development	Acquisition - land	Bridge	Building Acquisition	Construction	Enterprise	Mezzanine/Equity	Mini-Permanent	Permanent	Total
Allowance for loan losses										
Allocated	\$ 463,650	\$ 781,721	\$ -	\$ 249,202	\$ 1,316,574	\$ 382,731	\$ -	\$ 370,654	\$ 503,311	\$ 4,067,843
Covenant adjustment	336,408	361,533	-	180,058	(765,052)	255,153	-	163,542	473,319	1,004,961
<b>Balance per financial statements</b>	<b>\$ 800,058</b>	<b>\$ 1,143,254</b>	<b>\$ -</b>	<b>\$ 429,260</b>	<b>\$ 551,522</b>	<b>\$ 637,884</b>	<b>\$ -</b>	<b>\$ 534,196</b>	<b>\$ 976,630</b>	<b>\$ 5,072,804</b>
Loans										
Impaired loans	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Non-impaired loans	16,001,171	22,865,085	-	8,585,195	11,030,433	12,757,684	-	10,683,908	19,532,592	101,456,068
<b>Balance per financial statements</b>	<b>\$ 16,001,171</b>	<b>\$ 22,865,085</b>	<b>\$ -</b>	<b>\$ 8,585,195</b>	<b>\$ 11,030,433</b>	<b>\$ 12,757,684</b>	<b>\$ -</b>	<b>\$ 10,683,908</b>	<b>\$ 19,532,592</b>	<b>\$ 101,456,068</b>
	Pre-development	Acquisition - land	Bridge	Building Acquisition	Construction	Enterprise	Mezzanine/Equity	Mini-Permanent	Permanent	Total
December 31, 2020										
Beginning balance	\$ 153,158	\$ 723,995	\$ 110,004	\$ 886,058	\$ 262,513	\$ 466,813	\$ 51,853	\$ 503,208	\$ 251,368	\$ 3,408,970
Provision (recovery) for loan losses	684,942	751,710	3,081	(82,232)	500,298	294,844	30,859	956,707	287,596	3,427,805
Write-off	-	-	-	-	-	-	-	(836,775)	-	(836,775)
Recoveries	-	-	-	-	-	-	-	-	-	-
<b>Ending balance</b>	<b>\$ 838,100</b>	<b>\$ 1,475,705</b>	<b>\$ 113,085</b>	<b>\$ 803,826</b>	<b>\$ 762,811</b>	<b>\$ 761,657</b>	<b>\$ 82,712</b>	<b>\$ 623,140</b>	<b>\$ 538,964</b>	<b>\$ 6,000,000</b>
	Pre-development	Acquisition - land	Bridge	Building Acquisition	Construction	Enterprise	Mezzanine/Equity	Mini-Permanent	Permanent	Total
Allowance for loan losses										
Allocated	\$ 420,137	\$ 875,894	\$ 50,139	\$ 426,226	\$ 983,920	\$ 397,643	\$ 43,182	\$ 390,114	\$ 213,918	\$ 3,801,173
Covenant adjustment	417,963	599,811	62,946	377,600	(221,109)	364,014	39,530	233,026	325,046	2,198,827
<b>Balance per financial statements</b>	<b>\$ 838,100</b>	<b>\$ 1,475,705</b>	<b>\$ 113,085</b>	<b>\$ 803,826</b>	<b>\$ 762,811</b>	<b>\$ 761,657</b>	<b>\$ 82,712</b>	<b>\$ 623,140</b>	<b>\$ 538,964</b>	<b>\$ 6,000,000</b>
Loans										
Impaired loans	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Non-impaired loans	14,585,086	25,681,051	1,967,969	13,988,636	13,274,876	13,254,779	1,439,387	10,844,231	9,379,345	104,415,360
<b>Balance per financial statements</b>	<b>\$ 14,585,086</b>	<b>\$ 25,681,051</b>	<b>\$ 1,967,969</b>	<b>\$ 13,988,636</b>	<b>\$ 13,274,876</b>	<b>\$ 13,254,779</b>	<b>\$ 1,439,387</b>	<b>\$ 10,844,231</b>	<b>\$ 9,379,345</b>	<b>\$ 104,415,360</b>

## NeighborWorks® Capital Corporation

### Notes to Financial Statements December 31, 2021 and 2020

In response to the COVID-19 pandemic, the Organization has developed programs for clients who are experiencing business disruptions pursuant to which the Organization may provide loan payment deferrals or interest-only modifications, or new loans with capitalized interest. In accordance with the CARES Act, qualifying loans modified in response to the COVID-19 pandemic will not be considered troubled debt restructurings.

The following tables presents a summary of closed loan modifications or new loans made in response to the COVID-19 pandemic, by loan segment and modification type (interest only or payment deferral) and new COVID-19 loans made with capitalized interest:

December 31, 2021	Principal deferred/interest only		Full payment deferral		Capitalized Interest COVID Response Loans		Total	
	Amount	# of Loans	Amount	# of Loans	Amount	# of Loans	Amount	# of Loans
Predevelopment	\$ -	-	\$ -	-	\$ -	-	\$ -	-
Acquisition - Land	-	-	-	-	-	-	-	-
Bridge	-	-	-	-	-	-	-	-
Building acquisition	2,436,462	1	1,203,000	1	-	-	3,639,462	2
Construction	-	-	-	-	-	-	-	-
Enterprise	550,000	1	-	-	1,270,184	4	1,820,184	5
Mezzanine/equity	-	-	-	-	-	-	-	-
Mini-Permanent	-	-	1,681,874	1	-	-	1,681,874	1
Permanent	-	-	-	-	-	-	-	-
	<b>\$ 2,986,462</b>	<b>2</b>	<b>\$ 2,884,874</b>	<b>2</b>	<b>\$ 1,270,184</b>	<b>4</b>	<b>\$ 7,141,520</b>	<b>8</b>

  

December 31, 2020	Interest Only		Payment Deferral		Capitalized Interest COVID Response Loans		Total	
	Amount	# of Loans	Amount	# of Loans	Amount	# of Loans	Amount	# of Loans
Predevelopment	\$ -	-	\$ -	-	\$ -	-	\$ -	-
Acquisition - Land	-	-	-	-	-	-	-	-
Bridge	-	-	-	-	-	-	-	-
Building acquisition	2,485,306	1	1,953,000	1	-	-	4,438,306	2
Construction	-	-	-	-	-	-	-	-
Enterprise	1,000,000	1	-	-	1,692,279	4	2,692,279	5
Mezzanine/equity	-	-	-	-	-	-	-	-
Mini-Permanent	-	-	1,686,239	1	-	-	1,686,239	1
Permanent	-	-	-	-	-	-	-	-
	<b>\$ 3,485,306</b>	<b>2</b>	<b>\$ 3,639,239</b>	<b>2</b>	<b>\$ 1,692,279</b>	<b>4</b>	<b>\$ 8,816,824</b>	<b>8</b>

The Organization did not have any loan modifications that were considered Troubled Debt Restructurings for the years ended December 31, 2021 and 2020. 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, 2021 and 2020.

#### **Note 5 - 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, 2021, and 2020. There was no gain or loss recognized on the sale of these participation interests. The total balance of loan participations serviced was \$5,895,559 and \$4,474,970 as of December 31, 2021 and 2020, 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, 2021, and 2020, respectively.

## NeighborWorks® Capital Corporation

### Notes to Financial Statements December 31, 2021 and 2020

During the years ended December 31, 2021 and 2020, loan participation interest expense totaling \$318,389 and \$85,810, respectively, was incurred and included as a component of interest income - loans on the accompanying statements of activities. As of the years ended December 31, 2021, and 2020, loan participation interest expense payable was \$22,071 and \$16,961, respectively, and is included as a component of accrued interest on the accompanying statements of financial position.

#### 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 notes 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. During 2021 and 2020, the Organization sought and was granted waivers and modifications of certain covenants related to credit quality. At year end, there were no known covenant compliance issues. The Organization's notes payable and equity equivalent investments consisted of the following as of December 31, 2021, and 2020:

Lender	Total credit facility commitments at 12/31/2021	Maturity date	Schedule repayments				Principal balance at 12/31/2021	Principal balance at 12/31/2020
			Principal		Interest			
			Amount	Due	Annual rate	Due		
<b>Notes payable</b>								
Ally Bank	\$ 10,000,000	8/20/2024	\$ 10,000,000	Maturity	2.50%	Quarterly	\$ 10,000,000	\$ -
Bank of America	8,000,000	12/31/2028	2,000,000	12/24/2022	3.50%	Quarterly	8,000,000	10,000,000
			2,000,000	12/24/2023				
			1,000,000	12/31/2025				
			1,000,000	12/31/2026				
			1,000,000	12/31/2027				
			1,000,000	12/31/2028				
Truist	5,000,000	8/1/2023	-	Maturity	30 day LIBOR +1.75%, 2.5% floor	Monthly	-	-
Capital One Bank	1,000,000	1/31/2022	1,000,000	Maturity	2.00%	Quarterly	1,000,000	1,000,000
Morgan Stanley	10,000,000	6/30/2025	4,000,000	Maturity	Daily floating overnight rate + 2%, 2.15% floor	Monthly	4,000,000	4,000,000
PNC Bank	-	12/19/2021	-	Maturity	3.00%	Monthly	-	2,000,000
PNC Bank	-	12/19/2021	-	Maturity	3.80%	Monthly	-	2,000,000
PNC Bank	4,000,000	12/16/2026	4,000,000	Maturity	3.00%	Monthly	4,000,000	-
PNC Bank	3,500,000	12/16/2026	-	Maturity	WSJ prime rate, 2% floor	Monthly	-	-
TD Bank	7,500,000	8/31/2023	4,000,000	Maturity	1.65%+ 30 Day LIBOR	Monthly	4,000,000	7,500,000
CDFI Fund	488,045	6/23/2024	488,045	Maturity	2.00%	Semi-Annual	488,045	488,045

## NeighborWorks® Capital Corporation

### Notes to Financial Statements December 31, 2021 and 2020

Lender	Total credit facility commitments at 12/31/2021	Maturity date	Schedule repayments				Principal balance at 12/31/2021	Principal balance at 12/31/2020
			Principal		Interest			
			Amount	Due	Annual rate	Due		
CDFI Fund	511,955	6/11/2028	511,955	Maturity	1.95%	Semi-Annual	511,955	511,955
CDFI Fund	950,000	6/6/2029	950,000	Maturity	2.50%	Semi-Annual	950,000	950,000
Deutsche Bank	7,000,000	12/21/2024	4,500,000	Maturity	30 Day LIBOR + 2.30%	Quarterly	4,500,000	4,500,000
Wells Fargo	10,000,000	12/17/2025	-	Maturity	2.25% + 30 Day LIBOR .25% floor	Quarterly	-	5,000,000
The Kresge Foundation	2,000,000	5/29/2022	2,000,000	5/29/2022	1.50%	Quarterly	2,000,000	3,500,000
HSBC Bank	3,000,000	6/30/2026	3,000,000	Maturity	2.70%	Quarterly	3,000,000	3,000,000
US Bank	13,000,000	12/17/2026	5,000,000	Maturity - Borrower may choose to term out outstanding balance at maturity for 2 years, facility would convert to monthly amortizing.	30-day LIBOR +2%	Monthly	5,000,000	6,500,000
Chase	10,000,000	5/24/2024	2,500,000	Maturity	30 day LIBOR +1.9%	Quarterly	2,500,000	-
Atlantic Union	3,000,000	6/30/2023	1,000,000	Maturity	30 day LIBOR + 1.75% with 2.5% floor	Monthly	1,000,000	-
Charles Schwab Bank	10,000,000	12/3/2024	-	Maturity	90-day LIBOR + 1.75% with a floor of 2.5%	Quarterly	-	5,000,000
<b>Total notes payable</b>	<b>108,950,000</b>						<b>50,950,000</b>	<b>55,950,000</b>
<b>Equity equivalent investments (EQ2)</b>								
BBVA EQ2	2,000,000	6/26/2030	2,000,000	Maturity	2.75%	Quarterly	2,000,000	2,000,000
Wells Fargo EQ2	1,000,000	9/19/2022	1,000,000	Maturity	2.00%	Quarterly	1,000,000	1,000,000
Wells Fargo EQ2	1,000,000	12/20/2029	1,000,000	Maturity	2.00%	Quarterly	1,000,000	1,000,000
<b>Total equity equivalent investments</b>	<b>4,000,000</b>						<b>4,000,000</b>	<b>4,000,000</b>
<b>Total notes payable and equity equivalent investments</b>	<b>\$ 112,950,000</b>						<b>\$ 54,950,000</b>	<b>\$ 59,950,000</b>

## NeighborWorks® Capital Corporation

### Notes to Financial Statements December 31, 2021 and 2020

Undrawn commitments on credit facilities at December 31, 2021 and 2020 were \$58,000,000 and \$34,500,000, respectively.

EQ2 investments are fully subordinated, unsecured obligations that carry a fixed interest rate and have a rolling maturity. As of December 31, 2021 and 2020, notes payable included \$4,000,000 of EQ2 investments.

The following schedule lists the maturities of all notes payable and equity equivalent investments at December 31, 2021:

2022	\$ 6,000,000
2023	7,000,000
2024	17,488,045
2025	5,000,000
2026	13,000,000
Thereafter	<u>6,461,955</u>
	<u><u>\$ 54,950,000</u></u>

Unamortized debt issuance costs of \$127,104 and \$70,266 as of December 31, 2021, and 2020, respectively, are reported as a direct deduction from notes payable (see Note 2). Amortization expense for each of the years ended December 31, 2021, and 2020 was \$48,038 and \$30,284, respectively, and is included as a component of interest expense on the accompanying statements of activities.

#### Note 7 - Net assets restricted until first use and until donor release

Net assets restricted until first use as of December 31, 2021, and 2020 are as follows:

	2021			
	12/31/2020	Contributions received	Satisfaction of donor restrictions	12/31/2021
<b><u>Operations</u></b>				
NeighborWorks® America Expendable Grants - Home Depot Award	\$ 24,228	\$ -	\$ -	\$ 24,228
NeighborWorks® America Expendable Grants - Home Depot Award	-	-	-	-
NeighborWorks® America - Match Community Development Financial Institutions Fund Program - Financial Assistance	-	-	-	-
Contributions from Banks and Foundations	<u>75,000</u>	<u>-</u>	<u>-</u>	<u>75,000</u>
Total Operations	<u>99,228</u>	<u>-</u>	<u>-</u>	<u>99,228</u>
<b><u>Lending Activity</u></b>				
NeighborWorks® America Revolving Loan & Capital Projects Fund (Subsequent to Amendment)	-	2,500,000	(2,500,000)	-
Community Development Financial Institutions Fund Program - Rapid Response	-	1,826,265	(1,826,265)	-
Loans written off, approved by NeighborWorks® America for Release of Restrictions	(2,562,525)	-	(750,000)	(3,312,525)
Loan Loss Reserve Provision	<u>8,562,525</u>	<u>-</u>	<u>(177,196)</u>	<u>8,385,329</u>
Total Lending activity	<u>6,000,000</u>	<u>4,326,265</u>	<u>(5,253,461)</u>	<u>5,072,804</u>
Total	<u><u>\$ 6,099,228</u></u>	<u><u>\$ 4,326,265</u></u>	<u><u>\$ (5,253,461)</u></u>	<u><u>\$ 5,172,032</u></u>

## NeighborWorks® Capital Corporation

### Notes to Financial Statements December 31, 2021 and 2020

	2020			
	12/31/2019	Contributions received	Satisfaction of donor restrictions	12/31/2020
<b>Operations</b>				
NeighborWorks® America Expendable Grants - Home Depot Award	\$ 24,228	\$ -	\$ -	\$ 24,228
NeighborWorks® America Expendable Grants - Home Depot Award	-	-	-	-
NeighborWorks® America - Match Community Development Financial Institutions Fund Program - Financial Assistance	100,000	-	(100,000)	-
Contributions from Banks and Foundations	75,000	-	-	75,000
<b>Total Operations</b>	<b>199,228</b>	<b>-</b>	<b>(100,000)</b>	<b>99,228</b>
<b>Lending Activity</b>				
NeighborWorks® America Revolving Loan & Capital Projects Fund (Subsequent to Amendment)	-	2,500,000	(2,500,000)	-
Community Development Financial Institutions Fund Program - Rapid Response	-	-	-	-
Loans written off, approved by NeighborWorks® America for Release of Restrictions	(1,725,750)	-	(836,775)	(2,562,525)
Loan Loss Reserve Provision	5,134,720	-	3,427,805	8,562,525
<b>Total Lending activity</b>	<b>3,408,970</b>	<b>2,500,000</b>	<b>91,030</b>	<b>6,000,000</b>
<b>Total</b>	<b>\$ 3,608,198</b>	<b>\$ 2,500,000</b>	<b>\$ (8,970)</b>	<b>\$ 6,099,228</b>

Net assets restricted until donor release as of December 31, 2021, and 2020 are as follows:

	2021			
	12/31/2020	Contributions received	Reclassification of allowance for loan loss	12/31/2021
NeighborWorks® America Revolving Loan & Capital Projects Fund	\$ 29,578,980	\$ -	\$ -	\$ 29,578,980
Loan Loss Reserve Provision	(8,562,525)	-	177,196	(8,385,329)
<b>Total</b>	<b>\$ 21,016,455</b>	<b>\$ -</b>	<b>\$ 177,196</b>	<b>\$ 21,193,651</b>
	2020			
	12/31/2019	Contributions received	Reclassification of allowance for loan loss	12/31/2020
NeighborWorks® America Revolving Loan & Capital Projects Fund	\$ 29,578,980	\$ -	\$ -	\$ 29,578,980
Loan Loss Reserve Provision	(5,134,720)	-	(3,427,805)	(8,562,525)
<b>Total</b>	<b>\$ 24,444,260</b>	<b>\$ -</b>	<b>\$ (3,427,805)</b>	<b>\$ 21,016,455</b>

## NeighborWorks® Capital Corporation

### Notes to Financial Statements December 31, 2021 and 2020

#### Note 8 - Loan commitments - NeighborWorks® America affiliates

As of December 31, 2021, and 2020, the Organization has committed to make loans to various NeighborWorks® America affiliates totaling \$29,627,862 and \$40,841,944, respectively.

#### Note 9 - Lease obligations

On July 3, 2008, the Organization entered into a non-cancelable, five-year operating lease for office space in Silver Spring, Maryland 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. On November 28, 2018, a third amendment to the lease was executed further extending the lease for six months until August 31, 2019. On April 19, 2019, a fourth amendment to the lease was executed extending the lease for seven years until May 31, 2027. The lease amendment expands the space and contains escalation clauses and charges for other costs related to the space. The extended lease commenced on January 21, 2020, with a base monthly rent of \$10,664. Monthly rent payments were fully abated from January 21, 2020, through May 31, 2020. Beginning on June 1, 2020, base monthly rent was \$10,664. The Organization leased office space in California that was cancelled in 2020. In 2021, the Organization entered into a lease for office space in Florida commencing on January 3, 2022 and extending for six months until July 3, 2022.

Future minimum rent payments due under the non-cancelable lease as of December 31, 2021, are summarized as follows:

2022	\$	135,103
2023		138,818
2024		142,636
2025		146,558
2026		150,589
Thereafter		64,471
		<hr/>
	\$	778,175
		<hr/> <hr/>

Rent expense for the years ended December 31, 2021, and 2020 was \$134,147 and \$128,647, respectively, and is reported as Occupancy expense on the accompanying statements of functional expenses.

#### Note 10 - Pension plan

During the years ended December 31, 2021 and 2020, the Organization maintained a defined contribution pension plan (the "plan") pursuant to section 401(k) of the Internal Revenue Code. Employer contributions to the plan during the years ended December 31, 2021 and 2020 totaled \$103,912 and \$99,140, respectively, and are included as a component of salaries and benefits on the accompanying statements of functional expenses.

#### Note 11 - 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, 2021 and 2020, the Organization had three and six loans outstanding, respectively, totaling \$2,170,185 and \$5,036,717, respectively, to such entities or their affiliates.

## NeighborWorks® Capital Corporation

### Notes to Financial Statements December 31, 2021 and 2020

#### Note 12 - Available lending capital

The Organization's available lending capital consists of unsecured loans from financial institutions, government agencies and foundations combined with net assets donor restricted until first use and net assets restricted until donor release (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, 2021 and 2020 is as follows:

	<u>2021</u>	<u>2020</u>
Notes payable and EQ2s	\$ 54,950,000	\$ 59,950,000
Undrawn credit facility commitments	58,000,000	34,500,000
Board designated - lending capital	21,531,623	17,201,358
Restricted until donor release	<u>21,193,651</u>	<u>21,016,455</u>
 Total available lending capital	 <u>\$ 155,675,274</u>	 <u>\$ 132,667,813</u>

As of December 31, 2021 and 2020, total lending capital deployed as loans receivable, net of the allowance for loan losses, was \$96,383,264 and \$98,415,360, respectively.



## **Supplementary Information**

**NeighborWorks® Capital Corporation**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended December 31, 2021**

Federal Grantor/Pass-through Grantor/ Program or Cluster Title	Federal Assistance Listing Number	Pass-Through Entity Identifying Number	Provided to Subrecipients	Total Federal Expenditures
U.S. Department of Treasury				
Passed through NeighborWorks™ America Neighborhood Reinvestment Corporation Act				
Capital Grant Funds	21.000	N/A	\$ -	\$ 39,728,230
			-	39,728,230
Community Development Financial Institutions Fund Program				
Rapid Response Program	21.024		-	1,826,265
Loan Program	21.020		-	1,950,000
			-	3,776,265
Total Expenditures of Federal Awards			\$ -	\$ 43,504,495

The accompanying notes are an integral part of this schedule.

**NeighborWorks® Capital Corporation**

**Notes to Schedule of Expenditures of Federal Awards  
December 31, 2021**

**Note 1 - Basis of presentation**

The accompanying schedule of expenditures of federal awards includes the federal award activity of NeighborWorks® Capital Corporation under programs of the federal government for the year ended December 31, 2021. The information in the schedule of expenditures of federal awards (the "Schedule") is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Because the Schedule presents only a selected portion of the operations of NeighborWorks® Capital Corporation, it is not intended to and does not present the financial position, changes in net assets, or cash flows of NeighborWorks® Capital Corporation.

**Note 2 - Summary of significant accounting policies**

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. NeighborWorks® Capital Corporation has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

**Note 3 - U.S. Department of Treasury Community Development Financial Institutions Fund - Loan Program**

NeighborWorks® Capital Corporation has received three loans directly from the U.S. Department of Treasury Community Development Financial Institutions ("CDFI") Fund Program. The loan balance outstanding at the beginning of the year and loans made during the year are included in the federal expenditures presented in the Schedule. The balance of loans outstanding at December 31, 2021 consists of:

<u>CFDA Number</u>	<u>Program Name</u>	<u>Outstanding Balance at December 31, 2021</u>
21.020	CDFI Fund - Loan Program	\$ 1,950,000

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

To the Board of Directors  
NeighborWorks® Capital Corporation

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of NeighborWorks® Capital Corporation, which comprise the statement of financial position as of December 31, 2021, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements and have issued our report thereon dated April 27, 2022.

#### Internal Control over Financial Reporting

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

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a 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. 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 or significant deficiencies 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 from 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 financial statements. 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*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity'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.

*CohnReznick LLP*

Bethesda, Maryland  
April 27, 2022

Independent Auditor's Report on Compliance for Each Major Federal Program and Report  
on Internal Control over Compliance in Accordance with the Uniform Guidance

To the Board of Directors  
NeighborWorks® Capital Corporation

Report on Compliance for Each Major Federal Program

*Opinion on Each Major Federal Program*

We have audited NeighborWorks® Capital Corporation's compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of NeighborWorks® Capital Corporation's major federal programs for the year ended December 31, 2021. 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.

In our opinion, NeighborWorks® Capital Corporation complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2021.

*Basis for Opinion on Each Major Federal Program*

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America ("GAAS"); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States ("*Government Auditing Standards*"); and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of NeighborWorks® Capital Corporation and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of NeighborWorks® Capital Corporation 's compliance with the compliance requirements referred to above.

*Responsibilities of Management for Compliance*

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to NeighborWorks® Capital Corporation 's federal programs.

### *Auditor's Responsibilities for the Audit of Compliance*

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on NeighborWorks® Capital Corporation's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about NeighborWorks® Capital Corporation's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding NeighborWorks® Capital Corporation's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of NeighborWorks® Capital Corporation's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of NeighborWorks® Capital Corporation's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

### Report on 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 a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a 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 attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*CohnReznick LLP*

Bethesda, Maryland  
April 27, 2022



**NeighborWorks® Capital Corporation**

**Schedule of Findings and Questioned Costs  
December 31, 2021**

**Section A - Summary of Auditor's Results**

Financial Statements

- |  |                   |
|--|-------------------|
| 1. Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP | <u>Unmodified</u> |
| 2. Internal control over financial reporting:  |                   |
| a. Material weakness(es) identified?   | No                |
| b. Significant deficiency(ies) identified?   | None reported     |
| 3. Noncompliance material to the financial statements noted?   | No                |

Federal Awards

- |   |                   |
|---|-------------------|
| 1. Internal control over major federal programs:  |                   |
| a. Material weakness(es) identified?  | No                |
| b. Significant deficiency(ies) identified?  | None reported     |
| 2. Type of auditor's report issued on compliance for major federal programs                           | <u>Unmodified</u> |
| 3. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? | No                |

4. Identification of major federal programs

Assistance Listing Number(s)

Name of Federal Program

#21.000

Neighborhood Reinvestment Corporation Act

#21.024

Community Development Financial Institutions Rapid Response Program

- |  |             |
|--|-------------|
| 5. Dollar threshold used to distinguish between Type A and Type B programs | \$1,305,135 |
| 6. Auditee qualified as low-risk auditee?                                  | Yes         |

**Section B - Financial Statement Audit Findings**

No matters were reported.

**Section C - Federal Award Findings**

No matters were reported.



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