

**National Council for Community Development, Inc.
(d.b.a. Grow America)
and its Controlled Affiliates**

**Consolidated and Combined Financial Statements
State Financial Assistance in
Accordance with the State Single Audit Act
and Independent Auditor's Report**

December 31, 2023

**National Council for Community Development, Inc.
(d.b.a. Grow America) and its Controlled Affiliates**

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Independent Auditor's Report

To the Board of Directors
National Council for Community Development, Inc.
(d.b.a. Grow America)

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying consolidated and combined financial statements of National Council for Community Development, Inc. (d.b.a. Grow America) and its Controlled Affiliates (the "Organization"), which comprise the consolidated and combined statement of financial position as of December 31, 2023, and the related consolidated and combined statements of activities, changes in net assets, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, based on our audit and the report of other auditors, the accompanying consolidated and combined financial statements present fairly, in all material respects, the financial position of National Council for Community Development, Inc. (d.b.a. Grow America) and its Controlled Affiliates as of December 31, 2023, 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.

We did not audit the financial statements of Community Development Properties Scranton, Inc. ("CDP Scranton"), a wholly-owned subsidiary of the Organization, whose statements reflect total assets of \$42,051,023 as of December 31, 2023 and total revenues of \$3,703,206 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 CDP Scranton, is based solely on the report of the other auditors.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America ("GAAS") and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our 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. The financial statements of certain entities included in the consolidated and combined financial statements were not audited in accordance with *Government Auditing Standards*.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated and combined 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 and *Government Auditing Standards* 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 consolidated and combined financial statements.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated and combined 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 consolidated and combined financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated and combined financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 6, 2024, on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.



New York, New York
November 6, 2024

**National Council for Community Development, Inc.
(d.b.a. Grow America) and its Controlled Affiliates**

**Consolidated and Combined Statement of Financial Position
December 31, 2023**

<u>Assets</u>	
Cash and cash equivalents	\$ 70,900,840
Restricted cash	12,119,502
Accounts receivable, net	17,018,130
Interest receivable	2,073,273
Loans receivable (Note 4)	
Gross	\$ 234,745,095
Sold in secondary market	(88,788,770)
Allowance	<u>(13,385,672)</u>
Net	132,570,653
COVID-19 relief loans receivable	366,341
Other loans receivable	285,108
Loans receivable - participations, net	112,211
Loans held for sale	2,777,785
Grants receivable	6,973,764
Other assets	4,958,521
Loan servicing assets	1,616,583
Due from related parties (Note 13)	6,083,170
Defined benefit pension asset (Note 12)	858,088
Investments (Note 5)	9,184,738
Investments in operating partnerships (Note 6)	96,877,611
Service concession asset, net (Note 16)	26,906,495
Fixed assets, net (Note 7)	47,791,036
Right-of-use asset - operating (Note 18)	<u>4,273,008</u>
 Total assets	 <u><u>\$ 443,746,857</u></u>
<u>Liabilities and Net Assets</u>	
Interest payable (Note 10)	\$ 13,074,600
Accounts payable and accrued expenses	4,121,057
Recoverable grant, deferred revenue and advances payable (Note 9)	32,798,682
Other liabilities	4,732,849
Due to related parties (Note 13)	1,007,825
Lease liabilities - operating (Note 18)	4,708,889
Lease liabilities - finance (Note 17)	4,716,898
Grant payable	2,320,928
Client investment liabilities (Note 11)	15,738,172
Nonqualified pension plan liability (Note 5, Note 12)	1,203,534
Capital contributions payable (Note 8)	37,286,536
Mortgages, notes and bonds payable, net (Note 10)	<u>143,325,435</u>
 Total liabilities	 <u>265,035,405</u>
Commitments and contingencies (Note 14)	
Net assets	
Without donor restrictions	
Controlling interest	150,399,586
Noncontrolling interest	<u>11,635,090</u>
	162,034,676
With donor restrictions (Note 15)	<u>16,676,776</u>
 Total net assets	 <u>178,711,452</u>
 Total liabilities and net assets	 <u><u>\$ 443,746,857</u></u>

See Notes to Consolidated and Combined Financial Statements.

**National Council for Community Development, Inc.
(d.b.a. Grow America) and its Controlled Affiliates**

**Consolidated and Combined Statement of Activities
Year Ended December 31, 2023**

	Without donor restrictions	With donor restrictions	Total
Revenue and other support			
Interest income and expense, net	\$ (6,493,281)	\$ 288,818	\$ (6,204,463)
Contributions from client communities	-	516,200	516,200
Grant income	13,752,283	19,936,402	33,688,685
Premium on sale of loans	410,445	27,742	438,187
Technical assistance and training income	7,694,789	-	7,694,789
Other income	6,850,842	-	6,850,842
Loan servicing fees	488,384	33,043	521,427
Rental income	2,181,101	-	2,181,101
Investment income	1,190,645	-	1,190,645
Investment loss in operating partnerships	(1,494,617)	-	(1,494,617)
Management fee income	8,722,307	-	8,722,307
Net assets released from restrictions	19,778,619	(19,778,619)	-
Total revenue and other support	53,081,517	1,023,586	54,105,103
Expenses			
Program services	48,940,964	-	48,940,964
Management and general	11,839,869	-	11,839,869
Total expenses	60,780,833	-	60,780,833
Changes in net assets before other income	(7,699,316)	1,023,586	(6,675,730)
Other income			
Other components of net periodic benefit cost	10,933	-	10,933
Change in funded status of nonqualified pension plans other than net periodic pension cost	(128,379)	-	(128,379)
Change in funded status of qualified pension plan other than net periodic pension costs	613,278	-	613,278
Total other income	495,832	-	495,832
Changes in net assets	\$ (7,203,484)	\$ 1,023,586	\$ (6,179,898)

See Notes to Consolidated and Combined Financial Statements.

**National Council for Community Development, Inc.
(d.b.a. Grow America) and its Controlled Affiliates**

**Consolidated and Combined Statement of Changes in Net Assets
Year Ended December 31, 2023**

	Without donor restrictions			With donor restrictions	Total
	Controlling	Noncontrolling	Total	Controlling	
Beginning balance, January 1, 2023	\$ 150,050,185	\$ 17,305,978	\$ 167,356,163	\$ 15,653,190	\$ 183,009,353
Changes in net assets	(1,532,596)	(5,670,888)	(7,203,484)	1,023,586	(6,179,898)
Investor contributions	305,734	-	305,734	-	305,734
Transfer of net assets for NDC Corporate Equity Fund XIX, Inc.	1,576,263	-	1,576,263	-	1,576,263
Ending balance, December 31, 2023	<u>\$ 150,399,586</u>	<u>\$ 11,635,090</u>	<u>\$ 162,034,676</u>	<u>\$ 16,676,776</u>	<u>\$ 178,711,452</u>

See Notes to Consolidated and Combined Financial Statements.

**National Council for Community Development, Inc.
(d.b.a. Grow America) and its Controlled Affiliates**

**Consolidated and Combined Statement of Functional Expenses
Year Ended December 31, 2023**

	<u>Program services</u>	<u>Management and general</u>	<u>Total</u>
Salaries	\$ 9,910,467	\$ 3,869,158	\$ 13,779,625
Payroll tax and fringe benefits	2,526,467	950,243	3,476,710
Pension expense	1,361,117	586,279	1,947,396
Professional fees	7,067,187	3,215,544	10,282,731
Consulting	1,302,394	1,886	1,304,280
Travel expense	1,100,142	259,935	1,360,077
Interest expense	2,578,602	333,041	2,911,643
Occupancy	773,325	111,391	884,716
Repairs and maintenance	898,824	6,316	905,140
Taxes and insurance	846,247	417,378	1,263,625
Contributions and grants	12,419,830	135,000	12,554,830
Management fee	-	276,285	276,285
Telephone	137,311	61,280	198,591
Printing, supplies and postage	153,922	107,280	261,202
Subscriptions and memberships	151,756	50,460	202,216
Depreciation	1,839,547	26,994	1,866,541
Amortization	939,252	43,354	982,606
Bad debt expense	363,101	81,947	445,048
Other expenses	4,571,473	1,306,098	5,877,571
	<u>\$ 48,940,964</u>	<u>\$ 11,839,869</u>	<u>\$ 60,780,833</u>

See Notes to Consolidated and Combined Financial Statements.

**National Council for Community Development, Inc.
(d.b.a. Grow America) and its Controlled Affiliates**

**Consolidated and Combined Statement of Cash Flows
Year Ended December 31, 2023**

Cash flows from operating activities	
Changes in net assets	\$ (6,179,898)
Adjustments to reconcile changes in net assets to net cash provided by operating activities	
Depreciation	1,866,541
Amortization	982,606
Loss on sale of rental property	1,652,801
Premium on sale of loans	(438,187)
Conversion of client investment funds	(266,200)
Unrealized loss on investments	(962,236)
Change in fair value of loan servicing assets	666,666
Originated servicing assets	(1,070,682)
Forgiveness of debt	(1,003,598)
Noncash operating lease costs	503,107
Noncash change on operating lease liabilities	107,008
Noncash finance lease costs	161,960
Early termination of operating lease	206,515
Amortization of service concession asset	714,332
Losses on investments in operating partnerships	(395,429)
Impairment losses of operating partnerships	528,294
Return on investments in Operating Partnerships	305,330
Bad debt expense	445,048
Provision for loan losses	9,724,405
Change in funded status of nonqualified pension plan	128,379
Change in funded status of qualified defined benefit pension plan	(613,278)
Changes in	
Accounts receivable, net	(1,506,035)
Interest receivable	(1,691,943)
Grants receivable	(4,053,381)
Other assets	(144,716)
Interest payable	1,572,072
Accounts payable and accrued expenses	62,140
Deferred revenue	12,682,012
Other liabilities	1,863,378
Grants payable	2,320,928
Right-of-use assets and liabilities - operating leases	(842,665)
Accrued non-qualified pension liability	41,316
Accrued defined benefit pension plan liability	(4,584,462)
Net cash provided by operating activities	<u>12,782,128</u>

**National Council for Community Development, Inc.
(d.b.a. Grow America) and its Controlled Affiliates**

**Consolidated and Combined Statement of Cash Flows
Year Ended December 31, 2023**

Cash flows from investing activities	
Purchases of fixed assets	(9,187,603)
Disposal of fixed assets	403,280
Payments received on loans receivable	20,249,270
Disbursements on loans receivable	(98,247,839)
Proceeds from loans sold	45,737,136
Disbursements on loan held for sale	(2,777,785)
Payments received on COVID loans receivable	8,483,200
Payments received on other loans receivable	1,696,161
Purchase of loans receivable - participations	(217,548)
Net deposits in restricted cash deposits	(28,387)
Purchases of investments	(247,690)
Sale of investments	20,120
Capital contributions paid to Operating Partnerships	(326,478)
Payments from related parties	14,193,783
Disbursements to related parties	(6,057,641)
	<u>(26,308,021)</u>
Net cash used in investing activities	
Cash flows from financing activities	
Contributions from investors	305,734
Repayments of loans payable	(44,639,958)
Proceeds from loans payable	66,526,633
Principal payments on finance lease obligations	(88,763)
Repayments of client investment liabilities	(241,838)
Proceeds from client investment liabilities	1,166,222
Repayments to related parties	(17,285)
Proceeds from related parties	851,030
	<u>23,861,775</u>
Net cash provided by financing activities	
Net increase in cash and cash equivalents and restricted cash	10,335,882
Cash and cash equivalents and restricted cash, beginning	<u>72,013,352</u>
Cash and cash equivalents and restricted cash, end	<u>\$ 82,349,234</u>
Supplemental disclosures of cash flow information	
Interest paid during the year	<u>\$ 1,292,434</u>
Cash paid for amounts included in the measurement of operating lease liabilities	<u>\$ 665,154</u>
Supplemental disclosures of noncash information	
Leasehold improvements included in accounts payable	<u>\$ 648,308</u>
Additional investments committed to Operating Partnerships included in capital contributions payable	<u>\$ 37,286,536</u>

See Notes to Consolidated and Combined Financial Statements.

**National Council for Community Development, Inc.
(d.b.a. Grow America) and its Controlled Affiliates**

**Notes to Consolidated and Combined Financial Statements
December 31, 2023**

Note 1 - Organization and nature of activities

National Council for Community Development, Inc. d.b.a. Grow America ("GA"), formerly known as National Development Council, is a 501(c)(3) nonprofit corporation that was incorporated in the State of New York in 1969. GA was organized and operates exclusively as a charitable organization to increase the flow of capital for investment, jobs and community development to underserved urban and rural areas across the United States. The mission of the organization is to use all available resources to provide training, technical assistance, and creative financing to serve as a catalyst in the creation of new jobs and affordable housing opportunities in low-income and distressed neighborhoods.

GA also meets its mission through services provided by its principal controlled entities, for each of which GA serves as the sole corporate member:

Grow America Fund, Inc. ("GAF")

GAF, a 501(c)(3) nonprofit corporation, carries out GA's mission by increasing the flow of capital to small businesses for investment, job creation, and community development to underserved urban and rural areas across the country.

GAF is licensed by the United States Small Business Administration ("SBA") to operate as a Small Business Lending Organization or a "Non-Bank Lender". Under the license agreement, GAF is authorized to make loans to eligible small businesses throughout the United States and Puerto Rico. Such loans are partially guaranteed by the SBA. Generally, the SBA will guarantee seventy-five to ninety percent (75% to 90%) of the principal and accrued interest on such loans, although higher and lower guarantees are occasionally offered by the SBA. As a licensed Non-Bank Lender, GAF may sell the guaranteed portion of these loans in an established secondary market. By selling the guaranteed portion of its loans into the secondary market, GAF is able to leverage its capital base many times over. It is the organization's policy to obtain collateral from the borrower to support the amount of the loan provided.

GAF partners with partner-communities to establish partner-community loan funds. Generally, the partner-communities grant or invest funds into GAF, which GAF in turn uses to fund the unguaranteed portion of end loans with GAF providing the remainder.

GAF is a certified Community Development Financial Institution ("CDFI") in the United States Department of Treasury CDFI Program. The CDFI program is the primary vehicle for executing the objectives of the CDFI Fund in accordance with the Riegle Community Development and Regulatory Improvement Act of 1994, the goal of which is to promote economic revitalization in low-income communities.

NDC Housing and Economic Development Corporation ("HEDC")

HEDC, a 501(c)(3) nonprofit corporation, was organized for the following charitable purposes: to construct new, low-income housing; to renovate, develop, manage, operate, promote, fund and support existing low-income housing for persons of limited financial means, handicapped persons, elderly persons and other persons in need of safe and adequate housing; to assist generally in the alleviation of housing shortages throughout the United States; and to assist in the erection and maintenance of public buildings, monuments, facilities, or works, to lessen the burdens of governments and to promote social welfare.

**National Council for Community Development, Inc.
(d.b.a. Grow America) and its Controlled Affiliates**

**Notes to Consolidated and Combined Financial Statements
December 31, 2023**

HEDC carries out its mission through the activities of entities in which it holds a controlling interest. HEDC holds controlling interest of its controlled affiliates through various means, including sole corporation membership and/or control of its Board of Directors. None of the controlled affiliates established as a limited partnership have substantive rights that would take away GA's control, nor would they have recourse against GA and/or HEDC for losses or indebtedness.

NDC Support I, Inc. ("Support I")

Support I, a 501(c)(3) nonprofit corporation, is organized and operated exclusively for the benefit of, or to perform functions of, or to carry out the charitable purposes of GA. Support I achieves its mission by providing grants.

NDC Community Impact Loan Fund ("CILF")

CILF is a 501(c)(3) not-for-profit organization incorporated under the laws of the State of Delaware in 1992. CILF works with partner-communities and investors throughout the United States to stimulate economic development by providing capital for targeted growth in economically depressed areas.

CILF is a CDFI in the United States Department of Treasury CDFI Program. The CDFI program is the primary vehicle for executing the objectives of the CDFI Fund in accordance with the Riegle Community Development and Regulatory Improvement Act of 1994, the goal of which is to promote economic revitalization in low-income communities.

On December 16, 2021, CILF became a nonbank member of the Federal Home Loan Bank of New York ("FHLBNY"). Membership to the FHLBNY gives CILF access to reliable, low-cost funding to help meet liquidity needs.

CDP Washington Loan Fund ("WALF")

CDP Washington Loan Fund (dba Small Business Flex Fund) is a nonprofit corporation that was incorporated in the State of Washington in March 2021. WALF was formed for the purpose of establishing and administering a loan fund, distributing property and for extending or promoting financial aid and support through grants, gifts, contributions, low-barrier loans, or other assistance to qualified Section 501(c)(3) organizations and small businesses operating in the State of Washington that have experienced economic hardship as a result of the COVID-19 pandemic.

WALF, which was initially capitalized through a grant agreement with the State of Washington's Department of Commerce, partners with approved CDFI loan originators and executed a Loan Purchase Agreement to purchase 95% interests in program eligible loans ("Portfolio Loans") to small businesses and nonprofits made by such CDFIs. Partnering CDFIs retain servicing rights to the purchased loans and can access additional resources from WALF to provide technical assistance to potential and existing program borrowers. The CDFIs earn a servicing fee equal to the greater of 1.25% annually of the unpaid principal balance or \$360 per annum, calculated monthly.

The loans purchased by WALF are included in loans receivable on the consolidated and combined statement of financial position.

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**Notes to Consolidated and Combined Financial Statements
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CDP Connecticut Loan Fund, Inc. ("CTBF")

CDP Connecticut Loan Fund, Inc. is a nonprofit corporation that was incorporated in the State of Delaware in June 2022. CTBF was formed for the purpose of establishing and administering a loan fund, distributing property and for extending or promoting financial aid and support through grants, gifts, contributions, low-barrier loans, or other assistance to qualified Section 501(c)(3) organizations and small businesses operating in the State of Connecticut.

CTBF, which was initially capitalized through a grant agreement with the State of Connecticut's Department of Economic and Community Development, partners with approved originating lenders and executed a Loan Purchase Agreement to purchase 95% interests in Portfolio Loans to small businesses and nonprofits made by such originating lenders. Originating lenders retain servicing rights to the purchased loans and can access additional resources from the Organization to provide technical assistance to potential and existing program borrowers. The originating lenders earn a servicing fee equal to the greater of 1.50% annually of the unpaid principal balance or \$500 per annum, calculated monthly.

The loans purchased by CTBF are included in loans receivable on the consolidated and combined statement of financial position.

**National Council for Community Development, Inc.
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**Notes to Consolidated and Combined Financial Statements
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The following entities are included in the consolidated and combined financial statements:

Grow America	
Not-for-profit entities	For-profit entities
Grow America	CDG Kentucky, Inc.
GAF	CDG Renewable Energy, Inc.
Support I	CDG Renewable Energy IVDA, LLC
NDC Resources*	CDG Walla Walla, Inc.*
NDC Green Renewable Energy Enterprise Nexus*	Housing Development Group III, Inc.
	White River Village, LLP
	WRV GP, LLC
NDC Housing and Economic Development Corporation	
Not-for-profit entities	For-profit entities
NDC Community Impact Loan Fund	CDI Brooklyn, Inc.
NDC Housing and Economic Development Corporation	Greenwood Avenue, LP
NDC Economic Development Lending, Inc.	Humboldt School, LP
Edison Development Corporation	Madison Senior Apartments, LP
Greater Salt Lake Development Corporation	NDC Corporate Equity Fund V, LP
HEDC New Markets, Inc.	NDC Corporate Equity Fund VI, LP
Housing Development Group, Inc.*	NDC Corporate Equity Fund VII, LP
Housing Development Group II, Inc.	NDC Corporate Equity Fund VIII, LP
Community Development Properties ("CDP") Abilene, Inc.	Washington Avenue, LP
CDP Facilities III, Inc.	Beacon Pointe, LLC
CDP Brooklyn, Inc.	NDC Affordable Housing, LLC
CDP Buffalo, Inc.	Westview Lofts, LP *
CDP Scranton, Inc.	NDC Corporate Equity Fund 20, LP
CDP Carver, Inc.	Seattle BCOF, LLC
CDP Humboldt, Inc.	
CDP Madison, Inc.*	
CDP Madison II, Inc.	
CDP Madison Senior NFP	
CDP Rifle, Inc.	
CDP Texas, Inc.	
CDP Wilson, Inc.	
CDP Nyack, Inc.	
CDP Port Arthur, Inc.	
CDP North Texas, Inc.	
CDP Connecticut Loan Fund, Inc.	
CDP Washington, Inc.	
CDP Washington Loan Fund	
CDP Woodland, Inc.	
CDP Seattle BCOF, Inc.	
CDP Atlanta, Inc. *	
CDP Macy, Inc. *	
CDP North Texas Richardson, Inc.*	
CDP Puerto Rico*	
CDP Saugerties*	
CDP TOM, Inc.*	
CDP New Markets MM, Inc. *	
Conservation Development Properties*	
Goat Hill Properties *	
Kingsborough Housing Development Fund Company, Inc.*	

* Entity is dormant and therefore no activity is reported on the supplemental schedules

**National Council for Community Development, Inc.
(d.b.a. Grow America) and its Controlled Affiliates**

**Notes to Consolidated and Combined Financial Statements
December 31, 2023**

Note 2 - Significant accounting policies

Basis of accounting

The accompanying consolidated and combined financial statements of GA and its Controlled Affiliates (the "Organization") have been prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP").

Principles of consolidation

The consolidated and combined financial statements include the accounts of GA and its Controlled Affiliates. All significant intercompany transactions and balances have been eliminated in consolidation.

Use of estimates

The preparation of consolidated and combined financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and other disclosures in the consolidated and combined financial statements. Accordingly, actual results could differ from those estimates.

Cash and cash equivalents

The Organization considers all cash accounts, which are not subject to withdrawal penalties, and all highly-liquid investments with an original maturity of three months or less at the date of acquisition to be cash equivalents.

Restricted cash

Restricted cash represents amounts that are required to be maintained by contractual or other agreements. Restricted cash is held in separate bank accounts and generally are not available for operating purposes.

Loans

Loans receivable are stated at the principal amount outstanding, net of allowances for credit losses. Interest income on loans is accrued on the principal outstanding at the loans' stated interest rates.

Loan origination costs

Loan origination costs are deferred and amortized using the straight-line method over the respective lives of the related loans and recorded as an adjustment to loan fee revenue. Management has concluded that using the straight-line method would not be materially different from using the effective interest method. At December 31, 2023, loan origination costs are \$4,054,907, net of amortization of \$1,619,332 and are included in other assets on the consolidated and combined statement of financial position.

Loans sold

During the normal course of business, the Organization sells participation interests in loans to other organizations. In accordance with accounting guidance for transfers and servicing, if a sale of a loan participation interest meets the true-sale criteria, the Organization derecognizes the participation amount from the statement of financial position. Only the Organization's portion of the loan receivable and interest earned on such transactions would be included in the statement of activities. If a loan participation does not meet the true-sale criteria, the proceeds are treated as a secured financing for financial reporting purposes. Accordingly, the full amount of the loan that did not meet the true-sale criteria would be recorded as an asset and the participant's share of the loan

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would be reflected as a participation interest payable on the statement of financial position. In determining whether a sale of loan participation interest meets the true-sale criteria, the Organization considers whether the transferee would be consolidated by the transferor, the transferor's continuing involvement in transferred assets, and all arrangements or agreements made at the same time as the transfer.

Loans held for sale

Loans are classified as held for sale once management approves an action and commits to a plan to sell, loans are available to be sold in their present condition, an active program to locate a buyer has been initiated, the loan is being actively marketed and the sale is probable within one year. Loans held for sale are valued at the lower of amortized costs or fair value.

Allowance for credit losses for loans receivable

The Organization utilizes a loss rate approach in determining its lifetime expected credit losses on its loans to borrowers. In determining its loss rates, the Organization also evaluates information related to its historical losses and adjusts for current conditions for a period of time that can be reasonably forecasted. Loan losses are charged against the allowance when management believes the loan balance is uncollectible. Subsequent recoveries, if any, are recognized as a reduction to the provision for loan loss.

Qualitative and quantitative adjustments related to current conditions and the reasonable and supportable forecast period consider all of the following: the borrower's creditworthiness, changes in lending policy and procedures, changes in nature and volume of the loan portfolio and in the terms of loans, changes in the quality of the loan review system, changes in the value of underlying collateral for collateral-dependent loans, existence and effect of any concentration of credit and changes in the level of such concentrations, effect of other external forces such as competition, legal and regulatory requirements on the level of estimated credit losses in the existing portfolio, and the current and forecasted direction of the economic and business environment.

The Organization pools its loans based on the internal credit risk grading process, as more fully described in Note 4. The internal credit risk grading process includes a process that evaluates, among other things: (i) the borrower's ability to repay; (ii) the underlying collateral, if any; and (iii) the economic environment and industry in which the borrower operates.

Prior to the adoption of the new accounting standard as discussed below, the allowance was based upon management's periodic review of the collectability of loans and was 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 portfolio and current economic conditions.

Unfunded commitments

The Organization also has off-balance sheet commitments to its borrowers, which represent amounts not yet disbursed against loans receivables. The Organization will fund these commitments upon determining its borrowers' eligible uses of funds in accordance with the loan documents. Management views these unfunded commitments as unconditionally cancelable and thus excluded from management's assessment of the allowance for credit losses.

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Accrued interest receivable

The Organization has elected to present the accrued interest receivable balance separately in its statement of financial position from the amortized cost of the loans receivable. Accrued interest receivable, related to loans receivable, as of December 31, 2023 was \$2,073,273.

The Organization also elected not to measure an allowance for credit losses for accrued interest receivable. For all classes of loans receivable, the accrual of interest is discontinued when the contractual payment of principal or interest has become 90 days past due, unless the loan is well secured and in the process of collection or management has doubts about further collectability of principal or interest even though the instrument is performing.

Interest received on nonaccrual loans, generally is either applied against principal or reported as interest income, according to management's judgement as to the collectability of principal.

Write-off of accrued interest receivables are recognized by reversing interest income. The Organization did not write off any accrued interest receivables during the year ended December 31, 2023.

Non-accrual of loans

Loans are generally placed on non-accrual status for recognition of interest income when principal and interest are past due 90 days or more and, in the opinion of management, there is reasonable doubt as to the collectability of interest and principal. All interest accrued but not collected for loans that are placed on non-accrual basis is reversed against interest income. The non-recognition of interest income does not constitute forgiveness of interest. Non-accrual loans are returned to accrual status when the principal and interest amounts contractually due are brought current and future payments are reasonably assured. Subsequent payments received on non-accrual loans that do not bring the loan current are recorded on a cash basis.

Client investment liabilities

Client investment liabilities are amounts that are due back to client communities upon liquidation of client community funds, as more fully described in Note 11.

Investments

Investments in readily marketable securities are reported at fair value in the consolidated and combined statement of financial position. Other investments are recorded at cost or at fair value when received by contribution. Such investments are evaluated for impairment as described under long-lived assets below. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Realized and unrealized gains and losses are recognized as changes in net assets in the periods in which they occur, and investment income is recognized as revenue in the period earned.

Investments in operating partnerships

Investments in operating partnerships (the "Operating Partnerships") are reported on the equity method of accounting, as more fully described in Note 6. Under the equity method, investments are increased by cash or property contributed and the investors' share of any partnership profits. Investments are decreased by cash or property distributed and the investors' share of any partnership losses until the carrying value of each investment is zero. Any additional losses are suspended and will be recorded only to the extent that the related investment reports future income.

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Investments in operating partnerships include entities that invest in qualified affordable housing projects. In accordance with Subtopic 323-740, *Income Taxes*, those entities recognized delayed contributions that are deemed to be unconditional and legally binding. As such, investments in operating partnerships include amounts that are to be contributed in accordance with the partnership or operating agreements, as more fully described in Note 8.

The Organization regularly assesses the carrying value of its investments in operating partnerships for impairment. If the carrying value exceeds the estimated value derived by management, the Organization reduces its investment in any such operating partnership and includes such reduction in losses from Operating Partnerships. During 2023, as a result of management's assessment of the carrying value of its investments in operating partnerships, the Organization reduced its investment in certain operating partnerships by \$528,294.

Fixed assets

Land, land improvements, buildings and improvements, furniture, equipment and leasehold improvements are recorded at cost. Improvements are capitalized, while expenditures for maintenance and repairs are expensed. Upon disposal of depreciable property, the appropriate property accounts are reduced by the related costs and accumulated depreciation. The estimated service lives of the assets for depreciation purposes may be different than their actual economic useful lives.

Depreciation is provided using the straight-line method over the estimated useful lives of the assets as follows:

	<u>Estimated useful lives</u>
Buildings and improvements	27.5-40 years
Land improvements	12-20 years
Furniture and equipment	5-7 years

Long-lived assets

The Organization assesses its long-lived assets for impairment when events or circumstances indicate their carrying amounts may not be recoverable. This is accomplished by comparing the expected undiscounted future cash flows of the long-lived assets with the respective carrying amount as of the date of the assessment. If the expected undiscounted future cash flows exceed the respective carrying amount as of the date of the assessment, the long-lived assets are considered not to be impaired. If the expected undiscounted future cash flows are less than the carrying value, an impairment loss is recognized and measured as the difference between the carrying value and the fair value of the long-lived assets. Other than investments in operating partnerships, there were no impairment losses recognized during the year ended December 31, 2023.

Accounts receivables, net

Accounts receivable are stated net of allowances for doubtful accounts, when necessary, and are reported on the face of the Organization's consolidated and combined statement of financial position. The allowances are established via provisions for bad debts charged to operations. On a periodic basis, management evaluates its receivables and establishes or adjusts its allowance based on historical losses and adjusts for current conditions for a period of time that can be reasonably forecasted. The allowance for doubtful accounts receivable was \$372,954 at December 31, 2023.

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At December 31, 2023 and 2022, accounts receivable as reported on the consolidated and combined statement of financial position totaled \$17,018,130 and \$15,919,820, respectively.

Fair value measurement

In accordance with the *Fair Value Measurements and Disclosures*, Financial Accounting Standards Board Accounting Standards Codification ASC 820, the fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

Assets and liabilities recorded at fair value in the consolidated and combined statement of financial position are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Pursuant to FASB ASC 820, level inputs are defined as follows:

- Level 1: Quoted prices for identical assets and liabilities traded in active exchange markets, such as the New York Stock Exchange.
- Level 2: Observable inputs other than Level 1, including quoted prices for similar assets or liabilities, quoted prices in less active markets, or other observable inputs that can be corroborated by observable market data. Level 2 also includes derivative contracts whose value is determined using a pricing model with observable market inputs or that can be derived principally from or corroborated by observable market data.
- Level 3: Unobservable inputs supported by little or no market activity for financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation; also includes observable inputs for nonbinding single dealer quotes not corroborated by observable market data.

For the year ended December 31, 2023, the application of valuation techniques applied to similar assets has been consistent. The fair value of investment securities is based on quoted market prices, when available, or market prices provided by recognized broker-dealers. If listed prices or quotes are not available, fair value is based upon externally developed models that use unobservable inputs due to the limited market price activity of the instrument.

The availability of observable inputs can vary from security to security and is affected by a wide variety of factors, including, for example, the type of security, whether the security is new and not yet established in the marketplace, the liquidity of markets and other characteristics particular to the security. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised in determining fair value is greatest for instruments categorized in Level 3.

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The Organization assesses the levels of the investments at each measurement date, and transfers between levels are recognized on the actual date of the event or change in circumstances that caused the transfer in accordance with its accounting policy regarding the recognition of transfers between levels of the fair value hierarchy. There were no such transfers during the year ended December 31, 2023.

Net assets

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor or board-imposed restrictions. Accordingly, the net assets of the Organization and the changes therein are classified and reported in two categories of net assets:

Net assets without donor restrictions - Net assets that are not subject to donor-imposed restrictions, including the net investment in fixed assets, gifts with no donor restrictions and current funds without donor restriction.

Net assets with donor restrictions - Net assets that are restricted by a donor for use for a specific purpose or in a future period. Some donor-imposed restrictions are temporary in nature, and the restriction will expire when the resources are used in accordance with the donor's instructions or when the stipulated time has passed. Net assets may also be subject to donor-imposed restrictions that neither expire with the passage of time nor can be fulfilled or otherwise be removed by actions of the Organization.

Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Revenue recognition

Contributions of cash and other assets, including unconditional promises to give, are considered to be available for unrestricted use unless specifically restricted by the donor and are recognized as support in the period the unconditional promise is given. Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been substantially met. Contributions to be received in future periods are discounted at an appropriate discount rate. Amortization of discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. At December 31, 2023, the Organization received \$27,482,309 for which the measurable performance or other barrier was not substantially met as of year-end.

Grants and contracts are recognized on the accrual basis of accounting. Revenue from cost reimbursement grants is recognized as revenue in the period in which allowable costs are incurred and services are provided as that is when the barriers are met. Revenue and support received is considered to be available without restrictions unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as net assets with restrictions.

For loan servicing rights, GAAP permits entities to choose among two alternatives, the amortization method or fair value measurement method, for the subsequent measurement of each class of separately recognized servicing assets and liabilities. The Organization has chosen the fair value measurement method, under which the Organization will measure the loan servicing rights at fair value at each reporting date and report changes in fair value of servicing assets in earnings in the period in which the changes occur.

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The Organization reports gifts of land, buildings and equipment at fair value as without restriction support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Organization reports expirations of donor restrictions in the period the asset is sold.

Technical assistance ("TA") revenue pertains to various contracts and agreements with municipalities and/or organizations in need of consulting services which may include but are not limited to professional training, project financing, direct developer services, equity for real estate development through the use of several tax credit programs and small business lending. These agreements can be long-term and ongoing or project specific.

Training revenue pertains to the various training courses that GA offers for building development finance capacity in professionals working in every sector of the economic, housing and community development profession. This includes governments, nonprofits, community banks, tax credit syndicators and investors, and many more. The Organization offers certification programs in both economic development finance and housing development finance.

TA and training revenue are recognized in the period in which the work is performed. Any fees received in advance of completion are recognized as unearned revenue and included as such on the consolidated and combined statement of financial position.

Rental income is recognized as rents become due. Rental payments received in advance are deferred and classified as liabilities until earned. All leases between the Limited Partnerships or similar entities and the tenants of the property are operating leases.

The Organization provides asset management services on a contractual basis for local partnerships and public-private partnerships. The Organization is compensated for its services through periodic asset management fees earned based on a fixed fee. These management services represent a series of distinct daily services rendered over time, and revenue is recognized at the end of each period for the fees associated with the services performed.

Management fees based on the origination of loans are earned when the loans are purchased. The management services for the fixed fee represent a series of distinct daily services rendered over time and revenue is recognized at the end of each period for the fees associated with the services performed.

Loan and bond issuance costs

Loan and bond issuance costs represent various costs associated with the issuance of debt (mortgages, notes, and bonds payable) as more fully described in Note 10. At December 31, 2023, loan and bond issuance costs are \$2,334,297, net of accumulated amortization of \$825,136 and are recorded net against mortgages, notes and bonds payable on the consolidated and combined statement of financial position and amortized over the life of the related loan or bond. Loan and bond issuance costs are amortized using the effective interest method and these amounts are recorded as a component of interest expense.

Bond premiums

Bond premiums are accreted over the term of the related bond under the effective interest method and these amounts are recorded as a component of interest expense. At December 31, 2023, bond

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premiums are \$932,792, net of accumulated amortization of \$36,445 and are recorded net against mortgages, notes and bonds payable on the consolidated and combined statement of financial position.

Credit facility costs

Costs associated with securing credit facilities amounted to \$1,590,530 for the year ended December 31, 2023. Credit facility costs are amortized using the straight-line method over the respective life of the related credit facility. Amortization of credit facility issuance costs is reported as a component of interest expense. At December 31, 2023, credit facility costs are \$44,873, net of amortization of \$1,545,657, and are included in other assets on the consolidated and combined statement of financial position.

Income taxes

GA, GAF, HEDC, Support I, and the not-for-profit entities listed in Note 1 are exempt from federal income taxes pursuant to Section 501(c)(3) of the Internal Revenue Code ("IRC") and are also exempt from state and local taxes.

The Organization recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Income generated from activities unrelated to the Organization's exempt purpose is subject to tax under IRC Section 511. The Organization did not recognize any unrelated business income tax liabilities for the year ended December 31, 2023.

The Organization files Form 990, Return of Organization Exempt from Income Tax, with the Internal Revenue Service ("IRS") annually.

In addition, HEDC holds a group tax-exemption letter from the IRS. Accordingly, certain entities that are included in the group tax-exemption annually file a group Form 990 with the IRS.

GA and HEDC for-profit entities file Form 1120, Corporate Income Tax Return or Form 1065, Return of Partnership Income as required, with the IRS annually.

Risks and uncertainties

The Organization invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts of investments reported in the consolidated and combined statement of financial position.

Concentrations of credit risk

Financial instruments that potentially subject the Organization to credit risk consist primarily of cash and cash equivalents, investments, and loans receivable. At times during the year, the Organization's cash balances may exceed the Federal Deposit Insurance Corporation insurance limit. The Organization has not experienced any losses in such accounts and does not believe it is exposed to any significant credit risk associated with such accounts.

As of December 31, 2023, the Organization has approximately seventy-nine percent (79%) of its loans outstanding in three states (Connecticut, Delaware, and Washington).

The Organization has received a contribution from two donors that amounted to twenty-six percent (30%) of total revenue for the year ended December 31, 2023.

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Functional expenses

Expenses are reported as decreases in net assets without donor restrictions. The cost of providing program and supporting services of the Organization have been summarized on a functional basis in the accompanying consolidated and combined financial statements. Accordingly, certain costs have been allocated between program services, management and general, and fundraising on a basis as determined by management.

Program services consist of costs directly incurred in connection with services provided and in conducting the programs.

Management and general consist of costs directly incurred in connection with overall activities of the Organization or based on estimates made by management, which are not allocable to program services.

The Organization reports certain categories of expenses that are attributable to both program and supporting functions. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. Salaries, fringe benefits and travel expenses are allocated based on individual job functions. The average of the allocation percentage based on job functions is then applied to other expenses such as rent, telephone, office supplies, postage, subscriptions and memberships, and equipment leases and maintenance.

Adoption of accounting pronouncement

On January 1, 2023, the Organization adopted Accounting Standards Update ("ASU") No. 2016-13, *Measurement of Credit Losses on Financial Instruments*, and its related amendments. The new standard changes the impairment model for most financial assets that are measured at amortized cost and certain other instruments, including trade receivables, from an incurred loss model to a current and expected loss model and adds certain new required disclosures. Under the current and expected loss ("CECL") model, entities recognize credit losses to be incurred over the entire contractual term of the instrument rather than delaying recognition of credit losses until it is probable the loss has been incurred. In accordance with the ASU, the Organization evaluates certain criteria, including aging and historical write-offs, current economic condition of specific customers and future economic conditions to determine the appropriate allowance for credit losses. The ASU also remove the recognition and measurement guidance on troubled debt restructurings and added disclosures on the financial effect and subsequent performance of certain types of modifications made to borrowers experiencing financial difficulties. As a result of the adoption of the ASU, the Organization evaluated whether a cumulative adjustment to its January 1, 2023 net assets was necessary and concluded that the adjustment would be immaterial.

Subsequent events

The Organization has evaluated subsequent events through November 6, 2024, the date on which the consolidated and combined financial statements were available to be issued.

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Subsequent to December 31, 2023, one of the Organization's affiliates, WALF, failed to meet its debt covenants to provide the Lenders with certain financial information due within 150 days of the WALF's year-end. Management of WALF will work with the Lenders to comply with the debt covenants moving forward; however, the Lenders may exercise their rights under the Agreement to collect the debt. As more fully described in the Agreement, the liability of WALF under the Agreement is limited to the value of the collateral from time to time granted by WALF to secure its obligations with no further recourse available to the Lenders against WALF. Accordingly, as of the date the financial statements were available to be issued, WALF has adequate resources to satisfy the notes payable.

Subsequent to December 31, 2023, one of the Organization's affiliates, WALF, failed to meet its debt covenants to provide Key Community DC with certain financial information due within 150 days of WALF's year-end. Management of WALF will work with Key Community DC to comply with the debt covenants moving forward; however, Key Community DC may exercise its rights under the Equity Equivalent ("EQ2") Agreement to collect the debt. As more fully described in the EQ2 Agreement, Key Community DC may by written notice to WALF declare all amounts payable under the EQ2 Agreement to be immediately due and payable. Accordingly, as of the date the financial statements were available to be issued, WALF has adequate resources to satisfy the subordinate debt.

Note 3 - Liquidity and availability

The Organization regularly monitors liquidity required to meet its operating needs and other contractual commitments. The Organization has various sources of liquidity at its disposal, including cash and cash equivalents, investments and grants receivable.

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

Cash and cash equivalents	\$ 70,900,840
Accounts receivable, net	17,018,130
Interest receivable	2,073,273
Loans receivable	25,165,164
COVID-19 relief loans receivable	263,790
Other loans receivable	285,108
Loans receivable - participations, net	112,211
Grants receivable	6,973,764
Investments	<u>9,184,738</u>
 Total financial assets at December 31, 2023	 131,977,018
 Less those not available for general expenditures within one year due to	
Donor-imposed restrictions	<u>(16,676,776)</u>
 Total financial assets available to meet cash needs for general expenditures within one year	 <u>\$ 115,300,242</u>

In addition to the financial assets, the Organization has a revolving line of credit in the amount of \$1 million with Citizens Bank that the Organization can draw on to meet its cash needs.

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Note 4 - Loans receivable

Loans receivable, net of loans sold in the secondary market at December 31, 2023 consist of the following:

	Loans receivable, gross	Loans receivable sold in secondary market	Loans receivable, net
Small business commercial real estate	\$ 41,687,252	\$ 19,223,922	\$ 22,463,330
Small business equipment and/or working capital	161,633,517	41,140,522	120,492,995
Other real estate development	31,424,326	28,424,326	3,000,000
	<u>234,745,095</u>	<u>88,788,770</u>	<u>145,956,325</u>
Allowance for credit losses			(13,385,672)
	<u><u>\$ 234,745,095</u></u>	<u><u>\$ 88,788,770</u></u>	<u><u>\$ 132,570,653</u></u>

Interest earned on loans receivable is shown net of interest expense on funds acquired to make loans and provision for credit losses on the consolidated and combined statement of activities. Interest income consists of the following as of December 31, 2023:

Interest income	\$ 7,274,271
Interest expense	(2,563,077)
Provision for credit losses	<u>(10,915,657)</u>
Interest income, net	<u><u>\$ (6,204,463)</u></u>

Small business commercial real estate

Small business commercial real estate loans include loans for commercial real estate in which the small businesses generally operate. The loans are underwritten with mortgage liens on the borrower's real estate as collateral and loan to value ratios of less than 100% of the lesser of cost or appraised value. Most loans are originated at a loan to value ratio of less than 90%.

Small business equipment and/or working capital

Small business equipment and/or working capital loans include loans to small business to fund purchases of equipment and to provide working capital as the businesses expand. The loans are underwritten with Uniform Commercial Code filings as collateral and a pledge of personal assets of the business owners as needed.

Other real estate development

Other real estate development loans include loans for the acquisition, development, and operations of residential and community facilities. The loans may or may not be secured by real estate and borrowers rely on rental income to service their debt payments.

Outstanding loans have annual interest rates ranging from 0.50% to 12.50%. At December 31, 2023, approximately 13% of these loans have variable interest rates which are indexed to *The Wall Street Journal* prime rate. The remaining loans have a fixed rate. Loans receivable have various maturities through 2053.

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Loan origination/risk management

The Organization has lending policies and procedures that balance loan income and risk management with an acceptable level of risk. Management reviews and approves these policies and procedures on a regular basis. A reporting system supplements the review process by providing management with periodic reports related to loan origination, asset quality, concentrations of credit, loan delinquencies and nonperforming and emerging problem loans.

Credit quality indicators

Management uses internally assigned risk classifications as the best indicator of credit quality. Each loan's internal risk classification is reviewed quarterly and may be updated more frequently if circumstances warrant a change in risk classification. The Organization uses a risk classification system that follows the Organization's accepted definitions as follows:

Acceptable - Loans that are not covered by the below classifications.

Special mention - Loans that have potential weaknesses that deserve management's close attention.

Substandard - Loans that are inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged.

Doubtful - Loans that have all the weaknesses inherent in one classified as substandard with the added characteristic that the weaknesses make collection or liquidation in full highly questionable and improbable.

Loss - Loans that are considered uncollectible.

The table below details the Organization's loans receivable - gross, as of December 31, 2023, which includes the sold and unsold portions of loans receivable, by class according to their credit quality indicators discussed above:

	Acceptable	Special mention	Substandard	Doubtful	Loss	Total
Small business commercial real estate	\$ 27,859,874	\$ 10,672,916	\$ 1,933,758	\$ 1,140,894	\$ 79,810	\$ 41,687,252
Small business equipment and/or working capital	46,498,132	103,204,545	3,847,157	4,812,409	3,271,274	161,633,517
Other real estate development	31,424,326	-	-	-	-	31,424,326
	<u>\$ 105,782,332</u>	<u>\$ 113,877,461</u>	<u>\$ 5,780,915</u>	<u>\$ 5,953,303</u>	<u>\$ 3,351,084</u>	<u>\$ 234,745,095</u>

The table below details the Organization's loans sold in the secondary market, as of December 31, 2023, which as noted in Note 2 are removed from the consolidated and combined statement of financial position, by class according to their credit quality indicators discussed above:

	Acceptable	Special mention	Substandard	Doubtful	Loss	Total
Small business commercial real estate	\$ 13,791,139	\$ 3,462,202	\$ 1,446,015	\$ 524,566	\$ -	\$ 19,223,922
Small business equipment and/or working capital	15,826,597	21,152,385	1,843,938	2,317,602	-	41,140,522
Other real estate development	28,424,326	-	-	-	-	28,424,326
	<u>\$ 58,042,062</u>	<u>\$ 24,614,587</u>	<u>\$ 3,289,953</u>	<u>\$ 2,842,168</u>	<u>\$ -</u>	<u>\$ 88,788,770</u>

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The table below details the Organization's loans receivable - net, as of December 31, 2023, by class according to their credit quality indicators discussed above:

	Acceptable	Special mention	Substandard	Doubtful	Loss	Total
Small business commercial real estate	\$ 14,068,735	\$ 7,210,714	\$ 487,743	\$ 616,328	\$ 79,810	\$ 22,463,330
Small business equipment and/or working capital	30,671,535	82,052,160	2,003,219	2,494,807	3,271,274	120,492,995
Other real estate development	3,000,000	-	-	-	-	3,000,000
	<u>\$ 47,740,270</u>	<u>\$ 89,262,874</u>	<u>\$ 2,490,962</u>	<u>\$ 3,111,135</u>	<u>\$ 3,351,084</u>	<u>\$ 145,956,325</u>

Aging of past due loans receivable

The past due status of all classes of loans receivable is determined on the contractual due dates for loan payments. A loan is deemed past due when payment has not been received 30 days after the contractual due date.

An aging by class for outstanding loans - gross as of December 31, 2023, which includes the sold and unsold portions of loans receivable, is as follows:

	Current loans	Loans 31-59 days past due	Loans 60-89 days past due	Loans 90 days and greater past due	Loans 90 days and greater past due and accruing	Total loans
Small business commercial real estate	\$ 40,843,305	\$ -	\$ -	\$ 843,947	\$ -	\$ 41,687,252
Small business equipment and/or working capital	144,395,039	6,263,499	3,485,646	7,489,333	-	161,633,517
Other real estate development	31,424,326	-	-	-	-	31,424,326
	<u>\$ 216,662,670</u>	<u>\$ 6,263,499</u>	<u>\$ 3,485,646</u>	<u>\$ 8,333,280</u>	<u>\$ -</u>	<u>\$ 234,745,095</u>

An aging by class for loans sold in the secondary market as of December 31, 2023, which, as noted in Note 2, are removed from the statements of financial position, is as follows:

	Current loans	Loans 31-59 days past due	Loans 60-89 days past due	Loans 90 days and greater past due	Loans 90 days and greater past due and accruing	Total loans
Small business commercial real estate	\$ 18,923,749	\$ -	\$ -	\$ 300,173	\$ -	\$ 19,223,922
Small business equipment and/or working capital	34,379,300	2,419,049	1,508,143	2,834,030	-	41,140,522
Other real estate development	28,424,326	-	-	-	-	28,424,326
	<u>\$ 81,727,375</u>	<u>\$ 2,419,049</u>	<u>\$ 1,508,143</u>	<u>\$ 3,134,203</u>	<u>\$ -</u>	<u>\$ 88,788,770</u>

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An aging by class for loans receivable - net as of December 31, 2023 is as follows:

	Current loans	Loans 31-59 days past due	Loans 60-89 days past due	Loans 90 days and greater past due	Loans 90 days and greater past due and accruing	Total loans
Small business commercial real estate	\$ 21,919,556	\$ -	\$ -	\$ 543,774	\$ -	\$ 22,463,330
Small business equipment and/or working capital	110,015,739	3,844,450	1,977,503	4,655,303	-	120,492,995
Other real estate development	3,000,000	-	-	-	-	3,000,000
	<u>\$ 134,935,295</u>	<u>\$ 3,844,450</u>	<u>\$ 1,977,503</u>	<u>\$ 5,199,077</u>	<u>\$ -</u>	<u>\$ 145,956,325</u>

Nonaccrual status loans receivable

Net loans receivable on nonaccrual status as of December 31, 2023 is as follows:

	Amortized cost of loans on nonaccrual status		Interest income recognized during 2023 on nonaccrual loans	Nonaccrual loans with no allowance for credit losses as of December 31, 2023
	January 1, 2023	December 31, 2023		
Small business commercial real estate	\$ 1,251,971	\$ 543,774	\$ 29,601	\$ 198,406
Small business equipment and/or working capital	106,879	176,073	9,221	82,828
Other real estate development/ community facilities	-	-	-	-
	<u>\$ 1,358,850</u>	<u>\$ 719,847</u>	<u>\$ 38,822</u>	<u>\$ 281,234</u>

Loan - modifications to borrowers in financial difficulty

Loans modified by the Organization to borrowers in financial difficulty based on the type of modification are as follows at December 31, 2023:

	Small business commercial real estate	Small business equipment and/or working capital	Other real estate development/ community facilities	Total
Forbearances	\$ 119,676	\$ 123,758	\$ -	\$ 243,434
Interest Rate Reduction	42,689	-	-	42,689
Term extension	-	409,162	-	409,162
Interest-only period	-	6,682	-	6,682
Principal and interest deferment	173,585	-	-	173,585
Combination - interest rate reduction and term extension	646,394	14,444	-	660,838
Combination - forbearance and term extension	320,797	-	-	320,797
	<u>\$ 1,303,141</u>	<u>\$ 554,046</u>	<u>\$ -</u>	<u>\$ 1,857,187</u>

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The payment status of loans modified by the Organization to borrowers in financial difficulty are as follows at December 31, 2023:

	Current	Loans 31-89 days past due	Loan 90 days and greater past	Total
Small business commercial real estate	\$ 859,424	\$ -	\$ 443,717	\$ 1,303,141
Small business equipment and/or working capital	468,023	3,195	82,828	554,046
Other real estate development/community facilities	-	-	-	-
	<u>\$ 1,327,447</u>	<u>\$ 3,195</u>	<u>\$ 526,545</u>	<u>\$ 1,857,187</u>

As of December 31, 2023, the Organization had no commitments to lend additional funds to borrowers whose loans have been modified.

Loans sold

At times, the Organization sells portions of loans receivable at a premium or discount, which is reported as a gain or loss on the consolidated and combined statement of activities. During the year ended December 31, 2023, the Organization recognized a gain of \$438,187 from the sale of loans, which is included in premium on loans sold on the consolidated and combined statement of activities.

The Organization retains the servicing rights on the loans sold and earns servicing income. The fees are based on a contractual percentage of the outstanding principal and are recorded as income when earned. Servicing assets and liabilities are measured at fair value when initially recorded and in subsequent reporting periods. The change in fair value of servicing rights is reported on the statements of activities as loan servicing fees. The Organization evaluated the servicing rights at December 31, 2023 and recognized a loan servicing asset of \$1,616,583. Late fees and ancillary fees related to loan servicing are not material.

Servicing assets and liabilities are valued based on valuation models that utilize assumptions based on the predominant risk characteristics of the underlying loans, including principal balance, interest rate, weighted average life, cost to service and estimated prepayment speeds. The valuation models estimate the present value of estimated future net servicing income. The Organization classifies the assumptions underlying the valuation of its servicing assets and liabilities as Level 3 inputs.

At December 31, 2023, the key assumptions used in estimating the fair value of the Organization's servicing assets and liabilities are as follows:

Prepayment rate	15%
Discount rate	5 - 10%
Default assumption	25%

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The following summarizes the activity in servicing assets and liabilities for the year ended December 31, 2023:

Servicing assets, beginning	\$ 1,212,567
Change in fair value	(666,666)
Originated servicing assets	<u>1,070,682</u>
Servicing assets, ending	<u><u>\$ 1,616,583</u></u>

Allowance for credit losses

The balance in the allowance for credit losses is determined based on management's review and evaluation of the loan portfolio in relation to past loss experience, the size and composition of the portfolio, current economic events and conditions, and other pertinent factors. All of these factors may be susceptible to significant change. To the extent actual outcomes differ from management's estimates, additional provisions for credit losses may be required that would adversely impact results from operations in future periods.

The following table presents an analysis of the allowance for credit losses on the unsold portion of loans receivable for the year ended December 31, 2023:

	Small business commercial real estate	Small business equipment and/or working capital	Other real estate development	Total
Allowances for credit losses				
Balance, beginning of year	\$ 579,246	\$ 8,497,554	\$ -	\$ 9,076,800
Provision for credit losses	90,774	10,838,507	-	10,929,281
Losses charged off	-	(6,739,310)	-	(6,739,310)
Recoveries	41,493	77,408	-	118,901
Balance, end of year	<u>\$ 711,513</u>	<u>\$ 12,674,159</u>	<u>\$ -</u>	<u>\$ 13,385,672</u>
Ending balance, individually evaluated for impairment	\$ 381,155	\$ 80,974	\$ -	\$ 462,129
Ending balance, collectively evaluated for impairment	<u>330,358</u>	<u>12,593,185</u>	<u>-</u>	<u>12,923,543</u>
	<u>\$ 711,513</u>	<u>\$ 12,674,159</u>	<u>\$ -</u>	<u>\$ 13,385,672</u>
Loans				
Ending balance, individually evaluated for impairment	\$ 2,293,296	\$ 1,348,579	\$ -	\$ 3,641,875
Ending balance, collectively evaluated for impairment	<u>20,170,034</u>	<u>119,144,416</u>	<u>3,000,000</u>	<u>142,314,450</u>
	<u>\$ 22,463,330</u>	<u>\$ 120,492,995</u>	<u>\$ 3,000,000</u>	<u>\$ 145,956,325</u>

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Note 5 - Fair value measurements

Assets and liabilities, at fair value, and the Organization's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis, consist of the following as of December 31, 2023:

	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant other unobservable inputs (Level 3)	Total
Assets measured at fair value				
Mutual funds				
Bond funds	\$ 3,882,557	\$ -	\$ -	\$ 3,882,557
Equity	5,250,804	-	-	5,250,804
Subtotal	9,133,361	-	-	9,133,361
Cash and cash equivalents	51,377	-	-	51,377
Total assets, at fair value	<u>\$ 9,184,738</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,184,738</u>
Liabilities measured at fair value				
Nonqualified 457(f) deferred compensation plan	<u>\$ 1,203,534</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,203,534</u>

In accordance with Subtopic 820-10, certain investments that were measured at net asset value per share (or its equivalent) have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the line items presented in the consolidated and combined statement of financial position.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The Organization's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the investment. Below are the valuation techniques used by the Organization to measure different financial instruments at fair value:

Equity, bond and fixed income mutual funds: The fair value of equity, bond and fixed income mutual funds is the market value based on quoted market prices, when available, or market prices provided by recognized broker-dealers. If listed prices or quotes are not available, fair value is based upon externally developed models that use unobservable inputs due to the limited market activity of the instrument.

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Note 6 - Investments in operating partnerships

The Organization holds investments in operating partnerships through its controlled affiliates which are reported on the equity method of accounting. The following represents a summary of the underlying investments listed by the controlled affiliate that holds such investments, either directly or indirectly, as of December 31, 2023:

Entity name	# of Individual investments	Assets	Liabilities	Equity	Revenue	Expenses
HEDC New Markets	16	\$ 102,684,831	\$ 141,819	\$ 102,543,012	\$ 1,804,668	\$ 1,192,201
NDC Corporate Equity Fund V, LP	1	6,649,737	6,469,737	180,000	3,272,574	3,242,266
NDC Corporate Equity Fund VI, LP	2	10,546,998	9,666,288	880,710	5,031,614	5,427,217
NDC Corporate Equity Fund VII, LP	4	26,600,723	21,754,025	4,846,698	10,251,614	11,673,298
NDC Corporate Equity Fund VIII, LP	7	36,921,848	31,665,378	5,256,470	7,286,057	9,708,460
NDC Corporate Equity Fund 20, LP	7	32,985,236	27,231,516	5,753,720	133,284	196,600
CDI Brooklyn, Inc.	1	69,258,267	13,347,924	55,910,343	1,448,615	2,274,828
Seattle BCOF, Inc.	1	1,140,954	334,998	805,956	3,773	7,930
Total	39	\$ 286,788,594	\$ 110,611,685	\$ 176,176,909	\$ 29,232,199	\$ 33,722,800

The controlled affiliates' share of the equity in the underlying Operating Partnerships as of December 31, 2023 consisted of the following:

HEDC New Markets	\$ 12,382
NDC Corporate Equity Fund VII, LP	298,148
NDC Corporate Equity Fund VIII, LP	325,479
NDC Corporate Equity Fund 20, LP	43,210,147
CDI Brooklyn, Inc.	52,248,411
Seattle BCOF, Inc.	783,044
	<u>\$ 96,877,611</u>

Note 7 - Fixed assets, net

Fixed assets, net at December 31, 2023 consisted of the following:

Land and land improvements	\$ 1,108,852
Buildings and improvements ⁽¹⁾	35,640,626
Furniture and equipment	6,761,619
Leasehold improvements	11,071,582
Construction in progress	<u>17,888,395</u>
Fixed assets, gross	72,471,074
Less accumulated depreciation	<u>(24,680,038)</u>
Total	<u>\$ 47,791,036</u>

⁽¹⁾ Includes finance lease right-of-use assets of \$5,268,599 as of December 31, 2023. See Note 17 regarding the Organization's leases.

Depreciation expense for the year ended December 31, 2023 totaled \$1,866,541.

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Note 8 - Capital contributions payable

The Organization has investments due to Operating Partnerships totaling \$37,286,536 at December 31, 2023. The investments due, as per the conditions stipulated in their respective Partnership or Operating Agreements, are as follows:

Baxter Preservation, LLC	\$ 3,520,133
Deer Forest Apartments, L.P.	3,926,224
Heintz House	1,657,731
Rittman Acres	5,569,833
Point at Walker Mill	9,578,411
Vita Greenfield	6,895,120
Blue Thistle Villa LLLP	<u>6,139,084</u>
Total	<u>\$ 37,286,536</u>

Note 9 - Recoverable grant, deferred revenue and advances payable

During the year ended December 31, 2022, the Organization received a conditional contribution of \$8,800,000 from the City of Seattle's Office of Economic Development ("OED") for the purpose of expanding access to and enhancing terms on existing loans originated to Seattle-based businesses. Cumulatively, as of December 31, 2023, the Organization substantially met the conditions outlined in the grant agreement and recognized \$5,022,878 in grant income. The remaining amount of \$3,777,122 is reported as recoverable grant, deferred revenue and advances payable on the consolidated and combined statement of financial position at December 31, 2023 and will be recognized in income when the Organization meets the conditions outlined in the grant agreement.

During the year ended December 31, 2022, the Organization was awarded a conditional contribution of \$75,000,000 from the State of Connecticut for the purpose of purchasing loans and administering a loan fund. Cumulatively, as of December 31, 2023, the Organization received \$38,750,000 from the State of Connecticut and recognized \$3,292,106 in grant income in 2023 and \$17,943,872 in grant income during 2022. The remaining \$17,514,022 is reported as recoverable grant, deferred revenue and advances payable on the consolidated and combined statement of financial position at December 31, 2023 and will be recognized in income when the Organization meets the conditions outlined in the grant agreement.

During the year ended December 31, 2023, the Organization received a conditional contribution of \$3,532,345 from the CDFI Fund for the CDFI Equitable Recovery Program and is reported as recoverable grant, deferred revenue and advances payable on the consolidated and combined statement of financial position at December 31, 2023.

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Note 10 - Mortgages, notes and bonds payable, net

The mortgages, notes and bonds payable are collateralized by either assignment of loan documents or underlying real estate properties. Each payable and related interest obligations are the responsibility of the specific borrowing entity and the specific borrowing entities and/or lenders have no recourse against GA and/or HEDC. Mortgages, notes and bonds payable as of December 31, 2023 consist of the following:

Interest rate	Lender/trustee	Maturity date	Balance	Interest expense	Interest payable
3.159%	PNC Community Development Company LLC ("PNC CDC")	11/22/2033	\$ 222,521	\$ 7,575	\$ 1,191
Various	National Urban League	1/26/2025	224,230	15,495	-
2.5% + SOFR	Morgan Stanley Community Investment, LLC	5/1/2026	8,319,480	550,997	25,307
2.00%	Charter Communications Holding Company	5/25/2028	1,000,000	11,908	11,908
2.25%	Starbucks Corporation	5/23/2033	3,000,000	32,625	-
0.00%	Urban Empowerment Fund	3/1/2025	100,000	-	-
2.50%	Urban Empowerment Fund	Various	100,000	-	-
1.00%	Discover Bank ("Discover")	10/31/2033	3,000,000	30,000	30,000
0.00%	City of Cleveland	2/1/2026	50,000	-	-
2.00%	Citizens Bank	4/21/2026	3,000,000	60,000	30,000
0.10%	Dallas Development Fund	Various	250,000	25	-
4.68%	Wilson Community Improvement Association, Inc. (WCIA)	9/1/2025	400,000	39,111	474,799
0.00%	North Carolina Housing Finance Agency	4/4/2036	1,227,870	-	-
7.25%	Community Investment Corporation of the Carolinas	2/6/2033	437,160	33,227	2,756
5%-6.50%	Scranton-Lackawanna Health and Welfare Authority	1/1/2057	36,569,836	2,218,091	6,745,016
2.75%	U.S. Small Business Administration - Economic Injury Disaster	5/30/2050	145,673	-	-
5.00%	Sustainable Communities Reinvestment Partnership, Inc.	4/1/2030	1,735,300	86,765	1,196,406
0.00%	Redevelopment Agency of Salt Lake City	5/21/2044	200,000	-	-
3% + SOFR	Citizens Bank	9/30/2024	1,000,000	30,102	-
6.31%	Madison County Community Development	9/1/2040	445,717	99,749	1,234,834
0.00%	Illinois Housing Development Authority	9/1/2040	620,802	-	-
1.00%	City of Alton, Madison County, Illinois	4/1/2041	200,000	2,422	44,659
1.00%	Madison County Community Development	8/18/2033	174,100	1,953	453,661
6.30%	Madison County Community Development	9/15/2032	174,961	37,256	23,146
0.00%	Illinois Housing Development Authority	9/1/2034	268,751	-	-
4.84%	Madison County Housing Authority	4/30/2036	660,000	66,401	778,339
4.79%	Madison County Community Development	4/30/2036	275,000	21,873	302,683
5.20%	Madison County Community Development	6/14/2036	225,000	27,910	211,148
0.00%	Illinois Housing Development Authority	4/1/2036	367,000	-	-
4.76%	Madison County Community Development	7/15/2036	169,746	16,206	186,913
2.25%	Washington Federal Bank, N.A.	9/22/2028	9,737,089	267,896	50,891
2.25%	Chase New Markets Corporation	9/22/2028	9,431,410	259,487	49,293
2.25%	Heritage Bank	9/22/2028	6,283,960	172,891	32,843
2.25%	Umpqua Bank	9/22/2028	10,025,780	275,840	52,400
2.25%	Keybank National Association	9/22/2028	6,468,803	177,976	33,809
2.25%	Wells Fargo, N.A.	9/22/2028	3,265,272	89,838	17,065
3.00%	Key Community Development Corporation	9/22/2028	4,500,000	-	-
5.00%	M&T Bank	3/19/2030	3,112,280	114,784	13,029
5.00%	First Republic Bank	3/19/2030	3,112,292	114,784	13,029
5.00%	Webster Bank	3/19/2030	5,828,819	214,971	24,400
5.00%	Citizens Bank	3/19/2030	3,112,281	114,783	13,029
5.00%	Keybank National Association	3/19/2030	3,815,709	140,726	15,973
0.5% + SOFR	PNC CDC	5/16/2024	532,638	31,200	8,037
Various	Discover Bank	3/31/2054	8,376,981	176,186	52,043
0.1% + SOFR	JPMorgan Chase and Co. ("JPMorgan")	5/31/2028	1,760,479	195,295	22,867
3.00%	Good to Grow CDFI Investment Fund	9/30/2029	300,000	-	-
2.50%	New York Community Bank	Various	500,000	-	-
			144,726,940	\$ 5,736,348	\$ 12,151,474
	Less bond premiums and loan and bond issuance costs		1,401,505		
	Total		<u>\$ 143,325,435</u>		

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The following schedule represents scheduled payments of principal on the mortgages, notes and bonds over the next five years and thereafter:

<u>Year ending December 31,</u>	
2024	\$ 3,479,145
2025	1,394,881
2026	12,264,545
2027	614,035
2028	7,810,030
Thereafter	<u>119,164,304</u>
	<u><u>\$ 144,726,940</u></u>

On April 27, 2023, the Organization executed a loan and security agreement with Morgan Stanley Community Investment, LLC. ("MSCI") for a \$20,000,000 revolving, secured line of credit ("revolving line"). The purpose of the revolving line is to pay draws for eligible low-income housing tax credit Projects as a bridge to the funding from the ultimate investors. The revolving line bears interest at a rate equal to the Secured Overnight Financing Rate plus 2.5% and matures on May 1, 2026. The loan is secured by all tax credits related to any eligible low-income housing tax credit projects funded by any advance and any and all income, insurance proceeds, replacement, substitutions or products or proceeds of such projects. In the event of default, HEDC guarantees 20% of the outstanding balance to MSCI.

On September 22, 2021, the Organization entered into a Loan and Security Agreement (the "Flex Fund Agreement") with Chase New Markets Corporation, Heritage Bank, and Washington Federal Bank (collectively, the "Lenders") in the amount of \$40,000,000. The proceeds shall be used solely to purchase Portfolio Loans originated by the CDFI Originators that satisfy the eligibility criteria defined in the Flex Fund Agreement; pay fees, costs and expenses required under or not prohibited under the transaction documents; and for working capital and other general corporate purposes. The Lenders agreed to make loans to the Organization from time to time during the availability period up to an aggregate principal amount not to exceed the amount set forth in the commitment schedule of the Flex Fund Agreement. The availability period in the Flex Fund Agreement is the period from the closing date to the earliest of the date that is 12 months following the closing date and the occurrence of an event of default. During 2022, the Flex Fund Agreement was amended to extend the availability period to the earlier of June 30, 2023 and the occurrence of an event of default. Under the agreement, there are Class A and B loans. Class A loans have a maximum leverage percentage of 70% and the Class B loans are subordinate to the Class A loans. Interest will accrue on the aggregate principal balance of the loans at a fixed rate equal to 2.25% per annum for the Class A loans and 3.0% per annum for the Class B loans. The loans are collateralized by the assets of the Organization.

On December 9, 2021, the Organization entered into an Increase Joinder Agreement with Umpqua Bank ("Umpqua"), whereby Umpqua has agreed to become a Class A lender under the Flex Fund Agreement with a Class A loan commitment of \$15,500,000.

On June 30, 2022, the Organization entered into an Increase Joinder Agreement with KeyBank N.A. ("KeyBank"), whereby KeyBank has agreed to become a Class A lender under the Flex Fund Agreement with a Class A loan commitment of \$10,000,000.

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On September 1, 2022, the Organization entered into an Increase Joinder Agreement with Wells Fargo Bank, N.A. ("Wells Fargo"), whereby Wells Fargo has agreed to become a Class A lender under the Flex Fund Agreement with a Class A loan commitment of \$5,000,000.

On September 19, 2022, the Organization entered into a Loan and Security Agreement (the "Boost Fund Agreement") with First Republic Bank, Citizens Bank, M&T Bank, Webster Bank, N.A and KeyBank National Association (collectively the "Lenders") in the amount of \$30,303,000. The proceeds shall be used solely to purchase Portfolio Loans originated by the originating lenders that satisfy the eligibility criteria defined in the Boost Fund Agreement. The lenders agreed to make loans to the Organization from time to time during the availability period up to an aggregate principal amount not to exceed the amount set forth in the commitment schedule of the Boost Fund Agreement. The availability period in the Boost Fund Agreement is the period from the closing date to the earliest of the date that is eighteen months following the closing date and the occurrence of an event of default. Interest will accrue on the aggregate principal balance of the loans at a fixed rate equal to Wall Street Journal Prime Rate as of the closing date minus 0.50% per annum. The loans are collateralized by the assets of the Organization.

The Organization has a revolving line of credit in the amount of \$1 million with Citizens Bank. The line of credit shall bear interest at a per annum rate equal to three percent (3%) plus Simple Secured Overnight Financing Rate and will mature on September 30, 2024. The revolving line of credit is secured by a security interest in all property and assets of the parent entity only of GA. At December 31, 2023, the balance outstanding on the line of credit is \$1,000,000.

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Note 11 - Client investment liabilities

The Organization entered into agreements with cities and other local governments to expand economic opportunities to residents of those municipalities through client investment funds. In those agreements, which have varying terms and conditions, the cities and other local governments agree to provide money to the Organization to establish funds for the purpose of making loans within the areas identified by the city or other local government. The Organization records these funds as client investment liabilities upon receipt of the funds. At December 31, 2023, the Organization had the following client investment liabilities:

Sussex County, DE	\$ 3,750,000
Tacoma, WA	1,996,201
State of Delaware	850,000
Wilmington, DE	811,929
Inglewood, CA	750,000
Kent County, DE	750,000
New Castle, DE	750,000
San Bernardino, CA	744,828
Long Beach, CA	738,006
Seattle, WA	619,000
Broward County, FL	600,000
Tracy, CA	500,000
Newark, NJ	401,950
Morgan Hill, CA	375,000
Port Arthur, TX	375,000
Salinas, CA	275,000
Cuyahoga County, OH	230,000
Nassau County, NY	215,219
Gainesville, FL	164,510
City of East St. Louis, IL	150,000
Sacramento, CA	144,037
Bridgeport, CT	131,463
Syracuse, NY	125,000
Vallejo, CA	100,000
Memphis, TN	99,000
Spartansburg, SC	50,000
Rock Hill, SC	42,029
	<hr/>
	<u><u>\$ 15,738,172</u></u>

Certain city or other local governments allow for the Organization to retain a portion of the funds. The revenue recognized by the Organization as part of these agreements is recorded as net assets with donor restrictions until such time that the Organization and the city or other local government mutually agree to discontinue the loan program.

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Income earned from loans is retained by the Organization and may be used to pay expenses incurred in servicing the loans. The net income earned may be subject to restrictions pursuant to the client community agreements. For the year ended December 31, 2023, the Organization earned \$438,187 of interest income and \$521,427 of loan servicing fee income, which is reported on the consolidated and combined statement of activities as revenue.

Note 12 - Employee benefit plans

Qualified defined benefit plan

Employees of the Organization are provided benefits under a qualified defined benefit pension plan ("defined benefit plan"). Employees must be twenty-one (21) years of age and have completed one year of service with the Organization to become eligible under the defined benefit plan.

Eligible employees under the defined benefit plan become vested based on a graded system under the following schedule:

<u>Years of service</u>	<u>Percentage vested</u>
Three (3) years	20%
Four (4) years	40%
Five (5) years	60%
Six (6) years	80%
Seven (7) years	100%

In accordance with the plan document and regulatory regulations, the Organization is required to contribute an annual amount into the defined benefit plan sufficient to maintain a carryover balance and prefunding balance.

As of December 31, 2023, the Organization used the following factors to estimate pension liability: (a) a discount rate of 4.77%; (b) the weighted-average rate of compensation increase of 1.5%; and (c) PRI-2012 Employee and Retiree Tables, with Scale MP-2021. The rate of return assumption is based on many factors including asset allocations, historical asset returns, current and expected future market conditions, risk and active management premiums. The discount rate used by the Organization for valuing the pension liability is based on a review of high-quality corporate bond yields with maturities approximating the remaining life of the projected benefit obligations.

**National Council for Community Development, Inc.
(d.b.a. Grow America) and its Controlled Affiliates**

**Notes to Consolidated and Combined Financial Statements
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The following table provides information with respect to the defined benefit plan as of December 31, 2023 and for the year then ended:

Reconciliation of the benefit obligation	
Benefit obligation, beginning of year	\$ 24,158,707
Service cost	987,546
Interest cost	1,168,879
Actuarial gain	470,136
Benefits paid	<u>(939,147)</u>
Benefit obligation, end of year	<u>25,846,121</u>
Reconciliation of fair value plan assets	
Fair value of plan assets, beginning	19,819,055
Employer contributions	5,500,000
Benefits paid	(939,147)
Investment yield during the year	<u>2,324,301</u>
Fair value of plan assets, end	<u>26,704,209</u>
Net funded status	<u><u>\$ 858,088</u></u>

Net periodic benefit cost and other amounts recognized related to the defined benefit plan for the year ended December 31, 2023 are as follows:

Service cost	<u>\$ 987,546</u>
Other components of net period benefit cost	
Interest cost	1,168,879
Expected return on plan assets	(1,763,371)
Amortization of prior service cost	1,847
Amortization of net loss	<u>515,734</u>
Total other components of net period benefit cost	<u>(76,911)</u>
Total net periodic benefit cost	<u><u>\$ 910,635</u></u>

Net periodic benefit cost and other amounts not yet recognized related to the defined benefit plan for the year ended December 31, 2023 are as follows:

Beginning	\$ 9,317,827
Amortization of prior service cost	(1,847)
Amortization of net loss	(515,734)
Actuarial loss	<u>(90,794)</u>
End	<u><u>\$ 8,709,452</u></u>

The accumulated benefit obligation was \$24,592,579 as of December 31, 2023.

**National Council for Community Development, Inc.
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**Notes to Consolidated and Combined Financial Statements
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The Organization expects to contribute \$1,200,000 to the defined benefit plan in 2024. The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid by the defined benefit plan:

2024	\$	1,455,664
2025		1,494,634
2026		1,471,075
2027		1,505,514
2028		1,500,577
2029-2033		7,648,103
	<u>\$</u>	<u>15,075,567</u>

The allocation of the defined benefit plan, by asset category, is as follows at December 31, 2023:

Pooled fixed income fund	80.13%
Pooled equity fund	19.54%
Short-term investments	0.33%
	<u>100.00%</u>

The Organization has examined the historical benchmarks for returns in each asset class in its portfolio and based on the target asset mix has developed a weighted-average expected return for the portfolio as a whole, taking into consideration of long-term expected inflation rates of 2.0% and 3.5%.

The Organization has established an expected rate of return on plan asset of eight percent (8%). This expected rate of return is a long-term rate based on anticipated plan asset returns over an extended period of time, taking into account market conditions and broad asset mix considerations. Based on these factors, management asserts that the expected rate of return is a reasonable long-term assumption.

The fair values of the Organization's pension plan assets consist of the following as of December 31, 2023:

	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant other unobservable inputs (Level 3)	Total
Money market funds	\$ 86,828	\$ -	\$ -	\$ 86,828
Mutual funds				
Fixed income	21,398,943	-	-	21,398,943
Equity funds	5,218,438	-	-	5,218,438
	<u>\$ 26,704,209</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 26,704,209</u>

**National Council for Community Development, Inc.
(d.b.a. Grow America) and its Controlled Affiliates**

**Notes to Consolidated and Combined Financial Statements
December 31, 2023**

Nonqualified plan - deferred compensation plan

A select group of individuals of the Organization are provided additional benefits under a nonqualified 457(f) deferred compensation plan ("457 plan"). Management intends for the 457 plan to be unfunded and maintained by the Organization primarily for the purpose of providing deferred compensation for a select group of management or highly compensated employees, as defined by the Employee Retirement Income Security Act ("ERISA"). An individual becomes eligible to receive benefits under the 457 plan when the Organization's committee has provided written notification of inclusion and approved participation.

As of December 31, 2023, the Organization used the following factors to estimate pension liability: (a) a discount rate of 5.56%; (b) the weighted-average rate of compensation increase of 1.5%; (c) pre-retirement PRI-2012 Employee and Retire Tables, with Scale MP-2021; and (d) 2023 IRS-prescribed Mortality Tables under Section 417(e) for lump sums for post-retirement, respectively. The discount rate used by the Organization for valuing pension liability is based on a review of high-quality corporate bond yields with maturities approximating the remaining life of the projected benefit obligations.

As of December 31, 2023, accumulated benefit obligations of the 457 plan in excess of assets and recognized in the consolidated and combined statement of financial position are as follows:

Accumulated benefit obligation	\$ 1,203,534
Obligation for future salary increases	<u>-</u>
Benefit obligation	1,203,534
Assets at fair value	<u>-</u>
Projected pension liability	<u><u>\$ 1,203,534</u></u>

Net periodic benefit and other amounts recognized related to the 457 plan for the year ended December 31, 2023 consist of the following:

Other components of net periodic benefit cost	
Interest cost	\$ 50,968
Amortization of net gain	<u>(9,653)</u>
Total other components of net periodic benefit cost	<u>41,315</u>
Total net periodic benefit cost	<u><u>\$ 41,315</u></u>

Net periodic benefit and other amounts not yet recognized related to the 457 plan for the year ended December 31, 2023 consist of the following:

Beginning	\$ (113,037)
Amortization of net gain	9,653
Actuarial gain	<u>118,727</u>
End	<u><u>\$ 15,343</u></u>

In 2024, a benefit payment of \$1,229,599 is expected to be made.

**National Council for Community Development, Inc.
(d.b.a. Grow America) and its Controlled Affiliates**

**Notes to Consolidated and Combined Financial Statements
December 31, 2023**

Note 13 - Related parties

Noninterest-bearing amounts due from entities related through common board membership consist of the following as of December 31, 2023:

NDC Corporate Equity Fund XIX, LP	\$ 4,899,275
Park Village II	476,523
2816 S. McClellan, LLC	332,000
Other	<u>375,372</u>
	<u><u>\$ 6,083,170</u></u>

On a quarterly basis, management reviews due from related parties for potential impairment. As of and for the year ended December 31, 2023, management has determined that no allowance for due from related parties is deemed necessary.

The table below represents the noninterest-bearing amounts payable to related parties as of December 31, 2023:

NDC Corporate Equity Fund XVII, LP	\$ 444,013
Other	<u>563,812</u>
	<u><u>\$ 1,007,825</u></u>

Note 14 - Commitments and contingencies

Operating deficit guarantees

The Organization is contingently liable under certain partnership and development agreements to fund operating deficits. The terms of these agreements generally require the Organization to guarantee operating deficits of a particular partnership, up to a certain dollar amount, during the operating deficit guaranty periods as defined in the partnership agreements. Generally, deficits that are funded under these guarantees are in the form of noninterest-bearing loans and are repaid from future cash flows of the partnerships. Loans made under these guarantees have been eliminated in consolidation.

Tax compliance guarantees

The Organization has entered into various agreements with certain limited partnerships or their affiliated general partners whereby the Organization offers tax indemnification in the event of low-income housing tax credit recapture. The Organization's potential liability under these agreements is dependent upon IRS audits and final letters of determination of the limited partnerships' qualified basis in tax credit properties. Management is not aware of any known liability for tax credit recapture. The Organization has not been required to fund any amount under these guarantees and has not recorded any liabilities associated with these guarantees.

**National Council for Community Development, Inc.
(d.b.a. Grow America) and its Controlled Affiliates**

**Notes to Consolidated and Combined Financial Statements
December 31, 2023**

7(a) lending

As a lender of 7(a), the Organization is subject to certain requirements in accordance with the SBA's regulations. As such, the SBA could make a determination that a loan was originated, funded, or serviced in a deficient manner. If such a determination is made, the SBA could deny, or reduce the amount of the guaranty. Additionally, if the SBA has already paid the Organization under the guaranty, the SBA could seek to recover any loss on the loan from the Organization. Management is not currently aware of any such determinations by the SBA.

Litigation

The Organization is, from time to time, subject to claims that arise primarily in the ordinary course of its activities. Currently, management is not aware of any such claim or claims that would have a material adverse effect on the Organization's financial position or net assets. Events could occur, however, that would change this estimate materially in the near-term.

Cybersecurity incident

During the year ended December 31, 2023, the Organization experienced a cybersecurity incident. The Organization is actively investigating the extent of the event but management believes that personally identifiable information of borrowers held by the Organization may have been accessed without authorization. The Organization will continue to evaluate the information as it becomes known and will record an estimate for losses, which is not expected to be, but could be, material, at the time when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated. This amount would be recorded net of insurance recoveries, if any.

Summary of risk factors

The following is a summary of other significant risks and uncertainties that management believes could adversely affect the Organization's business, financial condition or results of operations.

- The unpredictability and uncertainty of future global economic and political events could impact the local U.S. economy and could have a material effect on the Organization's business, results of operations, and financial conditions.
- Changes to the SBA or other government-guaranteed lending programs by the federal government, or the loss of our status as an SBA Preferred Lender, could have a material adverse effect on the Organization's business.
- Unexpected credit losses could have a material adverse effect on the Organization's financial condition and results of operations.
- Unexpected changes to the benchmark interest rates cited in the Organization's credit facilities and loan agreements with its borrowers could have a material adverse effect on the Organization's results of operations if not managed effectively.

Other contingencies

The Organization is subject to various audits from various government and private entities that support its programs. The grants are subject to adjustments for disallowed costs, if any, based upon the results of the audits.

**National Council for Community Development, Inc.
(d.b.a. Grow America) and its Controlled Affiliates**

**Notes to Consolidated and Combined Financial Statements
December 31, 2023**

Note 15 - Net assets with donor restrictions

Net assets with donor restrictions at December 31, 2023 are comprised of the following:

Subject to expenditures for specified purpose	
Client investment funds	\$ 8,770,749
Capital Access Fund - Morgan Stanley	26,808
Loans in specified location	775,000
Funds available for Loan Loss Reserves	45,000
Client community loan funds available for allowable costs	21,814
Training and technical assistance	709,948
Other	165,379
	<hr/>
	10,514,698
Loan funds restricted in perpetuity	
Revolving loan fund	6,162,078
	<hr/>
	<u><u>\$ 16,676,776</u></u>

Net assets were released from restrictions by incurring expenses satisfying the restricted purposes. Net assets release from restrictions during the year ended December 31, 2023 consist of the following:

Client investment funds	\$ 258,195
Client community loan funds	73,197
Training and technical assistance	10,478,839
Other	8,968,388
	<hr/>
	<u><u>\$ 19,778,619</u></u>

Note 16 - Concession and service agreement

As part of the Concession and Service Agreement, the Organization paid the sum of \$32,144,930 to The Parking Authority of the City of Scranton, Pennsylvania (the "Parking Authority") in consideration of such agreement and the Facilities Agreement. Under the Concession and Service Agreement, the Organization shall perform the Metered Parking Services, as defined, for a term of 45 years, effective August 30, 2016, unless terminated earlier by the parties. The number of concession metered parking spaces designed and operating at any time may not exceed 1,650, which includes 1,500 spaces as of the bid date and an additional 150 spaces designed by the City of Scranton, Pennsylvania (the "City"). In consideration of the Concession and Service Agreement, the Organization is entitled to compensation derived from concession metered parking spaces, which also includes the base fines charged over such spaces.

The original payment is being expensed over the life of the Concession and Service Agreement. The expense for the year ended December 31, 2023 was \$714,332. The remaining balance of \$26,906,495 is included in service concession asset on the consolidated and combined statement of financial position.

**National Council for Community Development, Inc.
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**Notes to Consolidated and Combined Financial Statements
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Five years prior to the end of the term of the Concession and Service Agreement, the Organization shall establish a capital expenditure escrow fund with an escrow agent and shall deliver to the escrow agent 5% of the amount calculated equal to the amount that the City reasonably determines is appropriate to cover all costs of capital improvements for the remainder of the term.

The Organization will retain and segregate in a separate fund or account any excess of funds it receives over its debts and obligations, and any operating capital reserves it has accumulated, for use in making 501(c)(3) grants within the City as required by the Organization's by-laws. No such grants were required nor made during the year ended December 31, 2023.

Note 17 - Finance leases

On August 30, 2016, the Organization was assigned and assumed a lease (the "Electric Lease"), whereby it would obtain the rights to operate and manage the parking facilities known as the "Electric City Garage" from the Parking Authority. As part of the Electric Lease, the Organization is required to pay the lessor a monthly fee of \$19,000 for 40 years, for the purpose of covering the Organization's portion of current and any future capital improvement costs, maintenance costs, insurance costs, property taxes, overhead, administrative costs and any other costs associated with the maintenance of operation of the Electric City Garage.

In conjunction with the Electric Lease, an escrow agreement was entered into between Electric City Parking Co., LLC, the Parking Authority, and the Organization. Under this agreement, the Parking Authority was required to pay into escrow \$2,850,000, which is to be used for renovations related to the parking facilities described above. The funds shall be disbursed upon the submission of a draw request along with a joint written direction. Any remaining escrows at the end of renovations shall be returned to the Parking Authority upon evidence of completion of all renovations as provided for in the agreement.

On August 30, 2016, the Organization was assigned and assumed a lease (the "Steamtown Lease"), whereby it would obtain the rights to operate and manage 500 spaces in a garage included in a mall (the "Mall Garage") from the Parking Authority. As part of the Steamtown Lease, the Organization is required to pay the lessor a monthly fee of \$10,000 for 22.5 years, to cover the Organization's portion of current and any future capital improvement costs, maintenance costs, insurance costs, property taxes, overhead, administrative costs and any other costs associated with the maintenance and operation of the Mall Garage. The lease term can be extended once for a period of seven years, based on certain criteria, as defined in the agreement.

The leases described above have been categorized as finance leases based on the criteria established by ASC 842. The leases were recorded upon the commencement of the lease at fair value, which equaled the present value of the future payments due under the leases. Assets acquired under the finance leases totaled \$5,268,599. The balance of the lease liabilities under the finance leases totaled \$4,716,898, representing the present value of the balance due in future years for lease payments. Interest expense and depreciation for the year ended December 31, 2023 related to finance leases totaled \$259,237 and \$161,960, respectively. There were no additional leasehold improvements under the finance leases during the year ended December 31, 2023.

**National Council for Community Development, Inc.
(d.b.a. Grow America) and its Controlled Affiliates**

**Notes to Consolidated and Combined Financial Statements
December 31, 2023**

The following is an analysis of the leased properties under finance leases as of December 31, 2023:

Electric City parking garage	\$ 3,713,158
Steamtown Mall Garage	<u>1,555,441</u>
	5,268,599
Less accumulated depreciation	<u>(1,187,707)</u>
	<u><u>\$ 4,080,892</u></u>

Note 18 - Operating leases

The Organization leases office space throughout the country under noncancelable lease agreements. All contracts that implicitly or explicitly involve property, plant and equipment are evaluated to determine whether they are or contain a lease.

At lease commencement, the Organization recognizes a lease liability, which is measured at the present value of future lease payments, and a corresponding right-of-use asset equal to the lease liability, adjusted for prepaid lease costs, initial direct costs and lease incentives, if any. The Organization has elected and applies the practical expedient available to lessees to combine nonlease components with their related lease components and account for them as a single combined lease component for all its leases. The Organization remeasures lease liabilities and related right-of-use assets whenever there is a change to the lease term and/or there is a change in the amount of future lease payments, but only when such modification does not qualify to be accounted for as a separate contract.

The Organization determines an appropriate discount rate to apply when determining the present value of the remaining lease payments for purposes of measuring or remeasuring lease liabilities. As the rate implicit in the lease is generally not readily determinable, the Organization has adopted the practical expedient applicable to nonpublic business entities as per ASC 842-20-30-3 which allows the use of a risk-free rate for a period comparable to the balance number of years in the leases as of the adoption date of the lease accounting standard.

For accounting purposes, the Organization's leases commence on the earlier of (i) the date upon which the Organization obtains control of the underlying asset and (ii) the contractual effective date of a lease. Lease commencement for most of the Organization's leases coincides with the contractual effective date. The Organization's leases generally have minimum base terms with renewal options or fixed terms with early termination options. Such renewal and early termination options are exercisable at the option of the Organization and, when exercised, usually provide for rental payments during the extension period at then current market rates or at pre-determined rental amounts. Unless the Organization determines that it is reasonably certain that the term of a lease will be extended, such as through the exercise of a renewal option or nonexercise of an early termination option, the term of a lease begins at lease commencement and spans for the duration of the minimum noncancellable contractual term. When the exercise of a renewal option or nonexercise of an early termination option is reasonably certain, the lease term is measured as ending at the end of the renewal period or on the date an early termination may be exercised.

**National Council for Community Development, Inc.
(d.b.a. Grow America) and its Controlled Affiliates**

**Notes to Consolidated and Combined Financial Statements
December 31, 2023**

The Organization includes variable rental payments based on a rate or an index such as the Consumer Price index (CPI) in its measurement of lease payments based on the rate or index in effect at lease commencement. Other types of variable lease payments are expensed as incurred.

Financial information

The following provides information about the Organization's right-of-use assets and lease liabilities for its operating and finance leases as of December 31, 2023:

Operating lease right-of-use assets	\$ 4,273,008
Finance lease right-of-use assets	5,268,599
 Operating lease liabilities	 4,708,889
Finance lease liabilities	4,716,898

The components of the Organization's lease cost for the year ended December 31, 2023 are as follows:

Operating lease cost, net	
Rent expense	\$ 641,926
Short-term leases	42,885
Variable/contingent rents	206,921
Sublease (income)	(541,509)
	<hr/>
Net operating lease cost	350,223
	<hr/>
Finance lease cost, net	
Amortization expense	88,763
Interest expense	259,237
	<hr/>
Net finance lease cost	348,000
	<hr/>
Total lease cost, net	<u><u>\$ 698,223</u></u>

Weighted average remaining lease term and weighted average discount rate for the Organization's leases as of December 31, 2023:

<u>Year ended December 31, 2023</u>	<u>Operating leases</u>	<u>Finance leases</u>
Weighted average remaining term (in years)	8	29
Weighted average discount rate	2.14%	5.44%

**National Council for Community Development, Inc.
(d.b.a. Grow America) and its Controlled Affiliates**

**Notes to Consolidated and Combined Financial Statements
December 31, 2023**

Annual maturity analysis of the Organization's operating and finance lease liabilities as of December 31, 2023:

	Operating leases	Finance leases	Total
2024	\$ 634,288	\$ 348,000	\$ 982,288
2025	635,149	348,000	983,149
2026	639,493	348,000	987,493
2027	682,973	348,000	1,030,973
2028	683,834	348,000	1,031,834
Thereafter	<u>1,858,586</u>	<u>7,528,000</u>	<u>9,386,586</u>
Total lease payments	5,134,323	9,268,000	14,402,323
Less: Interest	<u>(425,434)</u>	<u>(4,551,102)</u>	<u>(4,976,536)</u>
Present value of lease liability	<u><u>\$ 4,708,889</u></u>	<u><u>\$ 4,716,898</u></u>	<u><u>\$ 9,425,787</u></u>

Note 19 - Consolidated and combined statement of cash flows

The following table provides a reconciliation of cash and cash equivalents and restricted cash reported on the consolidated and combined statement of financial position that sum to the total of the same such amounts shown in the consolidated and combined statement of cash flows:

Cash and cash equivalents	\$ 70,900,840
Restricted cash	<u>11,448,394</u>
Total cash and cash equivalents and restricted cash shown on the consolidated and combined statement of cash flows	<u><u>\$ 82,349,234</u></u>

Supplementary Information

**National Council for Community Development, Inc.
(d.b.a. Grow America) and its Controlled Affiliates**

**Schedule of Expenditures of State Financial Assistance
Year Ended December 31, 2023**

<u>State grantor/pass-through grantor/program title</u>	<u>State Grant Program CORE-CT Number</u>	<u>Passed through to subrecipients</u>	<u>Expenditures</u>
Department of Economic and Community Development			
Connecticut Small Business Boost Fund Program	12060-ECD46200-35497	\$ -	\$ 707,898
Connecticut Small Business Boost Fund Program	12060-ECD46200-35497	-	14,803
Total Connecticut Small Business Boost Fund Program		-	722,701
Total Department of Economic and Community Development		-	722,701
Total Expenditures of State Financial Assistance		\$ -	\$ 722,701

See Notes to Schedule of Expenditures of State Financial Assistance.

**National Council for Community Development, Inc.
(d.b.a. Grow America) and its Controlled Affiliates**

**Notes to Schedule of Expenditures of State Financial Assistance
December 31, 2023**

Note 1 - Summary of significant accounting policies

The accompanying schedule of expenditures of state financial assistance includes state grant activity of National Council for Community Development, Inc. (d.b.a. Grow America) and its Controlled Affiliates (the "Organization") under programs of the State of Connecticut for the fiscal year ended December 31, 2023. Various departments and agencies of the State of Connecticut have provided financial assistance through grants and other authorizations in accordance with the General Statutes of the State of Connecticut. Because the schedule presents only a selected portion of the operations of the Organization, it is not intended and does not present the financial position, changes in net assets, or cash flows of the Organization.

The accounting policies of the Organization conform to accounting principles generally accepted in the United States of America as applicable to not-for-profit organizations.

The information in the schedule of expenditures of state financial assistance is presented based upon regulations established by the State of Connecticut, Office of Policy and Management.

Note 2 - Summary of significant accounting policies

The expenditures reported on the schedule of expenditures of state financial assistance are reported on the accrual basis of accounting. In accordance with Section 4-236-22 of the Regulations to the State Single Audit Act, certain grants are not dependent on expenditure activity and, accordingly, are considered to be expended in the fiscal year of receipt. These grant program receipts are reflected in the expenditures column of the schedule of expenditures of state financial assistance.

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

To the Board of Directors
National Council for Community Development, Inc.
(d.b.a. Grow America) and its Controlled Affiliates

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated and combined financial statements of National Council for Community Development, Inc. (d.b.a. Grow America) and its Controlled Affiliates (the "Organization"), which comprise the consolidated and combined statement of financial position as of December 31, 2023, and the related consolidated and combined statements of activities, changes in net assets, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 6, 2024.

Report on Internal Control over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Organization's consolidated and combined financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified a deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2023-001 that we consider to be a material weakness.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's consolidated and combined financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the consolidated and combined financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Grow America's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Organization's response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. Grow America's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



New York, New York
November 6, 2024

Independent Auditor's Report on Compliance for Each Major State Program;
Report on Internal Control over Compliance; and Report on the Schedule of
Expenditures of State Financial Assistance Required by the State Single Audit Act

To the Board of Directors
National Council for Community Development, Inc.
(d.b.a. Grow America) and its Controlled Affiliates

Report on Compliance for Each Major State Program

Opinion on Each Major State Program

We have audited National Council for Community Development, Inc. (d.b.a. Grow America) and its Controlled Affiliates' (the "Organization") compliance with the types of compliance requirements identified as subject to audit in the Office of Policy and Management's *Compliance Supplement* that could have a direct and material effect on each of the Organization's major state programs for the year ended December 31, 2023. The Organization's major state programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major state programs for the year ended December 31, 2023.

Basis for Opinion on Each Major State Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America ("GAAS"); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the State Single Audit Act (C.G.S. Sections 4-230 to 4-236). Our responsibilities under those standards and the State Single Audit Act are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

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

Responsibilities of Management for Compliance

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

Auditor's Responsibilities for the Audit of Compliance

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

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the State Single Audit Act, we:

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

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

Report on Internal Control over Compliance

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a state program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a state program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a state program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the State Single Audit Act. Accordingly, this report is not suitable for any other purpose.

Report on the Schedule of Expenditures of State Financial Assistance Required by the State Single Audit Act

We have audited the consolidated and combined financial statements of the Organization, as of and for the year ended December 31, 2023, and have issued our report thereon dated November 6, 2024, which contained an unmodified opinion on those consolidated and combined financial statements. Our audit was conducted for the purpose of forming an opinion on the consolidated and combined financial statements as a whole. The accompanying schedule of expenditures of state financial assistance is presented for purposes of additional analysis as required by the State Single Audit Act and is not a required part of the consolidated and combined financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated and combined 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 consolidated and combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of state financial assistance is fairly stated in all material respects in relation to the consolidated and combined financial statements as a whole.



New York, New York
November 6, 2024

**National Council for Community Development, Inc.
(d.b.a. Grow America) and its Controlled Affiliates**

**Schedule of Findings and Questioned Costs
Year Ended December 31, 2023**

I. Summary of Auditor's Results

Financial Statements:

Type of auditor's opinion issued:	<u>Unmodified</u>
Internal control over financial reporting:	
Material weakness(es) identified?	<u> X </u> yes <u> </u> no
Significant deficiency(ies) identified?	<u> </u> yes <u> X </u> none reported
Noncompliance material to financial statements noted?	<u> </u> yes <u> X </u> no

State Financial Assistance:

Internal control over major programs:	
Material weakness(es) identified?	<u> </u> yes <u> X </u> no
Significant deficiency(ies) identified?	<u> </u> yes <u> X </u> none reported

Type of auditor's opinion issued on compliance for major programs:	<u>Unmodified</u>
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Any audit findings disclosed that are required to be reported in accordance with Section 4-236-24 of the Regulations to the State Single Audit Act?	<u> </u> yes <u> X </u> no
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The following schedule reflects the major programs included in the audit:

<u>State Grant or Program</u>	<u>State CORE - CT Number</u>	<u>Expenditures</u>
Department of Economic and Community Development		
Connecticut Small Business Boost Fund	12060-ECD46200-35497	\$ 722,701
Dollar threshold used to distinguish between type A and type B programs		<u>\$ 200,000</u>

**National Council for Community Development, Inc.
(d.b.a. Grow America) and its Controlled Affiliates**

**Schedule of Findings and Questioned Costs
Year Ended December 31, 2023**

II. Financial Statement Finding

Finding No. 2023-001

Type of Finding

Material weakness in internal control over financial reporting

Criteria

According to Section 4-236-24 of the Compliance Supplement to the State Single Audit Act for the State of Connecticut, known fraud affecting state financial assistance shall be reported as an audit finding in the schedule of findings and questioned costs for state financial assistance.

Condition

Charges were made to the Connecticut Small Business Boost Fund Program for loans purchased by the Organization where it was discovered that the borrowers were acting fraudulently.

Context

The Organization purchased four loans totaling \$1,002,250 from a Community Development Fund Institution originator, which were discovered to be made to individuals who were acting fraudulently.

Effect or Potential Effect

Failure to ensure that purchased loans meet the program requirements could result in noncompliance with the grant requirements or unallowable costs being charged.

Cause

The Organization's internal controls over loan purchasing failed to detect and prevent the purchase of fraudulent loans.

Repeat Finding

Yes or No? No

Recommendation

We recommend that management evaluate the policies and procedures of the Organization and implement a set of internal controls over the purchasing of loans.

Views of Responsible Officials

As the fund manager, the Organization must rely on the completeness of the due diligence being performed by the originating lenders. We have alerted all the originating lenders of the incident, raised their awareness of such perpetrators, and asked each originating lender to be more diligent in their underwriting process. NDC Community Impact Loan Fund, for example, has instituted a more robust verification process that includes performing a LexisNexis search and concluding on the strength of the relationship between the individual applying for the loan on behalf of the applicant business.

III. State Financial Assistance Findings and Questioned Costs

None reported.



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**CORRECTIVE ACTION PLAN
YEAR ENDED DECEMBER 31, 2023**

National Council for Community Development, Inc. (d.b.a. Grow America) and its Controlled Affiliates (the "Organization") respectfully submits the following corrective action plan for the year ended December 31, 2023.

CohnReznick LLP
1301 Avenue of the Americas
New York, NY 10019

Audit Period: December 31, 2023

The findings from the December 31, 2023 schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

FINDINGS – FINANCIAL STATEMENT AUDIT

Finding No. 2023-001 – Fraudulent loans - Material Weakness

Condition: Charges were made to the Connecticut Small Business Boost Fund Program for loans purchased by the Organization where it was discovered that the borrowers were acting fraudulently.

Recommendation: We recommend that management evaluate the policies and procedures of the Organization and implement a set of internal controls over the purchasing of loans.

Action Taken: As the fund manager, the Organization must rely on the completeness of the due diligence being performed by the originating lenders. We have alerted all the originating lenders of the incident, raised their awareness of such perpetrators, and asked each originating lender to be more diligent in their underwriting process. NDC Community Impact Loan Fund, for example, has instituted a more robust verification process that includes performing a LexisNexis search and concluding on the strength of the relationship between the individual applying for the loan on behalf of the applicant business.

Anticipated completion date: Immediately.

If any cognizant or oversight agency has questions regarding this plan, please call Daniel Choi, Chief Financial Officer at (212) 682-1106.

Sincerely yours,

Daniel Choi
Chief Financial Officer