# Neighborhood Concepts, Inc. and Subsidiaries

Consolidated Financial Report
December 31, 2022

## Contents

HALEY & WOODS

## Independent Auditor's Report

Board of Directors
Neighborhood Concepts, Inc. and Subsidiaries

### Report on the Audit of the Consolidated Financial Statements

**Opinion**

We have audited the accompanying consolidated financial statements of Neighborhood Concepts, Inc. and its subsidiaries (the Organization), which comprise the consolidated statement of financial position as of December 31, 2022, the related consolidated statements of activities, changes in net assets, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements (collectively, the financial statements).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as of December 31, 2022, and the changes in their net assets and their cash flows for the year 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). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization 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 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 the Organization's ability to continue as a going concern within one year after the date that the financial statements are issued or available to be 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.

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In performing an audit in accordance with GAAS, 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 the Organization'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 the Organization'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 audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information is presented for purposes of additional analysis rather than to present the financial position, results of operations and cash flows of the individual companies and is not a required part of the consolidated 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 consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated financial statements as a whole.

Haley & Woods, LLP

Birmingham, Alabama
May 10, 2023

**Neighborhood Concepts, Inc. and Subsidiaries**

**Consolidated Statement of Financial Position**
**December 31, 2022**

| | |
|---|---|
| **Assets** | |
| Current assets: | |
| Cash | $ 2,193,317 |
| Certificate of deposit | 601,936 |
| Accounts receivable | 126,504 |
| Other current assets | 2,812 |
| **Total current assets** | 2,924,569 |
| Property and equipment, net | 350,728 |
| Other assets: | |
| Developer fees receivable | 1,123,683 |
| Loan Fund loans receivable, net | 5,669,610 |
| Notes receivable – related parties, net | 3,127,426 |
| Notes receivable – unrelated parties, net | 43,984 |
| **Total other assets** | 9,964,703 |
| **Total assets** | $ 13,240,000 |
| **Liabilities and Net Assets** | |
| Current liabilities: | |
| Accounts payable | $ 142,894 |
| Current portion of long-term debt | 2,456,241 |
| **Total current liabilities** | 2,599,135 |
| Long-term liabilities: | |
| Long-term debt, net of current portion | 4,213,174 |
| Investment deficit in partnerships | 34,479 |
| **Total long-term liabilities** | 4,247,653 |
| **Total liabilities** | 6,846,788 |
| Net assets: | |
| Without donor restrictions | 6,296,006 |
| With donor restrictions | 187,111 |
| **Total net assets** | 6,483,117 |
| Non-controlling interest in subsidiary | (89,905) |
| **Consolidated net assets** | 6,393,212 |
| **Total liabilities and net assets** | $ 13,240,000 |

See notes to consolidated financial statements.

**Neighborhood Concepts, Inc. and Subsidiaries**

**Consolidated Statement of Activities**
**Year Ended December 31, 2022**

| | |
|---|---|
| Changes in net assets without donor restrictions: | |
| Revenue: | |
| Asset management fees | $ 89,041 |
| Contributions | 1,500 |
| Developer and consulting fees | 706,030 |
| Grant revenue | 28,529 |
| Loan fund program revenue | 451,638 |
| Miscellaneous | 25,335 |
| Rental income | 24,150 |
| Net assets released from restrictions | 670,207 |
| **Total revenue** | 1,996,430 |
| Operating expenses: | |
| Program services | 783,013 |
| Supporting services | |
| General and administrative | 103,457 |
| Fundraising | 7,566 |
| **Total expenses** | 894,036 |
| **Revenue in excess of operating expenses** | 1,102,394 |
| Other income (expenses): | |
| Income from investments in partnerships | 138,690 |
| Interest income | 5,154 |
| Forgiveness of debt | 1,000,000 |
| Interest expense | (93,951) |
| **Total other income (expenses)** | 1,049,893 |
| **Increase in net assets without donor restrictions** | 2,152,287 |
| Changes in net assets with donor restrictions: | |
| Grant revenue | 25,000 |
| Net assets released from restrictions | (670,207) |
| **Decrease in net assets with donor restrictions** | (645,207) |
| **Increase in net assets** | 1,507,080 |
| Net loss attributable to non-controlling interest | 8 |
| **Increase in net assets attributable to Neighborhood Concepts, Inc. and Subsidiaries** | $ 1,507,088 |

See notes to consolidated financial statements.

**Neighborhood Concepts, Inc. and Subsidiaries**

**Consolidated Statement of Changes in Net Assets**
**Year Ended December 31, 2022**

| | Net Assets Attributable to Neighborhood Concepts, Inc. and Subsidiaries | Non-controlling Interest in Subsidiary | Consolidated Net Assets |
|---|---|---|---|
| Net assets, December 31, 2021 | $ 4,976,029 | $ (89,897) | $ 4,886,132 |
| Increase in net assets | 1,507,088 | (8) | 1,507,080 |
| Net assets, December 31, 2022 | $ 6,483,117 | $ (89,905) | $ 6,393,212 |

See notes to consolidated financial statements.

**Neighborhood Concepts, Inc. and Subsidiaries**

**Consolidated Statement of Functional Expenses**
**Year Ended December 31, 2022**

| | Program Services | | | | Supporting Services | | |
|---|---|---|---|---|---|---|---|
| | Housing Program | Advocacy | Economic Development | Total Program Services | General and Administrative | Fundraising | Total |
| Expenses: | | | | | | | |
| Accounting | $ 9,388 | $ 2,987 | $ 18,085 | $ 30,460 | $ 2,987 | $ - | $ 33,447 |
| Consulting and contract | 145 | 145 | 52,168 | 52,458 | 145 | - | 52,603 |
| Dues and subscriptions | 1,142 | 1,865 | 8,060 | 11,067 | 739 | - | 11,806 |
| Equipment rental | 631 | 631 | 1,893 | 3,155 | 631 | - | 3,786 |
| Grants | - | - | 34,705 | 34,705 | - | - | 34,705 |
| Insurance | 4,103 | 4,103 | 12,306 | 20,512 | 4,103 | - | 24,615 |
| Legal | - | - | 9,300 | 9,300 | - | - | 9,300 |
| Loan fund program expenses | - | - | 8,337 | 8,337 | - | - | 8,337 |
| Marketing | 677 | 93 | 610 | 1,380 | 93 | - | 1,473 |
| Meetings | 1,183 | 261 | 2,412 | 3,856 | 521 | - | 4,377 |
| Miscellaneous | 132 | 26 | 25,402 | 25,560 | 1,438 | - | 26,998 |
| Office supplies | 1,447 | 819 | 2,697 | 4,963 | 1,085 | - | 6,048 |
| Payroll taxes | 6,600 | 1,985 | 11,085 | 19,670 | 5,320 | - | 24,990 |
| Provision for loan losses | - | - | 218,739 | 218,739 | - | - | 218,739 |
| Repairs and maintenance | 1,246 | 1,246 | 3,740 | 6,232 | 1,711 | - | 7,943 |
| Resident services | 7,921 | - | - | 7,921 | 500 | - | 8,421 |
| Salary, wages, and benefits | 100,396 | 29,165 | 160,620 | 290,181 | 68,091 | 7,566 | 365,838 |
| Taxes and licenses | 4,455 | 154 | 3,925 | 8,534 | 3,958 | - | 12,492 |
| Telephone and communication | 2,034 | 1,859 | 6,140 | 10,033 | 1,858 | - | 11,891 |
| Training and education | 1,534 | 145 | 3,265 | 4,944 | 155 | - | 5,099 |
| Travel | 5,334 | 379 | 2,481 | 8,194 | 201 | - | 8,395 |
| Utilities | 456 | 456 | 1,368 | 2,280 | 456 | - | 2,736 |
| **Total before depreciation** | 148,824 | 46,319 | 587,338 | 782,481 | 93,992 | 7,566 | 884,039 |
| Depreciation | - | - | 532 | 532 | 9,465 | - | 9,997 |
| **Total expenses** | $ 148,824 | $ 46,319 | $ 587,870 | $ 783,013 | $ 103,457 | $ 7,566 | $ 894,036 |

See notes to consolidated financial statements.

**Neighborhood Concepts, Inc. and Subsidiaries**

**Consolidated Statement of Cash Flows**
**Year Ended December 31, 2022**

| | |
|---|---|
| Cash flows from operating activities: | |
| Change in net assets | $ 1,507,080 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | |
| Depreciation | 9,997 |
| Provision for loan losses (Loan Fund) | 218,739 |
| Interest accrued on notes receivable – related parties | (3,365) |
| Gain from investments in partnerships | (138,690) |
| Forgiveness of debt | (1,000,000) |
| (Increase) decrease in: | |
| Accounts receivable | (43,579) |
| Grant receivable | 227,500 |
| Other current assets | (2,812) |
| Developer fees receivable | (453,107) |
| (Decrease) increase in: | |
| Accounts payable | 81,804 |
| **Net cash provided by operating activities** | 403,567 |
| Cash flows from investing activities: | |
| Purchases of certificates of deposit | (601,936) |
| Issuance of Loan Fund loans receivable | (4,067,870) |
| Payments received on Loan Fund loans receivable | 1,266,625 |
| Issuance of notes receivable – related parties | (360,000) |
| Distributions received from investments in partnerships | 139,705 |
| **Net cash used in investing activities** | (3,623,476) |
| Cash flows from financing activities: | |
| Proceeds from the issuance of long-term debt | 3,838,389 |
| Principal payments on long-term debt | (468,128) |
| **Net cash provided by financing activities** | 3,370,261 |
| **Increase in cash** | 150,352 |
| Cash at beginning of year | 2,042,965 |
| Cash at end of year | $ 2,193,317 |
| Supplemental disclosure of cash flow information: | |
| Cash paid for interest | $ 90,557 |

See notes to consolidated financial statements.

## Note 1. Nature of Organization and Significant Accounting Policies

**Nature of organization:** Neighborhood Concepts, Inc. (the Parent or NCI) was formed as a non-profit organization in 1988. NCI's wholly owned subsidiaries are described below. Neighborhood Concepts, Inc. and Subsidiaries' (the Organization) mission is to strengthen communities through the creation of affordable housing and the advancement of economic opportunities for underserved people and communities. The Organization is supported primarily by grants and fee income from its affordable housing development and revolving loan fund activity. Since 1997, the Organization has met the requirements to be considered a Community Housing Development Organization (CHDO) and is eligible to apply to the City of Huntsville Development Department for HOME Investment Partnership program funds under the CHDO set-aside. The Organization is also recognized as a CHDO by Alabama Housing Finance Authority in Madison County.

NCI's wholly owned subsidiaries include North Alabama Revolving Loan Fund, LLC (Loan Fund), a U.S. Treasury certified Community Development Financial Institution (CDFI) that provides business loans to support economic development in north Alabama. NCI's wholly owned subsidiaries also include the following real estate entities that invest in for-profit affordable housing limited partnerships and limited liability companies:

- Franklin Housing, LLC
- Grove at Indian Creek, LLC
- HHD Meadow Oaks GP, Inc. (dissolved in July 2022)***
- NBA, Inc.
- NCI Aiken Housing, LLC
- NCI Ashley Villas, LLC
- NCI Clarkston, LLC
- NCI Cotton Run, LLC
- NCI Countryside Villas, LLC
- NCI Flint River, LLC
- NCI Greenbriar, LLC
- NCI Grove at Indian Creek, LLC
- NCI Hounds Run, LLC
- NCI Indian Creek, LLC
- NCI LaFayette Village, LLC
- NCI Old Monrovia, Inc. (invested in ECG Monrovia, LP as co-general partner in March 2022)
- NCI Pine Ridge, LLC
- NCI Quail Run, LLC
- NCI Ridge Chase, LLC (dissolved in July 2022)***
- NCI Rolling Hills, LLC (dissolved in July 2022)***
- NCI Timberline, LLC
- Spring Branch, LLC

***Entity was dissolved during 2022 after the sale of the properties and liquidation of the partnerships in which the entity was invested.

The Organization is also a 79% managing member in Mallard Pointe Partners, LLC. Mallard Pointe Partners, LLC, as its sole investment, is a 0.01% non-controlling general partner in Mallard Pointe, LP, a for-profit low income housing limited partnership. The 21% not owned by the Organization is reflected as non-controlling interest in subsidiary as a component of net assets in the accompanying consolidated statement of financial position.

## Note 1. Nature of Organization and Significant Accounting Policies (Continued)

The Organization is also a 50% member in Common Ground LLC, a developer entity, which is the developer of record for Cottages at Indian Creek, LLC (Cottages). Cottages developed an apartment complex to own and operate. Common Ground, LLC was active in Cottages development activities during 2022 and earned developer fees, as more fully described in Note 4.

All significant inter-organizational transactions and balances have been eliminated in the consolidated financial statements.

**Basis of accounting:** The consolidated financial statements of the Organization have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP).

**Basis of presentation:** For financial statement presentation, the Organization has adopted Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-205, Not-For-Profit Entities: Presentation of Financial Statements. Under FASB ASC 958-205, the Organization is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions. In addition, the Organization is required to present a statement of cash flows. As permitted by FASB ASC 958-205, the Organization does not use fund accounting.

**Use of estimates:** The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Revenue and Revenue recognition:** The Organization receives support from asset management fees, contributions, developer and consulting fees, grants, loan fund program revenue, consisting of interest earned on loans receivable and loan fees, and rental income. Amounts received for asset management fees and consulting are recognized during the period of service. Developer fees are recognized when performance obligations in the related limited partnership agreements are met. Contributions are recognized when the donor makes a commitment for the promise to give to the Organization that is, in substance, unconditional. 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 substantially met. Grants are recorded and recognized as revenue when the grant funds are received or unconditionally pledged if there is no performance requirement in the grant agreement. At that time, any grantor restrictions are considered. In accordance with industry guidance and prevailing practice for CDFI's, revenue from CDFI and other lending program grants are recognized as revenue and support when the funds are awarded. For any grant agreements that include performance obligations, the Organization determines when the performance obligation(s) will be met (i.e., at a certain point in time or over time). Revenue is recognized accordingly when the related performance obligation is met. Funds from grants with a performance requirement which are received in advance are recorded as deferred revenue, and then recognized as revenue when performance requirements are met. Interest income on loans is accrued on the principal outstanding at the loans' stated interest rate. Rental revenue is principally derived from tenants through rental payments provided under operating leases. Rental income is recognized for unit rentals as it accrues on a straight-line basis over the terms of the related leases. Tenant leasing arrangements are generally one-year lease terms. Advance receipts of rental income are deferred and classified as liabilities until earned.

## Note 1. Nature of Organization and Significant Accounting Policies (Continued)

**Recognition of donor restrictions:** Grants that are restricted by the grantor or donor for specific purposes are reported as an increase in net assets with donor restrictions. When a restriction expires or is satisfied, net assets with donor restrictions are reclassified to net assets without donor restrictions.

Contributions of assets that donors have stipulated must be maintained in perpetuity are also classified as net assets with donor restrictions. The Organization has no net assets with donor restrictions that must be maintained in perpetuity as of December 31, 2022.

**Cash and cash equivalents:** For purposes of the consolidated statement of cash flows, the Organization considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents. The Organization had no cash equivalents at December 31, 2022.

**Certificate of deposit:** The Organization holds a non-brokered/non-negotiable certificate of deposit with Trustmark National Bank as collateral for a line of credit, which is stated at cost plus accrued interest. The certificate bears interest at 3.92% and matures in December 2023, with penalties for early withdrawal. Any penalties for early withdrawal would not have a material effect on the financial statements.

**Accounts and developer fees receivable:** Receivables are carried at original invoice amount or contract amount less an estimate made for doubtful receivables based on a review of all outstanding amounts on a monthly basis. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Receivables are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded when received. Management determined that an allowance for doubtful accounts was not necessary as of December 31, 2022.

**Property and equipment:** It is the Organization's policy to capitalize property and equipment costs over $1,000. Lesser amounts are expensed. Purchased property and equipment are capitalized at cost. Donations of property and equipment are recorded as contributions at their estimated fair value. Such donations are reported as unrestricted contributions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies net assets with donor restrictions to net assets without donor restrictions at that time.

Property and equipment are depreciated using the straight-line method over the estimated useful lives of the assets generally as follows:

| | Years |
|---|---|
| Buildings | 40 |
| Building improvements | 10-25 |
| Furniture and equipment | 5-10 |
| Computer equipment and software | 3-5 |

**Loan Fund loans receivable and allowance for loan losses:** Loan Fund loans receivable are stated at the principal amount outstanding, net of deferred loan fees, if any, and allowance for loan losses. Interest income on loans is accrued on the principal outstanding at the loans' stated interest rate. Direct origination costs, if significant, would be deferred and amortized using the effective interest method over the respective lives of the related loans and recorded as an adjustment to loan fees revenue. At December 31, 2022, direct origination costs were not deemed significant.

## Note 1. Nature of Organization and Significant Accounting Policies (Continued)

When payment is 90 days late, the loan is placed on non-accrual status, meaning that interest no longer accrues on the loan balance and the next payment will be directed to outstanding principal. Once enough payments are made to bring the loan to a current status, the loan is returned to an accrual status. At December 31, 2022, there was one borrower that was placed on non-accrual status.

The allowance for loan losses is a valuation reserve that management believes will be adequate to absorb possible losses on existing loans that may become uncollectible. It is established through a provision for loan losses charged to expense. In addition, loans deemed to be uncollectible are charged against the allowance. Subsequent recoveries, if any, are credited to the allowance. The allowance is based upon management's periodic review of the collectability of loans and is maintained at a level believed adequate by management to absorb estimated potential losses after considering changes in internal and external factors, past loss experience, the nature and volume of the loan portfolio and current economic conditions.

The allowance consists of specific and general components. The specific component relates to loans that would be classified impaired. For such loans, an allowance would be established when the discounted cash flows of the impaired loan is lower than the carrying value of that loan. The general component covers loans not deemed impaired and would be based on historical loss experience adjusted for qualitative factors, including non-accruals, economic conditions and industry trends. In the absence of historical losses, management determines the allowance based upon Loan Fund's risk rating system, which considers, among other factors, borrower financial condition and other risks impacting the loan portfolio. As of December 31, 2022, no Loan Fund loans receivable were considered impaired.

A loan would be considered impaired when, based on current information and events, it is probable that Loan Fund would be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, if any, and the probability of collecting scheduled principal and interest payments when due. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is generally measured on a case-by-case basis using the fair value of the collateral less estimated costs to collect, if the loan is collateral dependent, and the present value of expected future cash flows discounted at the loan's effective interest rate.

Loan Fund at all times maintains a minimum cumulative reserve of 7% of the entire outstanding loan portfolio, even when the individual loans are reserved at less than 7%. As of December 31, 2022, the allowance for loan losses totaled $426,745.

**NCI notes receivable – related and unrelated parties:** NCI notes receivable from related and unrelated party affordable housing partnerships and limited liability companies are stated at unpaid principal balances plus accrued interest, net of an allowance for loan losses. As of December 31, 2022, the allowance for loan losses totaled $983,363. Interest on performing loans is recognized over the term of the loan and is calculated using the simple-interest method on principal amounts outstanding. The risk of loss on notes receivable is the difference between the loan amount and the market value of the collateral at the time of loan loss determination. Management determines the allowance for loan losses on notes receivable by identifying troubled notes and by reviewing borrower financial information. Notes receivable are written off when deemed uncollectible.

## Note 1. Nature of Organization and Significant Accounting Policies (Continued)

**Impairment of assets:** In accordance with FASB ASC 360-10-35, Impairment or Disposal of Long-Lived Assets, the Organization records impairment losses on long-lived assets used in operations when events and circumstances indicate that the assets might be impaired and the undiscounted cash flows estimated to be generated by those assets are less than the carrying amounts of those assets. If impairment exists, the amount of such impairment is calculated based on the estimated fair value of the asset. The Organization continually evaluates its investment in long-lived assets used in operations for impairment. As further described in Note 6, the carrying value of certain notes receivable was impaired in prior years.

**Investments in partnerships:** In accordance with FASB ASC 970-323, Real Estate-General, Investments – Equity Method and Joint Ventures, a non-profit organization with a more than minor interest in a for-profit real estate partnership, a for-profit real estate limited liability company, or similar for-profit real estate entity shall report its non-controlling interest in such an entity using the equity method. As such, the Organization's investments in partnerships are accounted for under the equity method, in which the Organization's share of net income or loss from the partnerships are directly reflected in the consolidated statement of activities, and the investment accounts are adjusted for its share of the net income or loss, and any additional investment in or distributions from the partnerships.

**Functional expenses:** The costs of providing various programs and other activities have been summarized on a functional basis in the consolidated statement of activities and in the consolidated statement of functional expenses. Accordingly, certain costs have been allocated among the program services and general and administrative services benefited based on a percentage method.

**Income taxes:** NCI is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code except for net revenue derived from any unrelated business activities. NCI is not a private foundation. NCI files a tax return in the United States (U.S.) federal jurisdiction.

NCI's subsidiaries, with the exception of the entities listed below, are limited partnerships and limited liability companies and have elected to be treated as pass-through entities for income tax purposes and, as such, are not subject to income taxes. Franklin Housing, LLC, HHD Meadow Oaks GP, Inc., NBA, Inc., NCI Aiken Housing, LLC, NCI Clarkston, LLC, NCI Flint River, LLC, NCI Grove at Indian Creek, LLC, NCI Indian Creek, LLC, NCI Old Monrovia, Inc. and Spring Branch, LLC have elected to be taxed as corporations for federal income tax purposes. All related taxes paid by these corporations, if any, are included in taxes and licenses on the accompanying consolidated statement of activities. The other subsidiaries' taxable income or loss and tax credits are allocated to partners/members in accordance with their respective percentage ownership and are reported by their owners on their respective income tax returns. Therefore, no provision or liability for income taxes for these subsidiaries has been included in the consolidated financial statements.

The Board of Directors evaluated the Organization's tax position and concluded that the Organization has not entered into any events or transactions that would disqualify its tax-exempt status or has not taken any uncertain tax positions that would cause the Organization to incur income taxes or penalties at the entity level. With few exceptions, the Organization is no longer subject to U.S. federal tax examinations by tax authorities for years before 2019.

**Recent accounting pronouncements:** In June 2016, the FASB issued ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which creates a new credit impairment standard for financial assets measured at amortized cost and available-for-sale debt securities. The ASU requires financial assets measured at amortized cost (including loans, trade receivables and held-to-maturity debt securities) to be presented at the net amount expected to be collected, through an allowance for credit losses that are expected to occur over the remaining life of the

### Note 1. Nature of Organization and Significant Accounting Policies (Continued)

asset, rather than incurred losses. The ASU requires that credit losses on available-for-sale debt securities be presented as an allowance rather than as a direct writedown. The measurement of credit losses for newly recognized financial assets (other than certain purchased assets) and subsequent changes in the allowance for credit losses are recorded in the statement of income as the amounts expected to be collected change. The ASU is effective for fiscal years beginning after December 15, 2022. The Organization is currently evaluating the impact of adopting this new guidance on its consolidated financial statements and does not expect the impact to be significant.

In September 2020, the FASB issued ASU 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, which requires a not-for-profit entity to present contributed nonfinancial assets in the statement of activities as a line item that is separate from contributions of cash or other financial assets. ASU 2020-07 also requires additional qualitative and quantitative disclosures about contributed nonfinancial assets received, disaggregated by category. This ASU was effective for the Organization beginning on January 1, 2022. The adoption of ASU 2020-07 did not have a significant impact on the Organization's consolidated financial statements.

**Subsequent events:** Subsequent events have been evaluated through May 10, 2023 (See note 15), which is the date the consolidated financial statements were available for issuance.

### Note 2. Liquidity

As of December 31, 2022, the Organization had financial assets available within one year of the statement of financial position date for general expenditure as follows:

| | | |
|---|---|---|
| Cash | $ | 2,193,317 |
| Certificates of deposit | | 601,936 |
| Accounts receivable | | 126,504 |
| | | 2,921,757 |
| Less those unavailable for general expenditures within one year, due to: | | |
| Donor-imposed restrictions | | (187,111) |
| | $ | 2,734,646 |

The Organization has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, operating revenue generated throughout the year is budgeted to cover general operating expenditures. To help manage unanticipated liquidity needs, the Organization has a committed line of credit totaling $600,000, which it could draw upon for operations.

### Note 3. Property and Equipment

Property and equipment from continuing operations and discontinued operations consisted of the following as of December 31, 2022:

| | | |
|---|---|---|
| Land | $ | 25,000 |
| Buildings and improvements | | 336,353 |
| Furniture and equipment | | 8,376 |
| Computer equipment and software | | 5,920 |
| Less accumulated depreciation | | (24,921) |
| Total | $ | 350,728 |

## Note 4. Developer Fees Receivable and Related Revenue

The following summarizes developer fees receivable and related revenue due to the Organization, and are collateralized by the underlying rental properties, as of December 31, 2022:

| | |
|---|---|
| **Spring Branch, Ltd.:** | |
| The Organization entered into an agreement with Spring Branch, Ltd., to be the developer for Spring Branch Apartments, a 70-unit multifamily apartment complex. The Organization is a non-controlling general partner through its wholly owned subsidiary, Spring Branch, LLC. The total developer fee was $908,533, all of which was earned in 2013 when the project was completed. A payment of $35,000 was received in 2022. The outstanding balance of the fee is required to be repaid solely from available cash flow, as defined, or proceeds from the sale or refinancing of all or any portion of the real property owned by Spring Branch, Ltd. | 103,909 |
| **Old Monrovia:** | |
| The Organization provided developer consulting services to ECG Old Monrovia, LP, which is constructing a 198-unit apartment complex. The Organization is a non-controlling general partner through its wholly owned subsidiary, NCI Old Monrovia, Inc. NCI's portion of developer consulting service fees earned during 2022 were $673,764. The outstanding balance of the fee is required to be repaid from capital contributions and any balance from available cash flow, as defined, or proceeds from the sale or refinancing of all or any portion of the real property owned by ECG Old Monrovia, LP. | 563,364 |
| **Cottages at Indian Creek, LLC:** | |
| The Organization is a member of Common Ground, LLC that provided developer consulting services to Cottages at Indian Creek, LLC, which owns and operates a 56-unit apartment complex. The Organization is the non-controlling managing member through its wholly owned subsidiary, NCI Indian Creek, LLC. NCI's portion of developer consulting services earned during 2022 was $2,266. A payment of $52,355 was received in 2022. The outstanding balance of the fee is required to be repaid from the final capital contributions and any balance from available cash flow, as defined, or proceeds from the sale or refinancing of all or any portion of the real property owned by Cottages at Indian Creek, LLC. | 456,410 |
| Total | $ 1,123,683 |

## Note 5. Loan Fund Loans Receivable

Through its wholly owned subsidiary, Loan Fund, the Organization has several secured loans receivable from small businesses with maturity dates ranging from one year to less than 12 years and fixed interest rates ranging from 3% to 12% as of December 31, 2022. Loan Fund uses a risk rating system to establish interest rates for each loan. The rate is indexed to Wall Street Journal Prime plus mark-up based on risk rating score; as prime changes so does the range of rates. Principal and interest payments are due during the term of the loans with lump sum repayments of any remaining principal due upon maturity. Interest on these loans is calculated using the simple interest method on principal amounts outstanding. All the notes are personally guaranteed by the owners of the small businesses. $3,840,439 was receivable in one to five years and $2,255,916 was receivable in six to 12 years. As of December 31, 2022, the balance of all the small business loans was $6,096,355, net of an allowance for loan losses of $426,745.

**Loan origination/risk management:** Loan Fund has lending policies and procedures in place that are designed to provide business loans to support economic development in north Alabama within an acceptable level of risk. Management reviews and updates these policies and procedures on a regular basis. The Board of Directors approves any changes to policies. A reporting system supplements the review process by providing management with monthly, quarterly, and annual reports related to loan quality, loan delinquencies, and non-performing and potential problem loans.

**Age analysis of past due loans:** The following table represents an aging of principal balances of loans with past due amounts or current as to principal and/or interest payments contractually due as of December 31, 2022. Borrowers on all loans with payments past due have been making payments to bring the accounts current.

| | |
|---|---|
| 30 – 59 days past due | $ 1,343 |
| 60 – 89 days past due | 1,299 |
| 90+ days | - |
| Total past due | 2,642 |
| Current | 6,093,713 |
| Less allowance for loan losses | (426,745) |
| Total | $ 5,669,610 |

## Note 6. Notes Receivable – Related Parties

The following summarizes the notes receivable, which includes accrued interest, net of an allowance for loan losses, due to the Organization, and are collateralized by the underlying rental properties, as of December 31, 2022:

| | Receivable | Allowance | Net Receivable |
|---|---|---|---|
| **Hunters Landing Partners, LLC:** | | | |
| NCI has a note receivable in the original amount of $885,800, with Hunters Landing Partners, LLC, a subsidiary of Mallard Pointe, LP. The maturity date is March 31, 2030. The loan is payable solely from available cash flow, as defined, or proceeds from the sale or refinancing of all or any portion of the real property owned by Hunters Landing Partners, LLC. | $ 885,800 | $ (130,455) | $ 755,345 |
| The note accrues interest at an annual rate of 5.25%. The loan is impaired and has been placed on nonaccrual status, therefore during the year ended December 31, 2022, no interest was recorded. | 369,809 | (369,809) | - |
| NCI has a note receivable in the original amount of $500,000, with Hunters Landing Partners, LLC. Payment of principal and interest is deferred until the earlier of the sale of the project or the date the loan is refinanced or the maturity date, December 31, 2045. | 500,000 | - | 500,000 |
| The note accrues interest at an annual rate of 5.25%. The accrued interest is not expected to be collected and the loan has been placed on nonaccrual status, therefore during the year ended December 31, 2022, no interest was recorded. | 159,230 | (159,230) | - |
| NCI has a note receivable in the original amount of $10,000, with Hunters Landing Partners, LLC. Beginning December 1, 2015, the note accrues interest at an annual rate of 5.0% and all principal and interest are due solely from available cash flow and/or sale or refinance proceeds and shall be due on demand but no later than the earlier of December 31, 2030, or the point of any sale or refinance of the real estate held by Hunters Landing Partners, LLC. | 14,180 | - | 14,180 |
| **Quail Ridge Partners, LLC:** | | | |
| NCI has a note receivable in the original amount of $302,300, with Quail Ridge Partners, LLC, a subsidiary of Mallard Pointe, LP. The maturity date is March 31, 2030. The loan and the associated interest receivable are payable solely from available cash flow, as defined, or proceeds from the sale or refinancing of all or any portion of the real property owned by Quail Ridge Partners, LLC. | 302,300 | (28,300) | 274,000 |
| The note accrues interest at an annual rate of 5.25%. The loan is impaired and has been placed on nonaccrual status, therefore during the year ended December 31, 2022, no interest was recorded. | 124,339 | (124,339) | - |
| NCI has a note receivable in the original amount of $500,000, with Quail Ridge Partners, LLC. Payment of principal and interest are deferred until the earlier of the sale of the project or the date the loan is refinanced or the maturity date, December 31, 2045. | 500,000 | - | 500,000 |
| The note accrues interest at an annual rate of 5.25%. The accrued interest is not expected to be collected and the loan has been placed on nonaccrual status, therefore during the year ended December 31, 2022, no interest was recorded. | 159,230 | (159,230) | - |
| NCI has a note receivable in the original amount of $12,000, with Quail Ridge Partners, LLC. The maturity date is March 31, 2030. This is a non-interest bearing note and principal shall be payable solely from available cash flow, as defined, or proceeds from the sale or refinancing of all or any portion of the real property owned by Quail Ridge Partners, LLC. | 12,000 | (12,000) | - |

## Note 6. Notes Receivable – Related Parties (Continued)

| | Receivable | Allowance | Net Receivable |
|---|---|---|---|
| **Quail Ridge Partners, LLC (Continued):** | | | |
| NCI has a note receivable in the original amount of $10,000, with Quail Ridge Partners, LLC. Beginning December 1, 2015, the note accrues interest at an annual rate of 5.0% and all principal and interest are due solely from available cash flow and/or sale or refinance proceeds and shall be due on demand but no later than the earlier of December 31, 2030, or the point of any sale or refinance of the real estate held by Quail Ridge Partners, LLC. | $ 14,180 | $ - | $ 14,180 |
| **Longleaf Senior Village, LP:** | | | |
| NCI has a note receivable in the original amount of $350,000, with Longleaf Senior Village, LP. NCI Aiken Housing, LLC, as its sole investment, is a 0.0051% non-controlling co-general partner in Longleaf Senior Village, LP. The note accrues interest at an annual rate of 0.5% and all principal and interest are due upon maturity on November 5, 2034. As of December 31, 2022, interest receivable was $14,433 and is expected to be collected. The principal amount of note is expected to be forgiven when the Organization's related note payable of $350,000 is forgiven. See Note 10 for further detail. | 364,433 | - | 364,433 |
| **Common Ground, LLC** | | | |
| NCI has non-interest bearing notes receivable totaling $225,705, from Common Ground, LLC receivable on demand. | 285,705 | - | 285,705 |
| **Cottages at Indian Creek, LLC:** | | | |
| NCI has a note receivable in the original amount of $300,000, with Cottages at Indian Creek, LLC. NCI Indian Creek, LLC, as its sole investment, is a 0.0100% non-controlling member in Cottages at Indian Creek, LLC. The note accrues interest at an annual rate of 5% and all principal and interest are due upon the earlier of the maturity on December 27, 2052 or the sale, conveyance or refinancing of the Property. As of December 31, 2022, interest receivable was $167 and is expected to be collected. | 300,167 | - | 300,167 |
| **Mallard Pointe:** | | | |
| NCI has a non-interest bearing note receivable in the amount of $120,000, from Mallard Pointe, LP to be paid from its operating deficit reserve. The balance of the note was received in full in January 2023. | 119,416 | - | 119,416 |
| Total | $ 4,110,789 | $ (983,363) | $ 3,127,426 |

A loan is considered impaired when, based on currently available information, it is probable that the Organization will not collect all of the principal and interest contractually required by the loan agreement. Impaired loans include loans that have been modified in a troubled debt restructuring and loans placed on nonaccrual status. All impaired loans are evaluated for an asset-specific allowance for credit losses. An allowance for credit losses on impaired loans is recognized when the recorded investment in the loan exceeds the estimated cash flows expected to be received from the borrower, based on the estimated fair value of the collateral securing the loan. Impaired loans are classified as nonperforming and, consequently, interest income is only recognized on these loans when actually received from the borrower. Partial payments of contractual amounts due on impaired loans are treated as interest income on a cash basis until such time as the loan is restored to performing status.

## Note 7. Notes Receivable – Unrelated Parties

**Sunrise Incorporated:** NCI has a note receivable in the original amount of $43,984, from Sunrise Incorporated, an unrelated party. During 2014, the loan was restructured to be non-interest bearing. As of December 31, 2022, the balance of the note receivable was $43,984. The note is due upon the earlier of December 31, 2030 or the point of any sale or refinance of the real estate known as Sunrise Gardens.

## Note 8. Long-Term Debt

The following summarizes long-term debt as of December 31, 2022:

| | | |
|---|---|---|
| NCI note payable to Bank of the Ozarks LSV, LP. The note is non-interest bearing, secured and the full amount of the note will be forgiven so long as the terms and provisions of the loan agreement are fulfilled and the restriction provisions of the retention mechanism agreement is complied with for the 15-year retention period ending November 5, 2029. Upon any default, interest shall begin accruing at an increased rate of 5% with principal and interest payments due from the time of default, and amortizing the remaining indebtedness over the remainder of and amortizing the remaining indebtedness over the remainder of the 15-year compliance period, which began November 5, 2014. | $ | 350,000 |
| NCI note payable to Rice Land & Development, a developer. Principal on this non-interest bearing note shall be payable solely from developer fees due to the Organization in accordance with the terms of a promissory note receivable in the amount of $138,909 between the Organization and Spring Branch, Ltd. | | 51,954 |
| NCI note payable to Truist Community Capital. Conditions of the $300,000 note stipulate that interest accrues at an annual rate of 5.00%, as defined in the promissory agreement. The note is secured and is due in full and shall be payable upon the earlier of December 27, 2052 or the sale, conveyance or refinancing of the property securing the loan. | | 300,167 |
| Loan Fund has an unsecured micro-lending line of credit with Redstone Federal Credit Union for $4,158,576, bearing interest at a variable interest rate based on the US Prime Rate less a margin of 3.00% (4.50% at December 31, 2022). Interest only payments are due through the line of credit's maturity date of April 1, 2023. | | 1,887,222 |
| Loan Fund convertible line of credit note payable to PNC Bank, bearing interest at 2.861% per annum. Interest only payments are due and payable quarterly through the loan's maturity in December 2027. | | 1,010,000 |
| Loan Fund note payable to the City of Huntsville, bearing interest at 3.00% per annum. Principal and interest payments in the amount of $40,523 are due quarterly until final loan maturity in September 2027. | | 715,102 |
| Loan Fund note payable to Redstone Federal Credit Union, bearing interest at a fixed interest rate of 0.460%. Principal and interest payments in the amount of $14,188 are due monthly until final loan maturity in February 2026. | | 521,122 |
| Loan Fund note payable to The PNC Foundation, bearing interest at .5% per annum. Quarterly interest only payments are due through the loan's maturity date of December 2025. | | 500,000 |
| Loan Fund unsecured commercial loan with Appalachian Community Capital Corporation, bearing interest at 2.94% per annum. Interest only payments are due through the loan's maturity date of August 31, 2027. | | 500,000 |
| Loan Fund unsecured, revolving line of credit payable to Candence Bank. Interest only payments are due and payable monthly through May 2024, bearing interest at a floating rate of the greater of 3.50% or the Wall Street Journal (WSJ) Prime Rate, capped at 5.50% (5.50% at December 31, 2022). Principal and interest payments are due monthly thereafter at a fixed rate of WSJ Prime plus 1% (determined at time of conversion) until final loan maturity in April 2031. | | 250,000 |
| Loan Fund note payable to Federation of Appalachian Housing Enterprises, Inc., bearing interest at 4.5% per annum. Principal and interest payments in the amount of $1,586 are due monthly until final loan maturity in December 2025. | | 233,848 |
| Loan Fund $200,450 unsecured revolving line of credit payable to Trustmark National Bank, bearing interest at a variable rate based on WSJ Prime plus 0.30% (7.80% at December 31, 2022. Interest only payments due monthly until final loan maturity on December 17, 2023. | | 200,000 |
| Loan Fund note payable to Debley, Inc., bearing interest at 3.00% per annum. Interest only payments are due and payable annually until final loan maturity on August 1, 2026. | | 100,000 |
| Loan Fund unsecured commercial loan with Appalachian Community Capital Corporation, bearing interest at 2% per annum. Loan paid in full in January 2023. | | 50,000 |
| | | 6,669,415 |
| Less: current maturities | | (2,456,241) |
| Total | $ | 4,213,174 |

### Note 8. Long-Term Debt (Continued)

Maturities of the mortgage notes are as follows:

| | |
|---|---|
| Year Ending December 31: | |
| 2023 | $ 2,456,241 |
| 2024 | 343,085 |
| 2025 | 1,066,530 |
| 2026 | 301,880 |
| 2027 | 1,664,217 |
| Thereafter | 837,462 |
| | $ 6,669,415 |

### Note 9. Available Lines of Credit

NCI has a line of credit with Synovus Bank maturing in January 2023 that is typically renewed annually. The line of credit maximum funding amount is $600,000. As of December 31, 2022, there was no outstanding balance on the note. The Organization pays interest on the outstanding balance at the lender's prime rates, which was 7.50% at December 31, 2022. The loan is collateralized by accounts receivable of the Organization.

The Loan Fund has a $600,000 revolving line of credit with Trustmark National Bank bearing interest at a fixed rate of 6.00% annually. Quarterly interest only payments due until maturity date of December 17, 2023. The line of credit is collateralized by assignment of certain deposit accounts. As of December 31, 2022, there was no outstanding balance on the note.

The Loan Fund has a $750,000 revolving line of credit with Federation of Appalachian Housing Enterprises, Inc. bearing interest at 5.25% annually, subject to adjustment on each anniversary date of the note (December 13) but not to exceed .50% per adjustment. Monthly interest only payments due until maturity date of January 1, 2026. As of December 31, 2022, there was no outstanding balance on the note.

## Note 10. Investment Deficit in Partnerships

The Organization has invested in partnerships that are operating, developing or renovating low to moderate-income housing. The investments are accounted for under the equity method, in which the Organization's share of net income or loss from the partnerships are directly reflected in the consolidated statement of activities, and the investment accounts are adjusted for its share of the net income or loss, and any additional investment in or distributions from the partnerships. Due to the Organization's continuing involvement in the partnerships where NCI serves as a general partner and expected commitment and legal obligation to provide future deficit funding, if necessary, losses in excess of the amount invested will continue to be recognized. Partnerships where NCI serves as a limited partner, NCI has no responsibility or legal obligation to fund any future deficits. The general partner in those partnerships have all the risk and responsibility for future deficits and obligations, therefore, these investments will not recognize any losses.

The following summarizes the activity that has occurred in the investment account:

| Partnership | Partner Type | Wholly Owned Subsidiary | Ownership % | Beginning of Year | Contribution (Distribution) | Income (Loss) | End of Year |
|---|---|---|---|---|---|---|---|
| Ashley Road Affordable Housing, Ltd. | Limited Partner | NCI Ashley Villas, LLC | 99.8900% | $ - | $ - | $ - | $ - |
| Clarkston Square, LP | Non-controlling GP | NCI Clarkston, LLC | 0.0100% | 7,456 | - | (12) | 7,444 |
| Coffield Apartments, Ltd. | Limited Partner | NCI Cotton Run, LLC | 98.9900% | - | (22,000) | 22,000 | - |
| Common Ground, LLC | Member | NCI | 50.0000% | (4,676) | - | (893) | (5,569) |
| Conners Senior Village, LP | Non-controlling GP | CSV Housing, LLC owned 100% by NBA, Inc. | 0.0100% | (5,324) | - | (11) | (5,335) |
| Conners Senior Village Phase II, LP | Non-controlling GP | Douglas Housing Ventures II, II, LLC (NCI owns 10%) | 0.0100% | (5) | (37,059) | 37,064 | - |
| Cottages at Indian Creek, LLC | Member | NCI Indian Creek, LLC | 0.0100% | (21) | - | (43) | (64) |
| ECG Monrovia, LP | Non-controlling GP | NCI Old Monrovia, Inc. | 0.0020% | - | - | - | - |
| Flint Rivers, LP | Non-controlling GP | NCI Flint River LLC | 0.0100% | 7,518 | (28,129) | 28,129 | 7,518 |
| Franklin Hills, LP | Non-controlling GP | Franklin Housing, LLC | 0.0007% | 7,579 | (10,517) | 10,517 | 7,579 |
| Grove at Indian Creek, LLC | Member | NCI Grove at Indian Creek, LL | 100.0000% | - | - | - | - |
| Headland Affordable Housing Partners, Ltd | Limited Partner | NCI Countryside Villas, LLC | 99.9800% | - | - | - | - |
| Hounds Run Apartment Homes, LLC | Investor member | NCI Hounds Run, LLC | 99.0000% | - | - | - | - |
| LaGrange Affordable Housing, L | Limited Partner | NCI Lafayette Village, LLC | 1.0000% | - | (2,000) | 2,000 | - |
| Longleaf Senior Village, LP | Non-controlling GP | NCI Aiken Housing, LLC | 0.0051% | (18) | - | (7) | (25) |
| Mallard Pointe, LP | Non-controlling GP | Mallard Pointe Partners, LLC | 0.0100% | | | | |
| | | *- 79% owned by NCI* | | 44,096 | - | (30) | 44,066 |
| | | *- 21% owned by Veristar Mallard Partners, LLC* | | (89,897) | - | (8) | (89,905) |
| Millbrook Affordable Housing Partners, Ltd. | Limited Partner | NCI Rolling Hills, LLC | 1.0000% | - | (20,000) | 20,000 | - |
| Pine Ridge Apartments, Ltd | Limited Partner | NCI Pine Ridge, LLC | 98.9900% | - | (20,000) | 20,000 | - |
| Spring Branch, Ltd. | Non-controlling GP | Spring Branch, LLC | 0.0100% | (172) | - | (16) | (188) |
| Tallassee Affordable Housing, Ltd. | Limited Partner | NCI Quail Run, LLC | 1.0000% | - | - | - | - |
| Theodore Apartment Homes, LLC | Investor member | NCI Greenbriar, LLC | 99.0000% | - | - | - | - |
| Thomasville Apartment Homes, LLC | Investor member | NCI Timberline, LLC | 85.9900% | - | - | - | - |
| | | | | $ (33,464) | $ (139,705) | $ 138,690 | $ (34,479) |

**Mallard Pointe, LP:** As noted in the schedule above, the Organization is a 79% managing member in Mallard Pointe Partners, LLC. Mallard Pointe Partners, LLC, as its sole investment, is a 0.01% non-controlling general partner in Mallard Pointe, LP. The 21% not owned by the Organization of ($89,905) as of December 31, 2022, is reflected as non-controlling interest in subsidiary as a component of net assets in the accompanying consolidated statement of financial position.

## Note 11. Net Assets with Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes:

| | | |
|---|---|---|
| Wells Fargo Open for Business Grant for Lending Capital | $ | 95,830 |
| CDFI Rapid Response program | | 52,495 |
| Dotts Scholarship Fund | | 11,350 |
| PNC Bank Portfolio Management Software | | 10,000 |
| Regions Bank Portfolio Management Software | | 10,000 |
| NTEN - Digital Inclusion | | 4,936 |
| Enterprise Housing Credit Investments - Portfolio Management Software | | 2,500 |
| | $ | 187,111 |

## Note 12. Net Assets Released from Restrictions

Net assets were released from donor restrictions during the year ended December 31, 2022 by satisfying specified donor restricted purposes as follows:

| | | |
|---|---|---|
| Lending to small businesses | $ | 655,507 |
| Financial education | | 14,700 |
| Total | $ | 670,207 |

## Note 13. Commitments

In December 2020, NCI entered into a development agreement with an unrelated party to develop an affordable housing development on property located on Old Monrovia Road in Huntsville, Alabama. The project shall be financed from several sources including, but not limited to, an award of Low Income Housing Tax Credits from Alabama Housing Finance Authority, Multifamily Revenue Bond Program, and/or conventional financing. In March 2022, ECG Monrovia, LP was formed for the investment in this property and NCI Old Monrovia, Inc. serves as the co-general partner.

## Note 14. Concentrations

**Concentration of credit risk:** The Organization maintains cash at financial institutions, which, at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash.

**Geographic concentration:** The Organization has investments in partnerships located in Huntsville, Arab, Montgomery, Headland, Tallassee, Theodore, and Thomasville, Alabama, as well as Villa Rica, Georgia, and Aiken, South Carolina. Future operations of these partnerships could be affected by changes in the economic or other conditions in those geographical areas or by changes in federal low-income housing subsidies, changes in CHDO or HUD funding directives, rules and regulations. Such changes may occur with little notice and could cause inadequate funding to pay for the related costs, including the additional administrative burden to comply with a change. These potential future changes are uncertain, and accordingly, it is not possible to determine the ultimate impact on the operations of the Organization.

## Note 15. Subsequent Events

Appalachian Community Capital committed to provide Loan Fund a term loan in the amount $500,000 to increase business lending in Appalachia. Repayment is for 60 months with a fixed interest rate of 2.75%. Management closed on the loan on April 30, 2023.

Woodforest National Bank committed to provide Loan Fund a term loan in the amount of $1,000,000 to lend to micro and small businesses in North Alabama. The repayment terms are for 36 months which include 35 months of interest-only payments with a balloon payment due at maturity with a fixed interest rate of 4.75%. Management closed on the loan on May 4, 2023.

## Neighborhood Concepts, Inc. and Subsidiaries

## Consolidating Statement of Financial Position
## December 31, 2022

| | Neighborhood Concepts, Inc. | North Alabama Revolving Loan Fund, LLC | Total | Eliminations | Consolidated |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Current assets: | | | | | |
| Cash | $ 339,389 | $ 1,853,928 | $ 2,193,317 | $ - | $ 2,193,317 |
| Certificates of deposit | 100,323 | 501,613 | 601,936 | - | 601,936 |
| Accounts receivable | 126,504 | - | 126,504 | - | 126,504 |
| Other current assets | 1,556 | 1,256 | 2,812 | - | 2,812 |
| **Total current assets** | 567,772 | 2,356,797 | 2,924,569 | - | 2,924,569 |
| Property and equipment, net | 348,886 | 1,842 | 350,728 | - | 350,728 |
| Other assets: | | | | | |
| Developer fees receivable | 1,123,683 | - | 1,123,683 | - | 1,123,683 |
| Loan Fund loans receivable, net | - | 5,669,610 | 5,669,610 | - | 5,669,610 |
| Notes receivable – related parties, net | 3,127,426 | - | 3,127,426 | - | 3,127,426 |
| Notes receivable – unrelated parties, net | 43,984 | - | 43,984 | - | 43,984 |
| **Total other assets** | 4,295,093 | 5,669,610 | 9,964,703 | - | 9,964,703 |
| **Total assets** | $ 5,211,751 | $ 8,028,249 | $ 13,240,000 | $ - | $ 13,240,000 |
| **Liabilities and Net Assets** | | | | | |
| Current liabilities: | | | | | |
| Accounts payable | $ 9,824 | $ 133,070 | $ 142,894 | $ - | $ 142,894 |
| Current portion of long-term debt | - | 2,456,241 | 2,456,241 | - | 2,456,241 |
| **Total current liabilities** | 9,824 | 2,589,311 | 2,599,135 | - | 2,599,135 |
| Long-term liabilities: | | | | | |
| Long-term debt, net of current portion | 702,121 | 3,511,053 | 4,213,174 | - | 4,213,174 |
| Investment deficit in partnerships | 34,479 | - | 34,479 | - | 34,479 |
| **Total long-term liabilities** | 736,600 | 3,511,053 | 4,247,653 | - | 4,247,653 |
| **Total liabilities** | 746,424 | 6,100,364 | 6,846,788 | - | 6,846,788 |
| Net assets: | | | | | |
| Without donor restrictions | 4,516,446 | 1,779,560 | 6,296,006 | - | 6,296,006 |
| With donor restrictions | 38,786 | 148,325 | 187,111 | - | 187,111 |
| **Total net assets** | 4,555,232 | 1,927,885 | 6,483,117 | - | 6,483,117 |
| Non-controlling interest in subsidiary | (89,905) | - | (89,905) | - | (89,905) |
| **Consolidated net assets** | 4,465,327 | 1,927,885 | 6,393,212 | - | 6,393,212 |
| **Total liabilities and net assets** | $ 5,211,751 | $ 8,028,249 | $ 13,240,000 | $ - | $ 13,240,000 |

## Neighborhood Concepts, Inc. and Subsidiaries

## Consolidating Statement of Activities
## Year Ended December 31, 2022

| | Neighborhood Concepts, Inc. | North Alabama Revolving Loan Fund, LLC | Total | Eliminations | Consolidated |
|---|---|---|---|---|---|
| Changes in net assets without donor restrictions: | | | | | |
| Revenue: | | | | | |
| Asset management fees | $ 89,041 | $ - | $ 89,041 | $ - | $ 89,041 |
| Contributions | 1,500 | - | 1,500 | - | 1,500 |
| Developer and consulting fees | 706,030 | - | 706,030 | - | 706,030 |
| Grant revenue | 28,529 | - | 28,529 | - | 28,529 |
| Loan fund program revenue | - | 451,638 | 451,638 | - | 451,638 |
| Miscellaneous | 25,335 | - | 25,335 | - | 25,335 |
| Rental income | 24,150 | - | 24,150 | - | 24,150 |
| Net assets released from restrictions | 2,564 | 667,643 | 670,207 | - | 670,207 |
| **Total revenue** | 877,149 | 1,119,281 | 1,996,430 | - | 1,996,430 |
| Operating expenses: | | | | | |
| Program services | 280,093 | 502,920 | 783,013 | - | 783,013 |
| Supporting services | | | | | |
| General and administrative | 103,457 | - | 103,457 | - | 103,457 |
| Fundraising | 7,566 | - | 7,566 | - | 7,566 |
| **Total expenses** | 391,116 | 502,920 | 894,036 | - | 894,036 |
| **Revenue in excess of (less than) operating expenses** | 486,033 | 616,361 | 1,102,394 | - | 1,102,394 |
| Other income (expenses): | | | | | |
| Income from investments in partnerships | 138,690 | - | 138,690 | - | 138,690 |
| Interest income | 3,520 | 1,634 | 5,154 | - | 5,154 |
| Forgiveness of debt | 1,000,000 | - | 1,000,000 | - | 1,000,000 |
| Interest expense | - | (93,951) | (93,951) | - | (93,951) |
| **Total other income (expenses)** | 1,142,210 | (92,317) | 1,049,893 | - | 1,049,893 |
| **Increase in net assets without donor restrictions** | 1,628,243 | 524,044 | 2,152,287 | - | 2,152,287 |
| Changes in net assets with donor restrictions: | | | | | |
| Contributions | - | - | - | - | - |
| Grant revenue | 25,000 | - | 25,000 | - | 25,000 |
| Net assets released from restrictions | (2,564) | (667,643) | (670,207) | - | (670,207) |
| **Increase in net assets with donor restrictions** | 22,436 | (667,643) | (645,207) | - | (645,207) |
| **Increase in net assets** | 1,650,679 | (143,599) | 1,507,080 | - | 1,507,080 |
| Net loss attributable to non-controlling interest | 8 | - | 8 | - | 8 |
| **Increase in net assets attributable to Neighborhood Concepts, Inc. and Subsidiaries** | $ 1,650,687 | $ (143,599) | $ 1,507,088 | $ - | $ 1,507,088 |
| Net assets, beginning of year | $ 2,814,648 | $ 2,071,484 | $ 4,886,132 | $ - | 4,886,132 |
| Increase in net assets | 1,650,679 | (143,599) | 1,507,080 | - | 1,507,080 |
| Net assets, end of year | $ 4,465,327 | $ 1,927,885 | $ 6,393,212 | $ - | $ 6,393,212 |