NEIGHBORGOOD PARTNERS
LOAN FUND

REPORT ON AUDIT OF
FINANCIAL STATEMENTS

SEPTEMBER 30, 2022

NEIGHBORGOOD PARTNERS LOAN FUND

TABLE OF CONTENTS

BTCPA
BARBACANE THORNTON & COMPANY

INDEPENDENT AUDITOR'S REPORT

March 7, 2023

To the Board of Directors
NeighborGood Partners
Dover, Delaware

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements NeighborGood Partners Loan Fund, (a division of NeighborGood Partners, formerly National Council on Agricultural Life and Labor Research, Inc., a nonprofit organization), which comprise the statement of financial position as of September 30, 2022, and the related statements of activities and cash flows for the year 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 NeighborGood Partners Loan Fund as of September 30, 2022, and the statement of activities and its 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 NeighborGood Partners Loan Fund 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

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To the Board of Directors
NeighborGood Partners

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 NeighborGood Partners Loan Fund'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, 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 NeighborGood Partners Loan Fund'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 NeighborGood Partners Loan Fund'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.

Barbacane, Thornton & Company LLP

BARBACANE, THORNTON & COMPANY LLP

NEIGHBORGOOD PARTNERS LOAN FUND
STATEMENTS OF FINANCIAL POSITION
SEPTEMBER 30, 2022 AND 2021

	2022	2021
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 5,599,598	$ 10,617,809
Interest receivable	41,558	40,513
Investments	3,720,454	2,431,457
Loans receivable, net of allowance for loan losses of $640,039 for 2022 and $438,081 for 2021	5,032,002	5,073,121
Prepaid expense	800	10,538
Other receivables	9,125	5,024
Total Current Assets	14,403,537	18,178,462
NONCURRENT ASSETS:		
Property and equipment	9,250	9,250
Less: Accumulated depreciation	(9,250)	(8,325)
Other real estate owned property, net of allowance for estimated loss on sale/transfer of $500,000 for 2022 and $500,000 for 2021	1,394,379	1,236,101
Loans receivable, net of allowance for loan losses of $808,717 for 2022 and $610,675 for 2021	10,788,837	7,071,821
Total Noncurrent Assets	12,183,216	8,308,847
TOTAL ASSETS	$ 26,586,753	$ 26,487,309
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	$ 86,054	$ 7,130
Accrued interest	28,722	12,931
Notes payable	550,000	4,975,000
Total Current Liabilities	664,776	4,995,061
NONCURRENT LIABILITIES:		
Notes payable	17,500,000	12,050,000
Total Noncurrent Liabilities	17,500,000	12,050,000
TOTAL LIABILITIES	18,164,776	17,045,061
NET ASSETS:		
Without donor restrictions	8,421,977	9,442,248
TOTAL NET ASSETS	8,421,977	9,442,248
TOTAL LIABILITIES AND NET ASSETS	$ 26,586,753	$ 26,487,309

The accompanying notes are an integral part of these financial statements.

NEIGHBORGOOD PARTNERS LOAN FUND
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2022
(With Summarized Totals for 2021)

	Without Donor Restrictions	With Donor Restrictions	Totals 2022	Totals 2021
REVENUE AND PUBLIC SUPPORT				
Expendable grant - Neighborhood Reinvestment	$ 137,500	$ -	$ 137,500	$ -
Other grants	575,000	-	575,000	1,885,117
Contributions	100,000	-	100,000	100,000
Interest - investments	1,861	-	1,861	1,565
Interest - loans	695,010	-	695,010	804,607
Fee income	355,079	-	355,079	308,276
TOTAL REVENUE AND PUBLIC SUPPORT	1,864,450	-	1,864,450	3,099,565
EXPENSES				
Program services:				
Accounting and audit fees	9,525	-	9,525	9,150
Consultant fees	123,470	-	123,470	91,710
Consumables	220	-	220	163
Depreciation	925	-	925	1,850
Dues, registration, and training	23,658	-	23,658	18,375
Employee advertising	2,152	-	2,152	1,120
Equipment and maintenance	3,788	-	3,788	156
Insurance	18,873	-	18,873	12,286
Interest expense	510,809	-	510,809	575,614
Internet and technical services	6,049	-	6,049	351
Legal expenses	16,061	-	16,061	108,088
Loan participation fees	10,218	-	10,218	48,171
Miscellaneous	16,074	-	16,074	15,214
Office supplies	35	-	35	130
Occupancy	7,560	-	7,560	12,901
Pass through funds	-	-	-	275,000
Printing and postage	621	-	621	279
Provision for loan/OREO losses	400,000	-	400,000	1,107,834
Salaries and benefits	398,942	-	398,942	457,054
Telephone	690	-	690	1,895
Travel and per diem	6,590	-	6,590	1,870
Total Program Services	1,556,260	-	1,556,260	2,739,211
Management and general	117,343	-	117,343	142,454
TOTAL EXPENSES	1,673,603	-	1,673,603	2,881,665
CHANGE IN NET ASSETS BEFORE OTHER CHANGE	190,847	-	190,847	217,900
OTHER CHANGE				
Unrealized gain (loss) on investments	(1,211,118)	-	(1,211,118)	246,201
OTHER CHANGE	(1,211,118)	-	(1,211,118)	246,201
CHANGE IN NET ASSETS	(1,020,271)	-	(1,020,271)	464,101
NET ASSETS, BEGINNING OF YEAR	9,442,248	-	9,442,248	8,978,147
NET ASSETS, END OF YEAR	$ 8,421,977	$ -	$ 8,421,977	$ 9,442,248

The accompanying notes are an integral part of these financial statements.

NEIGHBORGOOD PARTNERS LOAN FUND
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2022 AND 2021

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ (1,020,271)	$ 464,101
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	925	1,850
Unrealized (gain) loss on investments	1,211,118	(246,201)
Provision for loan/OREO losses	400,000	1,107,834
(Increase) Decrease in interest receivable	(1,045)	26,867
(Increase) Decrease in loans receivable	(4,075,897)	4,002,933
(Increase) Decrease in prepaid expense	9,738	10,538
(Increase) Decrease in other real estate owned property	(158,278)	(94,394)
(Increase) Decrease in other receivables	(4,101)	(5,024)
Increase (Decrease) in accounts payable	78,924	(16,976)
Increase (Decrease) in accrued interest	15,791	(24,273)
Increase (Decrease) in deferred revenue	-	(9,630)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	(3,543,096)	5,217,625
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(2,500,115)	(2,108,743)
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	(2,500,115)	(2,108,743)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from long-term debt	3,000,000	2,900,000
Repayment of long-term debt	(1,975,000)	(3,500,000)
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	1,025,000	(600,000)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(5,018,211)	2,508,882
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	10,617,809	8,108,927
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 5,599,598	$ 10,617,809
SUPPLEMENTAL INFORMATION:		
Interest paid	$ 495,018	$ 599,887
Taxes paid	$ -	$ -

The accompanying notes are an integral part of these financial statements.

NOTE 1 ENTITY DESCRIPTION

The Loan Fund operates as a line of business within NeighborGood Partners (formerly National Council on Agricultural Life and Labor Research, Inc.).

NeighborGood Partners was organized in 1955 as a nonprofit corporation and has been providing rural housing technical assistance since 1976. NeighborGood Partners competes for funding in the form of contracts and grants from the federal, state, and private sectors when it is available. The mission of NeighborGood Partners, simply put, is: "Strengthen communities through housing, lending, and education."

The mission of NeighborGood Partners Loan Fund is to support NeighborGood Partners overall mission, which includes community lending, providing financial support and related capacity building for nonprofit customers undertaking affordable housing, and community development projects.

NeighborGood Partners is governed by a 15-member Board of Directors from NeighborGood Partner's service area.

NeighborGood Partners was chartered as a NeighborWorks® America ("NWA") Organization in 2003. The affiliation with NWA requires ongoing reporting and regular management reviews. NeighborGood Partner's maintained its "Exemplary" rating, and NWA last conducted a program review in May 2018 which resulted in NeighborGood Partners exceeding or meeting all evaluation criteria. It also provides opportunities for grant and capital funding, along with training slots for NWA's training institutes. NeighborGood Partners is one of only two organizations within Delaware with the NeighborWorks® designation.

NeighborGood Partners was certified as a Community Development Financial Institution ("CDFI") during fiscal year 2005 by the U.S. Department of Treasury. As of September 30, 2022, this certification was in good standing.

As a CDFI, NeighborGood Partners participates in the Comprehensive Ratings for CDFI Investments (Aeris) annual review and rating process. The process is a positive experience and yields a substantial report and current rating of three stars for impact performance, a rating of A+ for financial strength and performance, and a Policy Plus designation.

Business Operations of the Loan Fund

The standard business operations of the Loan Fund are described in its business plan, loan policies, and related documents. Included are descriptions of target areas for the Loan Fund, its customer base, summary of loan products, and its capitalization policy.

Management and Operations

NeighborGood Partner's Board of Directors delegates the oversight authority of the Loan Fund to its Loan Fund Committee. The decision-making process, underwriting, risk rating, and

NOTE 1 ENTITY DESCRIPTION (cont'd)

capitalization operations are described in the loan policies that are reviewed and updated regularly. The loan policies were updated and reconfirmed in September 2022.

NeighborGood Partner's Loan Fund has an extensive review process that combines loan origination by staff, daily oversight of this function through its Executive Director and Loan Fund Director, and the overall review and approval process at the Loan Committee level. A committee of six of NeighborGood Partner's Board Members or Board-approved appointees oversees the Loan Fund and is responsible for policies and the approval process. Experienced legal counsel has been retained to develop and review loan documents.

The Loan Fund representatives at the Committee and staff level adhere to a disclosure and conflict-of-interest policy in the event a customer or loan request comes in wherever there may be involvement with a Loan Fund Committee member.

The Loan Fund procedures define a process that reviews and monitors the pre-closing requirements for each loan. In the master loan file, any monitoring issues above and beyond the standard portfolio requirements are highlighted. The loan documents contain the standard language regarding timely payments and collections procedures.

The Loan Fund has an aggressive collections procedure in place to maintain the overall credit quality of the NeighborGood Partner portfolio.

The risk rating for each loan, after its initial approval, is reviewed no less than once a year.

Products of the Loan Fund

The Loan Fund defines its customer base as qualified borrowers that have a primary mission of affordable housing and/or community development. The resources from the Loan Fund will, for the most part, be expected to assist customer organizations in accomplishing their housing projects. However, the Loan Fund also will consider financial products that support the overall operations of the nonprofit sector.

The Loan Fund's current products are predevelopment and working capital loans, site development and acquisition loans, gap and bridge financing on multifamily projects, loan guarantees, and community-based facility loans. Each of these products fills a clear financing need that is not readily available from other sources. Each product helps to develop or preserve housing for low and very low-income households.

Capitalization

The Loan Fund has a capitalization strategy which guides the Loan Fund through its relationships with investors and participating lenders. There are three primary ways the Loan Fund raises capital; grants, debt, and participation loans to other lenders. Through its operations, regular financial and compliance reports are generated.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements of the Loan Fund have been prepared on the accrual basis of accounting as required by accounting principles generally accepted in the United States of America ("generally accepted accounting principles").

Financial Statement Presentation

In accordance with the section of the Financial Accounting Standards Board's Accounting Standards Codification ("FASB ASC") regarding financial statements of not-for-profit organizations, the Loan Fund 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 Loan Fund is required to present a statement of cash flows.

Contributions

In accordance with the FASB ASC section regarding accounting for contributions received and contributions made, contributions received are recorded without donor restrictions or with donor restrictions, depending on the existence and/or nature of any donor restrictions.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Loan Fund considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Investment

The Loan Fund's investment is reported at fair value. Donated securities also are reported at fair market value as of the date of receipt. All realized and unrealized gains and losses arising from fluctuations in market values, sales, or other disposition of assets are accounted for in the class of net assets that owns the assets.

Level 1 – Financial assets valued using Level 1 inputs are based on unadjusted quoted market prices within active markets.

Level 2 – Financial assets valued using Level 2 inputs are based on quoted prices in markets that are not active or for which all significant inputs are unobservable, either directly or indirectly. The fair value of the investments with the Delaware Community Foundation are determined based on observable market factors not included in Level 1, such as quoted market prices for similar assets or liabilities in an active or nonactive market. NeighborGood Partner's portion of the investment pool is valued by the Delaware Community Foundation on a monthly basis. The investments in the pool are actively traded and valued using quoted

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

market prices. However, since the investments are pooled funds, they are designated as Level 2 investments.

Level 3 – Financial assets valued using Level 3 inputs are determined by valuation methodologies that are unobservable and significant to the fair value measurements.

Loans Receivable

Loans receivable represent funds advanced to qualified organizations that have a primary mission of affordable housing and/or community development. Loans are stated at unpaid principal balances less an allowance for loan losses. The allowance for loan losses is estimated to be a minimum of five percent of the outstanding loan balance plus any amounts known to be uncollectible, and additional amounts determined by management based on the loan's internal risk rating. Past due status is determined based on contractual terms. Loans are considered impaired if full principal or interest payments are not anticipated in accordance with the contractual terms. Loans are written off as a charge to the allowance for loan loss accounts when, in management's estimation, it is probable that the receivable is worthless. Loan security is outlined in the promissory notes.

Interest on loans is recognized over the term of the loan and is calculated using the simple-interest method on principal amounts outstanding. Loan origination and commitment fees are not material to the financial statements and are recognized as revenue when the loan closes.

Loans receivable are placed on nonaccrual status when management believes, after considering economic conditions, business conditions, and collection efforts, that the loans are impaired or collection of interest is doubtful. Uncollected interest previously accrued is charged off or an allowance is established by a charge to provision for loan losses. Interest income on nonaccrual loans is recognized only to the extent cash payments are received.

Property and Equipment

The Loan Fund capitalizes all expenditures for equipment in excess of $5,000. Equipment is stated at cost at date of acquisition or fair market value at date of donation. Equipment is depreciated on the straight-line method over the estimated service life of the asset.

The estimated service life for equipment is five to ten years. Expenditures for maintenance, repairs, minor renewals, and betterments which do not improve or extend the useful life of the respective asset are expensed.

Other Real Estate Owned

Foreclosed real estate includes both formally foreclosed property and in-substance foreclosed property. In-substance foreclosed properties are those properties for which the institution has

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

taken physical possession, regardless of whether formal foreclosure proceedings have taken place.

At the time of foreclosure, foreclosed real estate is recorded at the fair value less cost to sell, which becomes the property's new basis. Any write-downs based on the asset's fair value at date of acquisition are charged to the allowance accounts. After foreclosure, valuations are periodically performed by management, and Other Real Estate Owned property is carried at the lower of the new cost basis or fair value less cost to sell. Costs incurred in maintaining foreclosed real estate and subsequent adjustments to the carrying amount of the property are included in income or loss on foreclosed real estate.

Income Taxes

NeighborGood Partners is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. However, income from certain activities not directly related to NeighborGood Partner's tax-exempt purpose may be subject to taxation as unrelated business income.

Generally accepted accounting principles prescribe rules for the recognition, measurement, classification, and disclosure in the financial statements of uncertain tax positions taken or expected to be taken in NeighborGood Partner's tax returns. Management has determined that NeighborGood Partners does not have any uncertain tax positions or associated unrecognized benefits that materially impact the financial statements or related disclosures. Since tax matters are subject to some degree of uncertainty, there can be no assurance that NeighborGood Partner's tax returns will not be challenged by the taxing authorities and that NeighborGood Partners will not be subject to additional tax, penalties, and interest as a result of such challenge.

Allocation of Functional Expenses

The costs of providing the programs and other activities have been summarized on a functional basis in the statement of activities. Whenever possible, costs are directly assigned to the program functions using the direct identification method based on the nature of the expense. Accordingly, certain costs have been allocated among the functions utilizing NeighborGood Partner's indirect cost rate.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Prior Year Financial Statements

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Loan Fund's financial statements for the year ended September 30, 2021, from which the summarized information was derived.

NOTE 3 INVESTMENTS AND FAIR VALUE MEASUREMENTS

NeighborGood Partner investments consist of certificates of deposit, mutual funds, exchange traded funds, stocks, and bonds. The certificates of deposit have an original maturity of more than three months.

The fair values of investments at September 30, 2022 are as follows:

	Fair Value	Level 1	Level 2
Certificates of deposit	$ 76,743	$ -	$ 76,743
Vicus - Government Cash Reserves	95,809	95,809	-
Vicus - Mutual Funds	1,233,990	1,233,990	-
Vicus - Equity ETFs	1,410,828	1,410,828	-
Vicus - Common Stocks	888,448	888,448	-
Vicus - Other	14,636	14,636	-
Total	$ 3,720,454	$ 3,643,711	$ 76,743

NOTE 4 ALLOWANCE FOR LOAN/OREO LOSSES

For the year ended September 30, 2022, the change in the allowance for loan/OREO losses is as follows:

	Beginning Allowance for Loan/OREO Losses	Reclassify	Provision for Loan/OREO Losses	Charge-offs	Ending Allowance for Loan/OREO Losses
Affordable Housing	$ 170,959	$ -	$ 113,762	$ -	$ 284,721
Community Facilities	819,422	-	184,626	-	1,004,048
Commercial/Revitalization	58,375	-	101,612	-	159,987
Other Real Estate Owned (OREO)	500,000	-	-	-	500,000
Total Allowance	$ 1,548,756	$ -	$ 400,000	$ -	$ 1,948,756

NOTE 4 ALLOWANCE FOR LOAN/OREO LOSSES (cont'd)

The ending balance in the allowance for loan losses is attributed to loans that have been evaluated collectively. As necessary, adjustments are made to the Loan Fund's method of estimating the allowance for loan losses.

NOTE 5 CREDIT QUALITY OF LOANS RECEIVABLE

The Loan Fund monitors the credit quality of its loans receivable by assessing the collection experience of existing borrowers, the creditworthiness of new borrowers, and the sufficiency of collateral related to the receivables. Loan security is outlined in the promissory notes.

Each loan and relationship are risk rated when approved. The risk rating is reviewed annually after loan closing. Loans will be reviewed more frequently if they are/become rated below Adequate or have performance issues. The risk ratings are consistent with community development lending standards and are: Good, Standard, Adequate, Watch, Sub-standard and Doubtful/OREO. The Loan Fund's standard Loss Loan Reserve (LLR) is 5 percent against all portfolio outstanding. Special additional reserves are defined with each rating below, where appropriate. The internal risk ratings are as follows:

Good

The loan request and the borrower exceed underwriting criteria related to: quality of collateral, strength of loan repayment, supportive market conditions, and a strong financial condition. (No additional LLR is required for this top rating)

Standard

The loan request and the borrower meet all of the underwriting criteria: quality of collateral, strength of loan repayment, supportive market condition, and an acceptable financial condition. Consideration will be given to a repeat borrower with a strong performance track record of repayment. (No additional LLR is required for this rating).

Adequate

The loan request and the borrower meet the underwriting criteria with the understanding that there may be some weaknesses with certain criteria that would be offset by other criteria. Some weaknesses may be created by market issues or given the size and type of borrower. These criteria do not mean that the borrower or project is weak; and this situation is typical with community development projects. There may be loan policy exceptions with an Adequate-rated credit and additional loan monitoring may occur. (No additional LLR is required for this rating, but additional performance measures may be recommended that are not reserve related.)

NOTE 5 CREDIT QUALITY OF LOANS RECEIVABLE (cont'd)

The Loan Fund has three risk ratings that are in the Non-Performing Loan category requiring additional attention. They are: Watch (4), Sub-Standard (5) and Doubtful/OREO (6). Loan Fund staff, with the approval of the Director, can decrease the risk rating of a project, along with a memo stating the reasons why and expected actions. Increasing risk ratings is done through the Loan Fund Committee.

Watch

The loan request, the project and/or the borrower do not meet all of the underwriting criteria, so there are one or more weaknesses to address. A specific financial loss may not be expected at this time and the loan may or may not be late with its payments. A Watch rating is for shorter terms, with the expectation that the rating increases or decreases within six months to one year based on a plan (or lack thereof) to strengthen the asset or the financial condition of the borrower (depending on where the weakness lies). Typically with a 4 rating, the terms and conditions do not change and there is an expectation that the asset or borrower will get stronger. New loans in need of approval, for the most part, will not start off as a 4 rating. Staff will increase the reserve to at least 25 percent of the amount of the Watch rated loan if the borrower is unable to pay interest obligations or if a source of repayment has been removed. Loans that are in deferral are not automatically downgraded to a 4 rating.

Sub-Standard

The loan and the borrower are in default and there is an expectation that financial loss may occur, or already has done so. Other characteristics of a 5 rated loan include major loss of a source of repayment; major deterioration of the borrower (affecting its ability to keep current with interest and related expenses); the loan is 90 days past due (interest) or is 90 days past maturity and the Loan Fund does not wish to extend. When the loan reaches 90 days past due (interest), it will be placed on non-accrual. If the loan cannot be cured within a reasonable time (within one year from the receipt of this rating) staff will prepare a plan of action for review and approval by the Loan Fund Committee. A plan may include: restructuring the loan; charge off, an extension for other repayment sources, etc. It may take 12-18 months to cure the loan after the plan of action has been approved. Staff will reserve up to the full amount of the Loan , but it is expected that a loan loss reserve of at least 50 percent should be attached to a 5 rated loan.

Doubtful/Other Real Estate Owned ("OREO")

The loan and borrower continue to be in default, there has been no increase in the viability of the overall project, and there is no expectation of a repayment strategy. If a workout plan was not previously developed, it should be developed as soon as the asset is rated a 6. The plan requires approval of the Loan Committee, and the Loan Officer will treat this asset as a priority. If the loan loss reserve was previously established, the amount should be reviewed based on

NOTE 5 CREDIT QUALITY OF LOANS RECEIVABLE (cont'd)

the work out plan. Disposition and charge-off actions are recommended by staff to Loan Fund Committee. Approval for the charge off process (time and amount) is required. Staff will reserve up to 100 percent of the Loan amount.

The information used to internally rate loans receivable was updated as of September 30, 2022.

As of September 30, 2022, loans were split between the following portfolio segments:

Affordable Housing	$ 5,694,422
Community Facilities	8,375,769
Commercial/Revitalization	3,199,404
Total Loans Receivable, Gross	17,269,595
Allowance for Loan Losses	(1,448,756)
TOTAL	$ 15,820,839

As of September 30, 2022, the loan ratings and amounts by portfolio segment were as follows:

	Good	Standard	Adequate	Watch	Sub-Standard	Total
Affordable Housing	$ -	$158,318	$ 5,153,751	$ 382,353	$ -	$ 5,694,422
Community Facilities	-	192,021	5,295,903	964,636	1,923,209	8,375,769
Commercial/Revitalization	-	-	3,199,404	-	-	3,199,404
Total Loans Receivable, Gross	$ -	$350,339	$13,649,058	$1,346,989	$1,923,209	$17,269,595

As of September 30, 2022, the loan aging by portfolio segment was as follows:

	Current	31-60 Days Past Due	61-90 Days Past Due	91+ Days Past Due	Total
Affordable Housing	$ 5,694,422	$ -	$ -	$ -	$ 5,694,422
Community Facilities	8,375,769	-	-	-	8,375,769
Commercial/Revitalization	3,199,404	-	-	-	3,199,404
Total Loans Receivable, Gross	$17,269,595	$ -	$ -	$ -	$17,269,595

As of September 30, 2022, the loan quality by portfolio segment was as follows:

NOTE 5 CREDIT QUALITY OF LOANS RECEIVABLE (cont'd)

	Total	Non-Accrual (Subset of Total)	Impaired (Subset of Total)	Total Debt Restructuring (Subset of Total and of Impaired)
Current	$ 17,269,595	$ 1,923,209	$ 1,923,209	$ 1,923,209
31-60 days past due	-	-	-	-
61-90 days past due	-	-	-	-
>90 days past due	-	-	-	-
Total Loans Receivable, Gross	$ 17,269,595	$ 1,923,209	$ 1,923,209	$ 1,923,209

The maturity of loans receivable is as follows:

Year Ending September 30,	
2023	$ 5,672,041
2024	3,620,000
2025	3,100,000
2026	1,947,000
2027	1,340,000
Thereafter	1,590,554
	$ 17,269,595

NOTE 6 LOANS RECEIVABLE SOLD WITH AND WITHOUT RECOURSE

The Loan Fund has sold loans receivable to financial institutions with no recourse to the Organization. The outstanding balance of the no-recourse loans at September 30, 2022 was $375,436.

The Loan Fund services, administers, and collects the receivables on behalf of the purchaser. The Loan Fund has not recognized a servicing asset or liability because it is impracticable to estimate its fair value.

NOTE 7 CONCENTRATIONS

The Loan Fund received 20 percent of its total revenue and public support from Delaware State Housing Authority during the year ended September 30, 2022. The Loan Fund received 11 percent of its total revenue and public support from Wells Fargo during the year ended September 30, 2022.

NOTE 8 LONG-TERM DEBT

In December 2005, the Loan Fund entered into an unsecured note agreement with the Wells Fargo Regional Community Development Corporation in the amount of $250,000. In 2016, the loan was increased by $100,000 to $350,000, and the maturity date extended from December 16, 2016 to December 16, 2025. This note bears interest at a fixed rate of 2.0 percent. Semi-annual installments of accrued interest are due and payable on March 31 and September 30 of each year, with the entire unpaid balance of principal due in full on December 16, 2025. As of September 30, 2022, the outstanding balance on this note was $350,000.

In September 2011, the Loan Fund entered into an unsecured note agreement with PNC Bank in the amount of $1,250,000. In December 2016, the note amount was increased to $2,500,000. In 2022, the note amount was increased to $4,000,000 and extended through 2027. The note bears interest at a fixed rate of 3.75 percent. Accrued interest is payable on March 1, June 1, September 1, and December 1 of each year, with the entire unpaid principal balance due in full on June 30, 2027. As of September 30, 2022, the outstanding amount of this note was $4,000,000.

In March 2012, the Loan Fund entered into an unsecured note agreement with AIG Federal Savings Bank (this loan is now held by Artisans' Bank; all terms and conditions remain the same) in the amount of $350,000. In March 2017, the note amount was increased to $500,000. The note bears interest at a fixed rate of 3.0 percent. Accrued interest is payable on January 1, April 1, July 1, and October 1 of each year, with the entire unpaid principal balance due in full on March 28, 2024 (previously March 28, 2018). As of September 30, 2022, the outstanding amount of this note was $500,000.

In April 2012, the Loan Fund entered into an unsecured note agreement with Barclays Bank Delaware in the amount of $1,250,000. The loan was increased by $1,250,000 to $2,500,000 during 2016. The note bears interest at a fixed rate of 3.25 percent. Accrued interest is due on January 1, April 1, July 1, and October 1 of each year, with the entire unpaid principal balance due in full on March 11, 2026 (previously March 11, 2023). As of September 30, 2022, the outstanding amount of this note was $1,500,000.

In August 2012, the Loan Fund entered into an unsecured note agreement with HSBC Bank USA in the amount of $2,000,000. The note was increased by $500,000 to $2,500,000 in 2018. The note bears interest at a fixed rate of 2.35 percent on the first $2,000,000 and will accrue at a fixed rate of 3.10 percent on any additional funds. Accrued interest is payable on January 1, April 1, July 1, and October 1 of each year, with the entire unpaid principal balance due in full on August 31, 2026 (previously August 31, 2024). As of September 30, 2022, the outstanding amount of this note was $2,000,000.

In August 2012, NeighborGood Partners entered into an unsecured note agreement with TD Bank in the amount of $1,000,000; and in 2014, 2017, and 2020, the note was amended to increase the available amount to $1,500,000, $3,000,000, and $3,500,000, respectively. The

NOTE 8 LONG-TERM DEBT (cont'd)

note bears interest at a fixed rate of 5.15 percent. Accrued interest is payable quarterly with the entire unpaid principal balance due in full on July 31, 2024. As of September 30, 2022, NeighborGood Partners has not drawn down on these loans.

In July 2014, the Loan Fund entered into an unsecured line of credit agreement with the Jessie Ball DuPont Religious, Charitable, and Educational Fund in the amount of $1,500,000. Any outstanding balance against this line of credit will bear interest at a fixed rate of 1.5 percent. Accrued interest is payable on June 30 and December 31 of each year, with the entire unpaid principal balance due in full on July 29, 2028 (previously July 29, 2021). As of September 30, 2022, the outstanding amount of this note was $1,500,000.

In August 2014, the Loan Fund entered into an unsecured line of credit agreement with Capital One, National Association in the amount of $1,000,000. Any outstanding balance against this line of credit will bear interest at a fixed rate of 1.0 percent. Accrued interest is payable on January 1, April 1, July 1, and October 1 of each year, with the entire unpaid principal balance due in full on July 1, 2024. As of September 30, 2022, the outstanding amount of this note was $1,000,000.

In September 2014, the Loan Fund entered into an unsecured note agreement with Wilmington Savings Fund Society in the amount of $750,000. The note was renewed and increased by $250,000 to $1,000,000 in 2018. The note bears interest at a fixed rate of 4.25 percent (previously 5.41 percent). Accrued interest is payable quarterly with the entire unpaid principal balance due in full on January 31, 2024 (previously January 30, 2021). As of September 30, 2022, the outstanding amount of this note was $1,000,000.

In June 2015, the Loan Fund entered into an unsecured note agreement with the Opportunity Finance Network in the amount of $1,000,000. The note was renewed and increased by $500,000 to $1,500,000 in 2018. The note bears interest at a fixed rate of 3.0 percent. Accrued interest is payable quarterly on March 31, June 30, September 30, and December 31, and the entire unpaid principal balance is due in full on December 31, 2024 (previously December 31, 2021) As of September 30, 2022, the outstanding amount of this note was $1,500,000.

In December 2016, the Loan Fund entered into an unsecured note agreement with the United States Department of Agriculture in the amount of $5,000,000. The note bears interest at a fixed rate of 2.375 percent. Accrued interest is paid in monthly installments on the last day of each month, and the principal is amortized over the life of the note with a maturity date of December 20, 2056. The note requires an Irrevocable Letter of Credit for an outside institution as collateral in the minimum amount equal to the principal and interest installments due during the first five years. The note bears interest at a fixed rate of 1.00 percent. Accrued interest is due on January 1, April 1, July 1, and October 1 of each year. The outstanding principal payment as of December 5, 2020 is to be paid off in five equal installments with a maturity

NOTE 8 LONG-TERM DEBT (cont'd)

date of December 5, 2024. As of September 30, 2022, NeighborGood Partners has not drawn down on these loans.

In August 2017, the Loan Fund entered into an equity equivalent ("EQ2") investment agreement with CDFI Community Investment Fund I, Inc. in the amount of $250,000. The note bears interest at a fixed rate of 3.0 percent. Accrued interest is due on January 1, April 1, July 1, and October 1 of each year, with the entire unpaid principal balance due in full on September 30, 2027. As of September 30, 2022, the outstanding amount of this note was $250,000.

In July 2019, the Loan Fund entered into an unsecured note agreement with Woodforest National Bank in the amount of $250,000. The note bears interest at a fixed rate of 4.0 percent. Accrued interest is due monthly, with the entire unpaid principal balance due in full on November 30, 2022 (previously July 9, 2022). As of September 30, 2022, the outstanding amount of this note was $250,000.

In February 2020, the Loan Fund entered into an unsecured note agreement with Domestic and Foreign Missionary Society of the Protestant Episcopal Church in the United States of America in the amount of $300,000. The note bears interest at a fixed rate of 3.0 percent. Accrued interest is due quarterly, with the entire unpaid principal balance due in full on March 31, 2023. As of September 30, 2022, the outstanding amount of this note was $300,000.

In November 2020, the Loan Fund entered into an unsecured line of credit agreement with U.S. Bank in the amount of $2,000,000. The note bears interest at a fixed rate of 2.49 percent. Accrued interest is due monthly, with the entire unpaid principal balance due in full on November 17, 2023. As of September 30, 2022, the outstanding amount of this note was $2,000,000.

In June 2020, the Loan Fund entered into an unsecured loan agreement with the State of Maryland Department of Housing and Community Development in the amount of $400,000. The loan was provided through the Strategic Demolition Fund Program. The loan bears no interest. Repayment of the loan is deferred until the Hearn property (the Other Real Estate Owned property) is sold or transferred. The first $1,350,000 of sales proceeds will be given to NeighborGood Partners, and any residual will be given to the State of Maryland Department of Housing and Community Development as repayment of the loan. The remaining amount of the loan, if any, will be forgiven. As of September 30, 2022, the outstanding amount of this loan was $400,000.

In November 2021, the Loan Fund entered into an unsecured note agreement with the Opportunity Finance Network in the amount of $1,500,000. The note bears interest at a fixed rate of 3.0 percent. Accrued interest is payable quarterly on March 31, June 30, September 30, and December 31, and the entire unpaid principal balance is due in full on November 4, 2031. As of September 30, 2022, the outstanding amount of this note was $1,500,000.

NOTE 8 LONG-TERM DEBT (cont'd)

The maturity of the long-term debt is as follows:

Year Ending September 30,	
2023	$ 550,000
2024	6,900,000
2025	1,500,000
2026	1,850,000
2027	4,250,000
Thereafter	3,000,000
	$ 18,050,000

NOTE 9 COMMITMENTS

Loans closed but not disbursed as of September 30, 2022 were as follows:

Loan Amount	Disbursed at 09/30/2022	Undisbursed
$ 8,997,019	$ 2,439,654	$ 6,557,365

NeighborGood Partners issued a line of credit to the Loan Fund in the amount of $2,000,000. The line of credit was renewed and is now set to expire September 30, 2022. Advances under the line shall be repaid to NeighborGood Partners without interest. However, the Loan Fund must pay NeighborGood Partners an annual fee of .5 percent of the amount of the line of credit. As of September 30, 2022, there were no advances against the line of credit.

On November 12, 2020, the Loan Fund issued a letter of credit in favor of Delaware State Housing Authority as beneficiary at the request of Solomon's Court, LLC. for a construction contract completion guarantee in an amount not to exceed $38,000. The letter of credit expires on June 1, 2023. As of September 30, 2022, the Loan Fund has not been notified of non-completion of the construction contract.

On December 21, 2021, the Loan Fund issued a letter of credit in favor of Delaware State Housing Authority as beneficiary at the request of Millsboro Landing, L.P. for a construction contract completion guarantee in an amount not to exceed $198,176. The letter of credit expires on June 1, 2023. As of September 30, 2022, the Loan Fund has not been notified of non-completion of the construction contract.

NOTE 9 COMMITMENTS (cont'd)

On June 8, 2021, NeighborGood Partners entered into an indemnification agreement among Bernstein TC Investors, LLC ("Bernstein") and U.S. Bancorp Community Development Corporation ("USBCDC"). The agreement is related to a NeighborGood allocation of $2.5 million of New Markets Tax Credits. Per the agreement, NeighborGood and Bernstein agreed to indemnify USBCDC in the event of a tax credit recapture, and shall share equally in any liability related to the recapture in an amount not to exceed $975,000 ($487,500 each) plus interest and penalties.

NOTE 10 CONCENTRATION OF CREDIT RISK

The Loan Fund maintains cash balances at three financial institutions which may at times exceed the Federal Deposit Insurance Corporation ("FDIC") limit of $250,000 per depositor. The amount that exceeded the FDIC limit as of September 30, 2022 was $4,132,323 The Loan Fund has not experienced any losses in such accounts. Management of the Loan Fund believes it is not exposed to any significant credit risk on its cash balances.

NOTE 11 RELATED PARTY TRANSACTIONS

The Loan Fund representatives at the committee and staff level adhere to a disclosure and conflict-of-interest policy in the event a customer or loan request comes in wherever there may be involvement with a loan fund committee member. The Loan Fund's policies require any individual to recuse themselves from any matters regarding a potential conflict of interest.

As of September 30, 2022, the Loan Fund had outstanding loans totaling $1,031,164 to the Dover Interfaith Mission for Housing, Inc. A member of the Board of Directors of Dover Interfaith Mission for Housing, Inc. is on the Board of Directors of NeighborGood Partners. Also, an employee of NeighborGood Partners is a member of the Board of Directors of Dover Interfaith Mission for Housing, Inc.

As of September 30, 2022, the Loan Fund had outstanding loans totaling $587,995 to Solid Rock Baptist Church. The Pastor of Solid Rock Baptist Church is an employee of NeighborGood Partners.

As of September 30, 2022, the Loan Fund had outstanding loans totaling $10,000 to Central Delaware Housing Collaborative. An employee of NeighborGood Partners is a member of the Board of Directors of the Central Delaware Housing Collaborative.

As of September 30, 2022, NeighborGood Partners had outstanding loans totaling $114,865 to Harrington Senior Center, Inc. An employee of NeighborGood Partners is a member of the Board of Directors of Harrington Senior Center, Inc.

NOTE 12 LIQUIDITY AND AVAILABILITY OF RESOURCES

The Loan Fund's financial assets consist of cash and cash equivalents, investments, the current portion of loans receivable, interest receivable, and other receivables.

The following reflects the Loan Fund's financial assets as of September 30, 2021, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the balance sheet date. Amounts not available include amounts set aside by the Board that could be drawn upon if the governing board decides to approve such action.

Financial assets, at year end	$ 14,402,737
Less unavailable for general expenses within one year due to:	
Restricted due to purpose	-
Financial assets available to meet cash needs for general expenses within one year	$ 14,402,737

The Loan Fund maintains a policy of structuring its financial assets to be available as its general expenditures, liabilities, and other obligations come due. As described in Note 13, the Loan Fund also has an available line of credit in the amount of $250,000, which it could draw upon in the event of an unanticipated liquidity need.

NOTE 13 LINE OF CREDIT

In August 2017, the Loan Fund entered into an unsecured line of credit agreement with Shore United Bank in the amount of $250,000. Outstanding amounts against the line of credit are charged a variable rate which is based on the highest prime rate published in the Wall Street Journal (6.25 percent as of September 30, 2022). As of September 30, 2022, the outstanding balance was $0.

NOTE 14 SUBSEQUENT EVENTS

The Loan Fund has evaluated all subsequent events through March 7, 2023, the date the financial statements were available to be issued.