Neighborhood Concepts, Inc. and Subsidiaries

Consolidated Financial Report
December 31, 2019

Contents

Independent Auditor's Report

To the Board of Directors
Neighborhood Concepts, Inc. and Subsidiaries

Report on the Financial Statements
We have audited the accompanying consolidated financial statements of Neighborhood Concepts, Inc. and its subsidiaries, which comprise the consolidated statement of financial position as of December 31, 2019, 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).

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

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of Quality Housing Partners No. 16, LP, a wholly owned subsidiary, whose statements reflect total assets constituting 28 percent of consolidated total assets at December 31, 2019, and total revenue constituting 31 percent of consolidated total revenue for the year then ended. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Quality Housing Partners No. 16, LP, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion
In our opinion, based on our audit and the report of the other auditor, the financial statements referred to above present fairly, in all material respects, the financial position of Neighborhood Concepts, Inc. and its subsidiaries as of December 31, 2019, 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.

Other Matter
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 and changes in net assets of the individual companies and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Haley & Woods, LLP

Birmingham, Alabama
May 27, 2020

Neighborhood Concepts, Inc. and Subsidiaries

Consolidated Statement of Financial Position
December 31, 2019

Assets	
Current assets:	
Cash	$ 563,223
Cash from discontinued operations	1,039
Accounts receivable	58,458
Accounts receivable from discontinued operations	1,097
Grants receivable	3,000
Other current assets	15,587
Other current assets from discontinued operations	5,434
Total current assets	647,838
Property and equipment, net	2,344,305
Property and equipment, net from discontinued operations	1,884,948
Total property and equipment, net	4,229,253
Other assets:	
Developer fees receivable	289,057
NARLF loans receivable, net	1,074,392
Notes receivable – related parties, net	2,529,546
Notes receivable – unrelated parties, net	43,984
Restricted deposits and funded reserves	172,541
Restricted deposits and funded reserves from discontinued operations	12,869
Total other assets	4,122,389
Total assets	$ 8,999,480
Liabilities and Net Assets	
Current liabilities:	
Accounts payable	$ 20,423
Accounts payable from discontinued operations	4,224
Accrued expenses	112,151
Accrued expenses from discontinued operations	10,297
Lines of credit	463,975
Current portion of long-term debt	1,053,205
Current portion of long-term debt from discontinued operations	49,272
Prepaid revenue from discontinued operations	918
Total current liabilities	1,714,465
Long-term liabilities:	
Long-term debt, net of current portion	2,223,855
Long-term debt, net of current portion from discontinued operations	2,050,514
Tenant deposits held in trust	13,870
Tenant deposits held in trust from discontinued operations	11,450
Developer fees payable	595,507
Investment deficit in partnerships	30,325
Total long-term liabilities	4,925,521
Total liabilities	6,639,986
Net assets:	
Without donor restrictions	2,353,420
Without donor restrictions from discontinued operations	(246,187)
With donor restrictions	342,145
Total net assets	2,449,378
Non-controlling interest in subsidiary	(89,884)
Consolidated net assets	2,359,494
Total liabilities and net assets	$ 8,999,480

See notes to consolidated financial statements.

Neighborhood Concepts, Inc. and Subsidiaries

Consolidated Statement of Activities
Year Ended December 31, 2019

Changes in net assets without donor restrictions:	
Revenue:	
Asset management fees	$ 104,518
Contributions	1,367
Developer and consulting fees	120,102
Grant revenue	18,000
Miscellaneous	19,054
Rental income	308,447
Net assets released from restrictions	133,119
Total revenue	704,607
Operating expenses:	
Program services	833,569
Supporting services	
General and administrative	51,191
Fundraising	500
Total expenses	885,260
Operating expenses in excess of revenue	(180,653)
Other income (expenses):	
Loss from investments in partnerships	(54)
Interest income	95,988
Forgiveness of debt	237,800
Interest expense	(89,126)
Total other income (expenses)	244,608
Increase in net assets without donor restrictions	63,955
Changes in net assets with donor restrictions:	
Contributions	750
Grant revenue	323,200
Net assets released from restrictions	(133,119)
Increase in net assets with donor restrictions	190,831
Increase in net assets before effects of discontinued operations	254,786
Discontinued operations	(83,652)
Increase in net assets	171,134
Net loss attributable to non-controlling interest	6
Increase in net assets attributable to Neighborhood Concepts, Inc. and Subsidiaries	$ 171,140

See notes to consolidated financial statements.

Neighborhood Concepts, Inc. and Subsidiaries

Consolidated Statement of Changes in Net Assets
Year Ended December 31, 2019

	Net Assets Attributable to Neighborhood Concepts, Inc. and Subsidiaries	Non-controlling Interest in Subsidiary	Consolidated Net Assets
Net assets, December 31, 2018	$ 2,278,238	$ (89,878)	$ 2,188,360
Increase in net assets	171,140	(6)	171,134
Net assets, December 31, 2019	$ 2,449,378	$ (89,884)	$ 2,359,494

See notes to consolidated financial statements.

Neighborhood Concepts, Inc. and Subsidiaries

Consolidated Statement of Functional Expenses
Year Ended December 31, 2019

	Program Services				Supporting Services		
	Housing Program	Advocacy	Economic Development	Total Program Services	General and Administrative	Fundraising	Total
Expenses:							
Accounting	$ 5,593	$ 4,983	$ 15,645	$ 26,221	$ 4,983	$ -	$ 31,204
Consulting and contract	6,126	-	9,939	16,065	-	-	16,065
Dues and subscriptions	1,557	206	6,475	8,238	735	-	8,973
Equipment rental	445	445	1,390	2,280	445	-	2,725
Fundraising	-	-	-	-	-	500	500
Insurance	20,710	2,769	8,309	31,788	2,769	-	34,557
Legal	6,345	-	1,825	8,170	1,850	-	10,020
Management fees	21,755	-	-	21,755	-	-	21,755
Marketing	2,179	12	1,044	3,235	12	-	3,247
Meetings	575	170	2,083	2,828	411	-	3,239
Miscellaneous	2,621	83	5,453	8,157	314	-	8,471
Office supplies	5,543	465	1,993	8,001	1,361	-	9,362
Payroll taxes	8,952	2,934	9,578	21,464	2,042	-	23,506
Provision for bad debts	1,200	-	-	1,200	-	-	1,200
Provision for loan losses	-	-	41,161	41,161	-	-	41,161
Rent	4,333	3,834	12,000	20,167	3,833	-	24,000
Repairs and maintenance	87,684	-	-	87,684	-	-	87,684
Resident services	18,655	-	-	18,655	-	-	18,655
Salary, wages, and benefits	126,512	40,967	126,390	293,869	26,180	-	320,049
Taxes and licenses	15,665	-	1,190	16,855	662	-	17,517
Training and education	2,869	-	525	3,394	486	-	3,880
Travel	7,809	727	6,646	15,182	672	-	15,854
Utilities and technology	72,838	1,822	5,596	80,256	1,855	-	82,111
Total before depreciation	419,966	59,417	257,242	736,625	48,610	500	785,735
Depreciation	96,944	-	-	96,944	2,581	-	99,525
Total expenses	$ 516,910	$ 59,417	$ 257,242	$ 833,569	$ 51,191	$ 500	$ 885,260

See notes to consolidated financial statements.

Neighborhood Concepts, Inc. and Subsidiaries

Consolidated Statement of Cash Flows
Year Ended December 31, 2019

Cash flows from operating activities:	
Change in net assets	$ 171,134
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	99,525
Depreciation from discontinued operations	102,396
Amortization of deferred financing costs	784
Amortization of deferred financing costs from discontinued operations	4,774
Provision for loan losses (NARLF)	41,161
Provision for bad debts	1,200
Loss on disposal of property and equipment	77
Interest accrued on notes receivable – related parties	(2,000)
Interest accrued on developer fees payable	30,027
Loss from investments in partnerships	54
Forgiveness of debt	(237,800)
(Increase) decrease in:	
Accounts receivable	(40,394)
Accounts receivable from discontinued operations	5,567
Grant receivable	(3,000)
Other current assets	1,374
Other current assets from discontinued operations	(1,184)
Developer fees receivable	(18,070)
(Decrease) increase in:	
Accounts payable	(4,526)
Accounts payable from discontinued operations	(40,809)
Accrued expenses	6,067
Prepaid revenue from discontinued operations	9
Tenant deposits held in trust	(250)
Tenant deposits held in trust from discontinued operations	(850)
Net cash provided by operating activities	115,266
Cash flows from investing activities:	
Expenditures on property and equipment from discontinued operations	(79,113)
Issuance of NARLF loans receivable	(517,951)
Payments received on NARLF loans receivable	261,366
Payments received on notes receivable – related parties	495,817
Contributions to investments in partnerships	(2,455)
Distributions received from investments in partnerships	4,766
Net cash provided by investing activities	162,430
Cash flows from financing activities:	
Net proceeds on lines of credit	120,818
Proceeds from the issuance of long-term debt	501,115
Proceeds from the issuance of long-term debt from discontinued operations	121,996
Principal payments on long-term debt	(876,348)
Principal payments on long-term debt from discontinued operations	(46,877)
Net cash used in financing activities	(179,296)
Increase in cash and restricted cash	98,400
Cash and restricted cash at beginning of year	651,272
Cash and restricted cash at end of year	$ 749,672
Supplemental disclosure of cash flow information:	
Cash paid for interest	$ 52,091
Cash paid for interest from discontinued operations	$ 80,175

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 (NARLF), a U.S. Treasury certified Community Development Financial Institution (CDFI) that provides business loans to support economic development in north Alabama, Quality Housing Partners No. 16, LP (QHP), which owns and operates an apartment complex with 56 rental units named Meadow Oaks Apartments located in Rainbow City, Alabama, and NCI Mountain Ridge, LLC, general partner of Mountain Ridge Limited Partnership (MRLP), which owns and operates an apartment complex with 50 rental units named Mountain Ridge Apartments located in Huntsville, Alabama. NCI is MRLP's limited partner. As fully described in Note 17, Mountain Ridge Apartments was sold in February 2020 and all MRLP operations ceased. As such, MRLP is reported as a discontinued operation in the consolidated financial statements as of and for the year ended December 31, 2019. 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
- HHD Meadow Oaks GP, Inc.
- 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 Herren Hill, LLC**
- NCI Indian Creek, LLC
- NCI LaFayette Village, LLC**
- NCI Pine Ridge, LLC
- NCI Quail Run, LLC
- NCI Ridge Chase, LLC
- NCI Rolling Hills, LLC
- NCI Virginia Meadows, LLC
- Spring Branch, LLC

**The Organization has formed this wholly owned subsidiary but has not yet invested in any partnerships as of December 31, 2019.

As of and during the year ended December 31, 2018, Cottages at Indian Creek, LLC (Cottages), which is developing an apartment complex to own and operate, was considered a wholly owned subsidiary as NCI Indian Creek, LLC was the sole member. During November 2019, in an amendment and restatement to Cottage's operating agreement, an unrelated third party contributed capital and was admitted as the

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

investor member with a 99.99% membership interest in Cottages. As such, NCI no longer has control of Cottages, which resulted in a change in reporting entity that was retrospectively applied to January 1, 2019. As operations had not begun in 2018, there was no change in net assets as of December 31, 2018.

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.

The Organization is also a 50% member in Common Ground LLC, a developer entity, which is the developer of record for Cottages. Common Ground, LLC was active in Cottages development activities during 2019 and earned developer fees, which were immediately distributed to NCI and reflected as such in the accompanying statement of activities.

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 recognition: The Organization receives support from asset management fees, contributions, developer and consulting fees, grants, 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 and grants are recognized when the donor or grantor makes a commitment for the grant or promise to give to the Organization that is, in substance, unconditional. 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.

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.

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

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, 2019.

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, 2019.

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, 2019.

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
Land improvements	20
Buildings	40
Building improvements	15-25
Furniture and equipment	5-10
Computer equipment and software	3

Deferred financing costs: Financing costs are amortized using the straight-line method over the expected life of the related debt and are presented as a direct deduction from the face amount of the financings (see Note 10). The related expense is included in interest expense and amortization of deferred financing costs in the statement of operations.

NARLF loans receivable and allowance for loan losses: NARLF 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, 2019, 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 solely to the past 30 days' interest and the remainder is applied to 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, 2019, one loan with a balance of $52,000 was 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 NARLF's risk rating system, which considers, among other factors, borrower financial condition and other risks impacting the loan portfolio. As of December 31, 2019, no NARLF loans receivable were considered impaired.

A loan would be considered impaired when, based on current information and events, it is probable that NARLF 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.

NARLF 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, 2019, the allowance for loan losses totaled $80,868.

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, 2019, 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 Herren Hill, LLC, NCI Indian Creek, LLC; 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 2016.

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

Recently adopted accounting pronouncements: In May 2014, the FASB issued Accounting Standards Update (ASU) 2014-09, *Revenue From Contracts With Customers (Topic 606),* which specifies that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve this, the entity should apply certain steps outlined in the amendment. This ASU will supersede the revenue recognition requirements in Topic 605, *Revenue Recognition*, and most industry-specific guidance. This guidance became effective for the Organization's financial statements for the year ending December 31, 2019. This adoption of ASU 2014-09 did not have a significant impact on the Organization's consolidated financial position or changes in net assets.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. ASU 2016-15 provides guidance on how certain cash receipts and cash payments should be presented and classified in the statement of cash flows with the objective of reducing existing diversity in practice with respect to these items. This guidance became effective for the Organization's financial statements for the year ending December 31, 2019. This adoption of ASU 2014-09 did not have a significant impact on its consolidated statement of cash flows.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash* (a consensus of the FASB Emerging Issues Task Force), which provides guidance on the presentation of restricted cash or restricted cash equivalents in the statement of cash flows. This guidance became effective for the Organization's financial statements for the year ending December 31, 2019. ASU 2016-18 was applied using a retrospective transition method.

In June 2018, the FASB issued ASU 2018-08, Not-for-Profit Entities (Topic 958): *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which clarifies and improves the scope and the accounting guidance for contributions received and contributions made. The amendments in this update should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, Not-for-Profit Entities, or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. This guidance became effective for the Organization's financial statements for the year ending December 31, 2019. This adoption of ASU 2018-08 did not have a significant impact on the Organization's consolidated financial position or changes in net assets.

Recent accounting pronouncements: In February 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842). The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of activities. The new standard is effective for fiscal years beginning after December 15, 2020. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. In July 2018, the FASB issued ASU 2018-11, *Leases (Topic 842): Targeted Improvements*, which provides an additional transition method by allowing entities to initially apply the new leases standard at the adoption date and recognize a cumulative-effect adjustment to the opening balance of net assets in the period of adoption. The Organization is currently evaluating the impact the pending adoption of the new standard will have on its consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which applies to all entities and most financial assets that are not measured at fair value through net income. The underlying premise of the ASU is that financial assets measured at amortized cost should be presented at the net amount expected to be

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

collected, through an allowance for credit losses that is deducted from the amortized cost basis. The allowance for credit losses should reflect management's current estimate of credit losses that are expected to occur over the remaining life of a financial asset. This is in contrast to existing guidance whereby credit losses generally are not recognized until they are incurred. Entities that are not public business entities will be required to adopt the ASU in fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021, with early adoption permitted. The Organization is currently evaluating the effect that the standard will have on the consolidated financial statements.

Subsequent events: Subsequent events have been evaluated through May 27, 2020, which is the date the consolidated financial statements were available for issuance.

Note 2. Liquidity

As of December 31, 2019, the Organization had financial assets available within one year of the statement of financial position date for general expenditure as follows:

Cash	$ 563,223
Cash from discontinued operations	1,039
Accounts receivable	58,458
Accounts receivable from discontinued operations	1,097
Grants receivable	3,000
	626,817
Less those unavailable for general expenditures within one year, due to:	
Donor-imposed restrictions	(342,145)
	$ 284,672

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, 2019:

	Continuing Operations	Discontinued Operations
Land	$ 210,913	$ 221,630
Buildings and improvements	4,242,289	2,909,544
Furniture and equipment	225,239	318,128
Computer equipment and software	18,555	395,985
Less accumulated depreciation	(2,352,691)	(1,960,339)
Total	$ 2,344,305	$ 1,884,948

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, 2019:

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. 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.	$ 138,909
Clarkston Square, LP:	
The Organization provided developer consulting services to Clarkston Square, LP, which owns and operates Clarkston Square, a 56-unit apartment complex. The Organization is a non-controlling general partner through its wholly owned subsidiary, NCI Clarkston, LLC. NCI's portion of developer consulting services was $292,500, all of which was earned in 2016 when the project was completed. 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 Clarkston Square, LP.	49,164
Flint Rivers, LP:	
The Organization provided developer consulting services to Flint Rivers, LP, which owns and operates Flint Rivers Apartments, a 72-unit apartment complex. The Organization is a non-controlling general partner through its wholly owned subsidiary, NCI Flint River, LLC. NCI's portion of developer consulting services was $340,000, all of which was earned in 2016 when the project was completed. 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 Flint Rivers, LP.	56,997
Cottages at Indian Creek, LLC:	
The Organization provided developer consulting services to Cottages at Indian Creek, LLC, which is constructing 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 2019 was $109,835. The outstanding balance of the fee is required to be repaid when the completed construction project receives its certificate of occupancy and cost certification.	43,987
Total	$ 289,057

Note 5. NARLF Loans Receivable

Through its wholly owned subsidiary, NARLF, the Organization has several secured loans receivable from small businesses with maturity dates ranging from one year to less than eight years and fixed interest rates ranging from 5% to 12% as of December 31, 2019. NARLF 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. $1,027,390 was receivable in one to five years, $35,150 was receivable in six years and $92,720 was receivable in 13 years. As of December 31, 2019, the balance of all the small business loans was $1,155,260, net of an allowance for loan losses of $80,868.

Loan origination/risk management: NARLF 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, 2019. Borrowers on all loans with payments past due have been making payments to bring the accounts current.

30 – 59 days past due	$ 1,630
60 – 89 days past due	-
90+ days	6,929
Total past due	8,559
Current	1,146,701
Less allowance for loan losses	(80,868)
Total	$ 1,074,392

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, 2019:

	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, 2019, 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. The balance of the note receivable was $500,000 and is expected to be forgiven when the Organization's related note payable of $500,000 is forgiven. See Note 10 for further detail.	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, 2019, 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.	12,042	-	12,042
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	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, 2019, 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. The balance of the note receivable was $500,000 and is expected to be forgiven when the Organization's related note payable of $500,000 is forgiven. See Note 10 for further detail.	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, 2019, 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.	$ 12,042	$ -	$ 12,042
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, 2019, interest receivable was $6,701 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.	356,701	-	356,701
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 once it is released.	119,416	-	119,416
Total	$ 3,512,909	$ (983,363)	$ 2,529,546

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, 2019, 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. Restricted Deposits and Funded Reserves

Restricted deposits and funded reserves include an operating deficit reserve for QHP, reserves for the replacement, improvement, or major repair of MRLP's and QHP's property and equipment, reserves for the payment of annual property taxes and property insurance premiums for MRLP and QHP, and tenant deposits held in trust. Restricted deposits and funded reserves consisted of the following as of December 31, 2019:

	Continuing Operations	Discontinued Operations
Operating defict reserve	$ 69,315	$ -
Replacement reserve	87,817	37
Tax and insurance escrow	1,464	1,382
Tenant deposits held in trust	13,945	11,450
	$ 172,541	$ 12,869

Note 9. Lines of Credit

NCI has a line of credit with a financial institution that is typically renewed annually. The line of credit maximum funding amount is $600,000. As of December 31, 2019, there was an outstanding balance of $463,975. The Organization pays interest on the outstanding balance at the lender's prime rates, which was 4.75% at December 31, 2019. The loan is collateralized by accounts receivable of the Organization.

NARLF has an unsecured promissory note with Brightbridge, Inc. for $250,000, bearing interest at 1% over the Wall Street Journal Prime rate per annum. Interest only payments are due through the loan's maturity date of October 9, 2029. As of December 31, 2019, there was no outstanding balance on the note.

NARLF has an unsecured promissory note with Federation of Appalachian Housing Enterprises, Inc. for $250,000 for start-up and capital expansion loans. The note bears interest at 4.5% per annum. Interest only payments are due through the loan's maturity date of December 31, 2020. As of December 31, 2019, there was no outstanding balance on the note.

Note 10. Long-Term Debt

The following summarizes long-term debt from continuing operations as of December 31, 2019:

NCI notes payable to a credit union. Conditions of the two $500,000 notes stipulate that no interest shall accrue unless the Organization is in default of these notes, as defined in the promissory agreements. The notes are unsecured and the full amount of the notes will be forgiven so long as the terms and provisions of the loan agreements are fulfilled and the restriction provisions of the retention mechanism agreements are complied with for the 15-year retention period ending October 7, 2020. Upon any default, interest shall begin accruing at a variable rate of prime plus 2.50% with principal and interest payments due from the time of default, and amortizing the remaining indebtedness over the remainder of the 15-year compliance period, which began October 7, 2005.	$ 1,000,000
NCI note payable to a financial institution. Conditions of the $350,000 note stipulate that interest accrues at an annual rate of 0.50%, as defined in the promissory agreement. The note is 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 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.	69,455
NARLF unsecured commercial loan with Appalachian Community Capital Corporation, bearing interest at 2% per annum. Interest only payments are due through the loan's maturity date of January 31, 2023.	50,000
NARLF promissory note with Redstone Federal Credit Union for an unsecured $5,000,000 micro-lending loan, with a variable interest rate based on the US Prime Rate less a margin of 3.00% (1.75% at December 31, 2019). Interest only payments are due and payable monthly through January 2021, and principal and interest payments in the amount of $89,574 are due monthly thereafter until final loan maturity in January 2026.	509,615
QHP mortgage note payable to Regions Bank, collateralized by land, building, cash, receivables and income, maturing April 2022. The loan requires monthly payments of $5,689 (including principal and interest) and bears interest at a variable rate based on the current five year Treasury Note plus two hundred fifty basis points (4.35% at December 31, 2019).	127,975
QHP mortgage note payable to Alabama's HOME Investment Partnership Program collateralized by land, building, cash, receivables, and income. No payment due until maturity in April 2022. Interest accrues annually at 1/2 of 1% until maturity.	1,171,777
	3,278,822
Less: current maturities	(1,053,205)
Less: unamortized deferred financing costs	(1,762)
Total	$ 2,223,855

Note 10. Long-Term Debt (Continued)

The following summarizes long-term debt from discontinued operations as of December 31, 2019:

MRLP mortgage note payable to a financial institution, due in monthly installments of $8,445 including interest at 4.0%, maturing on March 1, 2024. Substantially all of the rental property and equipment, as well as an assignment of rents, is pledged as collateral on the mortgage.	$ 1,490,979
MRLP second mortgage note payable to a financial institution. The original agreement was renewed in March 2019. Under the new terms, the note bears interest at a fixed rate of 5.25% with principal and interest payments of $1,512 due monthly until a final balloon payment of $230,546 is due on the loan maturity in April 2023. Substantially all of the rental property and equipment, as well as an assignment of rents, is pledged as collateral on the mortgage.	245,931
MRLP note payable to the City of Huntsville, bearing interest at 3% per annum. Principal and interest payments of $2,151 are payable quarterly over a 40 year term until the loan matures in October 2058. The rental property is pledged as collateral on the mortgage.	197,413
MRLP non-interest bearing mortgage note payable to Progress Bank and Trust through the Affordable Housing Program (AHP) for a total principal amount of $185,000. No payment is due unless MRLP violates the restrictive covenants and retention agreement within the agreement period, which is 15 years after the completion of the rehabilitation of the rental property. The rental property is pledged as collateral on the mortgage.	185,000
	2,119,323
Less: current maturities	(49,272)
Less: unamortized deferred financing costs	(19,537)
Total	$ 2,050,514

Maturities of the mortgage notes are as follows:

	Continuing Operations	Discontinued Operations
Year Ending December 31:		
2020	$ 1,053,205	$ 49,272
2021	565,181	51,551
2022	1,190,981	53,721
2023	50,000	279,099
2024	-	1,317,604
Thereafter	419,455	368,076
	$ 3,278,822	$ 2,119,323

Note 11. Developer Fees Payable

QHP entered into a development agreement with an affiliate of the Class B Limited Partner, for its services in overseeing the development of the apartment complex until all development work was complete. To the extent that development proceeds were not sufficient to pay the entire developer fee, QHP was obligated to pay the unpaid amount. The unpaid amount accrues interest at 5.31% compounded annually. Payment of developer fee principal and interest will be made from net cash flow as defined in the limited partnership agreement. As of December 31, 2019, outstanding developer fee principal totaled $189,667 and accrued interest totaled $405,840. For the year ended December 31, 2019, interest expense totaled $30,027 and is included in interest expense on the accompanying consolidated statement of activities.

Note 12. 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%	$ -	$ (1,566)	$ 1,566	$ -
Clarkston Square, LP	Non-controlling GP	NCI Clarkston, LLC	0.0100%	7,506	-	(23)	7,483
Common Ground, LLC	Member	NCI	50.0000%	500	2,455	(4,723)	(1,768)
Conners Senior Village, LP	Non-controlling GP	CSV Housing, LLC owned 100% by NBA, Inc.	0.0100%	(5,289)	-	(10)	(5,299)
Conners Senior Village Phase II, LP	Non-controlling GP	Douglas Housing Ventures II, II, LLC (NCI owns 10%)	0.0100%	1	-	(2)	(1)
Cottages at Indian Creek, LLC	Member	NCI Indian Creek, LLC	0.0100%	-	-	-	-
Cotton Run Apartments, Ltd.	Limited Partner	NCI Cotton Run, LLC	98.9900%	-	(525)	525	-
Flint Rivers, LP	Non-controlling GP	NCI Flint River LLC	0.0045%	7,557	-	(10)	7,547
Franklin Hills, LP	Non-controlling GP	Franklin Housing, LLC	0.0007%	7,594	-	(2)	7,592
Headland Affordable Housing Partners, Ltd	Limited Partner	NCI Countryside Villas, LLC	99.9800%	-	-	-	-
Longleaf Senior Village, LP	Non-controlling GP	NCI Aiken Housing, LLC	0.0051%	12	-	(9)	3
Mallard Pointe, LP	Non-controlling GP	Mallard Pointe Partners, LLC	0.0100%				
		- 79% owned by NCI		44,168	-	(22)	44,146
		- 21% owned by Veristar Mallard Partners, LLC		(89,878)	-	(6)	(89,884)
Millbrook Affordable Housing Partners, Ltd.	Limited Partner	NCI Rolling Hills, LLC	1.0000%	-	-	-	-
Pine Ridge Apartments, Ltd	Limited Partner	NCI Pine Ridge, LLC	98.9900%	-	-	-	-
Ridge Chase Apartments, Ltd	Limited Partner	NCI Ridge Chase, LLC	98.9900%	-	-	-	-
Spring Branch, Ltd.	Non-controlling GP	Spring Branch, LLC	0.0100%	(131)	-	(13)	(144)
Tallassee Affordable Housing, Ltd.	Limited Partner	NCI Quail Run, LLC	1.0000%	-	-	-	-
Virginia Meadows Associates, Ltd.	Limited Partner	NCI Virginia Meadows, LLC	1.0000%	-	-	-	-
Virginia Meadows Associates, Ltd. #2	Limited Partner	NCI Virginia Meadows, LLC	1.0000%	-	(2,675)	2,675	-
				$ (27,960)	$ (2,311)	$ (54)	$ (30,325)

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 ($89,884) as of December 31, 2019, is reflected as non-controlling interest in subsidiary as a component of net assets in the accompanying consolidated statement of financial position.

Note 13. Net Assets with Donor Restrictions

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

CDFI Financial Assistance grant	$	299,190
Wells Fargo Promote the Parkway Small Business Program grant		15,000
Dotts scholarship fund		9,850
Regions Bank financial education grant		8,219
BBVA Master Mind Program grant		3,061
BBVA financial education grant		2,413
PNC Foundation - DownHome Portfolio Management		2,162
Alabama Civil Justice Foundation Healthy Impact program		1,500
BancorpSouth Resident Services grant		750
	$	342,145

Note 14. Net Assets Released from Restrictions

Net assets were released from donor restrictions during the year ended December 31, 2019 by satisfying specified donor restricted purposes as follows:

Lending to small businesses	$	72,320
Loan fund manager's salary		15,625
Loan fund software		4,338
Financial education		23,769
Resident services		15,250
Spring Branch community garden		817
Healthy impact services		1,000
Total	$	133,119

Note 15. Operating Leases

The Organization leases office space under an operating lease that expires in August 2020. Future minimum operating lease payments under the office space lease are due as follows:

Year Ending December 31:	
2020	16,000

Rent expense related to the office space for the year ended December 31, 2019 was $24,000, and is included in the accompanying consolidated statement of functional expenses.

Note 16. 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.

Note 16. Concentration (Continued)

Geographic concentration: The Organization has investments in partnerships located in Huntsville, Arab, Montgomery, Headland, Jackson, Phenix City, Millbrook, Tallassee, Thomasville and Rainbow City, Alabama, as well as Villa Rica, Georgia, Jasper, 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 17. Discontinued Operations

Effective December 4, 2019, MRLP entered into a purchase and sale agreement to sale Mountain Ridge Apartments to an unrelated third party for $3,250,000. The sale closed on February 20, 2020 resulting in an approximate $1,200,000 net gain on sale. MRLP’s long-term debt, described in Note 10, was settled in the transaction. All operations ceased and the remaining assets, after all liabilities were settled, totaling approximately $930,000 were distributed to NCI. The following is a reconciliation of the major classes of line items constituting change in net assets of discontinued operations that are presented in the consolidated statement of activities:

Major classes of line items consitutting change in net assets of discontinued operations	
Rental income	$ 344,208
Miscellaneous income	12,506
Program services, including depreciation expense of $102,396	(355,417)
Interest expense	(84,949)
Discontinued operations	$ (83,652)

Neighborhood Concepts, Inc. and Subsidiaries

Consolidating Statement of Financial Position
December 31, 2019

	Neighborhood Concepts, Inc.	North Alabama Revolving Loan Fund, LLC	Quality Housing Partners No. 16, LP	Mountain Ridge Limited Partnership	Total	Eliminations	Consolidated
Assets							
Current assets:							
Cash	$ 84,911	$ 475,805	$ 2,507	$ -	$ 563,223	$ -	$ 563,223
Cash from discontinued operations	-	-	-	1,039	1,039	-	1,039
Accounts receivable	72,934	-	2,399	-	75,333	(16,875)	58,458
Accounts receivable from discontinued operations	-	-	-	1,097	1,097	-	1,097
Grants receivable	3,000	-	-	-	3,000	-	3,000
Other current assets	1,100	-	14,487	-	15,587	-	15,587
Other current assets from discontinued operations	-	-	-	5,434	5,434	-	5,434
Total current assets	161,945	475,805	19,393	7,570	664,713	(16,875)	647,838
Property and equipment, net	2,822	-	2,341,483	-	2,344,305	-	2,344,305
Property and equipment, net from discontinued operations	-	-	-	1,884,948	1,884,948	-	1,884,948
Total property and equipment, net	2,822	-	2,341,483	1,884,948	4,229,253	-	4,229,253
Other assets:							
Developer fees receivable	289,057	-	-	-	289,057	-	289,057
NARLF loans receivable, net	-	1,074,392	-	-	1,074,392	-	1,074,392
Notes receivable – related parties, net	2,687,904	-	-	-	2,687,904	(158,358)	2,529,546
Notes receivable – unrelated parties, net	43,984	-	-	-	43,984	-	43,984
Restricted deposits and funded reserves	-	-	172,541	-	172,541	-	172,541
Restricted deposits and funded reserves from discontinued operations	-	-	-	12,869	12,869	-	12,869
Total other assets	3,020,945	1,074,392	172,541	12,869	4,280,747	(158,358)	4,122,389
Total assets	$ 3,185,712	$ 1,550,197	$ 2,533,417	$ 1,905,387	$ 9,174,713	$(175,233)	$ 8,999,480
Liabilities and Net Assets							
Current liabilities:							
Accounts payable	$ 3,242	$ 7,429	$ 9,752	$ -	$ 20,423	$ -	$ 20,423
Accounts payable from discontinued operations	-	-	-	4,224	4,224	-	4,224
Accrued expenses	-	-	129,026	-	129,026	(16,875)	112,151
Accrued expenses from discontinued operations	-	-	-	10,297	10,297	-	10,297
Lines of credit	463,975	-	-	-	463,975	-	463,975
Current portion of long-term debt	1,000,000	-	53,205	-	1,053,205	-	1,053,205
Current portion of long-term debt from discontinued operations	-	-	-	49,272	49,272	-	49,272
Prepaid revenue from discontinue operations	-	-	-	918	918	-	918
Total current liabilities	1,467,217	7,429	191,983	64,711	1,731,340	(16,875)	1,714,465
Long-term liabilities:							
Long-term debt, net of current portion	419,455	559,615	1,244,785	-	2,223,855	-	2,223,855
Long-term debt, net of current portion from discontinued operations	-	-	-	2,050,514	2,050,514	-	2,050,514
Tenant deposits held in trust	-	-	13,870	-	13,870	-	13,870
Tenant deposits held in trust from discontinued operations	-	-	-	11,450	11,450	-	11,450
Developer fees payable	-	-	595,507	-	595,507	-	595,507
Note payable - related party	-	124,459	9,000	-	133,459	(133,459)	-
Note payable - related party from discontinued operations	-	-	-	24,899	24,899	(24,899)	-
Investment deficit in partnerships	30,325	-	-	-	30,325	-	30,325
Total long-term liabilities	449,780	684,074	1,863,162	2,086,863	5,083,879	(158,358)	4,925,521
Total liabilities	1,916,997	691,503	2,055,145	2,151,574	6,815,219	(175,233)	6,639,986
Net assets:							
Without donor restrictions	1,329,086	546,062	478,272	-	2,353,420	-	2,353,420
Without donor restrictions from discontinued operations	-	-	-	(246,187)	(246,187)	-	(246,187)
With donor restrictions	29,513	312,632	-	-	342,145	-	342,145
Total net assets	1,358,599	858,694	478,272	(246,187)	2,449,378	-	2,449,378
Non-controlling interest in subsidiary	(89,884)	-	-	-	(89,884)	-	(89,884)
Consolidated net assets	1,268,715	858,694	478,272	(246,187)	2,359,494	-	2,359,494
Total liabilities and net assets	$ 3,185,712	$ 1,550,197	$ 2,533,417	$ 1,905,387	$ 9,174,713	$(175,233)	$ 8,999,480

Neighborhood Concepts, Inc. and Subsidiaries

Consolidating Statement of Activities
Year Ended December 31, 2019

	Neighborhood Concepts, Inc.	North Alabama Revolving Loan Fund, LLC	Quality Housing Partners No. 16, LP	Mountain Ridge Limited Partnership	Total	Eliminations	Consolidated
Changes in net assets without donor restrictions:							
Revenue:							
Asset management fees	$ 112,018	$ -	$ -	$ -	$ 112,018	$ (7,500)	$ 104,518
Contributions	1,367	-	-	-	1,367	-	1,367
Developer and consulting fees	109,835	10,267	-	-	120,102	-	120,102
Grant revenue	18,000	-	-	-	18,000	-	18,000
Miscellaneous	3,172	10,153	5,729	-	19,054	-	19,054
Rental income	-	-	308,447	-	308,447	-	308,447
Net assets released from restrictions	35,616	97,503	-	-	133,119	-	133,119
Total revenue	280,008	117,923	314,176	-	712,107	(7,500)	704,607
Operating expenses:							
Program services	227,187	257,242	349,140	-	833,569	-	833,569
Supporting services							
General and administrative	51,191	-	-	-	51,191	-	51,191
Fundraising	500	-	-	-	500	-	500
Total expenses	278,878	257,242	349,140	-	885,260	-	885,260
Revenue in excess of (less than) operating expenses	1,130	(139,319)	(34,964)	-	(173,153)	(7,500)	(180,653)
Other income (expenses):							
Loss from investments in partnerships	(54)	-	-	-	(54)	-	(54)
Interest income	10,497	85,171	320	-	95,988	-	95,988
Asset management fee	-	-	(7,500)	-	(7,500)	7,500	-
Forgiveness of debt	-	-	237,800	-	237,800	-	237,800
Interest expense	(18,949)	(26,259)	(43,918)	-	(89,126)	-	(89,126)
Total other income (expenses)	(8,506)	58,912	186,702	-	237,108	7,500	244,608
(Decrease) increase in net assets without donor restrictions	(7,376)	(80,407)	151,738	-	63,955	-	63,955
Changes in net assets with donor restrictions:							
Contributions	750	-	-	-	750	-	750
Grant revenue	38,200	285,000	-	-	323,200	-	323,200
Net assets released from restrictions	(35,616)	(97,503)	-	-	(133,119)	-	(133,119)
Increase in net assets with donor restrictions	3,334	187,497	-	-	190,831	-	190,831
(Decrease) increase in net assets before effects of discontinued operations	(4,042)	107,090	151,738	-	254,786	-	254,786
Discontinued operations	-	-	-	(83,652)	(83,652)	-	(83,652)
(Decrease) increase in net assets	(4,042)	107,090	151,738	(83,652)	171,134	-	171,134
Net loss attributable to non-controlling interest	6	-	-	-	6	-	6
(Decrease) increase in net assets attributable to Neighborhood Concepts, Inc. and Subsidiaries	$ (4,036)	$ 107,090	$ 151,738	$ (83,652)	$ 171,140	$ -	$ 171,140
Net assets, beginning of year	$ 1,279,257	$ 745,104	$ 326,534	$ (162,535)	$ 2,188,360	$ -	2,188,360
(Decrease) increase in net assets	(4,042)	107,090	151,738	(83,652)	171,134	-	171,134
Contribution from NCI	-	6,500	-	-	6,500	(6,500)	-
Distribution to NARLF	(6,500)	-	-	-	(6,500)	6,500	-
Net assets, end of year	$ 1,268,715	$ 858,694	$ 478,272	$ (246,187)	$ 2,359,494	$ -	$ 2,359,494