



Great Falls, Montana



FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION WITH
INDEPENDENT AUDITORS' REPORT

September 30, 2022



K C O E
I S O M

Montana HomeOwnership Network, Inc. dba NeighborWorks Montana

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Montana HomeOwnership Network, Inc.
dba NeighborWorks Montana
Great Falls, Montana

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Montana HomeOwnership Network, Inc., dba NeighborWorks Montana (a nonprofit organization), which comprise the statement of financial position as of September 30, 2022, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements present fairly, in all material respects, the financial position of Montana HomeOwnership Network, Inc., dba NeighborWorks Montana as of September 30, 2022, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Montana HomeOwnership Network, Inc., dba NeighborWorks Montana and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Montana HomeOwnership Network, Inc., dba NeighborWorks Montana's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

INDEPENDENT AUDITORS' REPORT

(Continued)

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an Auditors' 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 generally accepted auditing standards 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 financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Montana HomeOwnership Network, Inc., dba NeighborWorks Montana. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Montana HomeOwnership Network, Inc., dba NeighborWorks Montana'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.

INDEPENDENT AUDITORS' REPORT

(Continued)

Report on Summarized Comparative Information

We have previously audited Montana HomeOwnership Network, Inc., dba NeighborWorks Montana's September 30, 2021 financial statements, and we expressed an unmodified opinion on those audited financial statements in our reported dated January 4, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2021, is consistent, in all material respects, with the audited financial statements for which it has been derived.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 7, 2023, on our consideration of Montana HomeOwnership Network, Inc., dba NeighborWorks Montana'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 Montana HomeOwnership Network, Inc., dba NeighborWorks Montana'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 Montana HomeOwnership Network, Inc., dba NeighborWorks Montana's internal control over financial reporting and compliance.

KCae Team, LLP

March 7, 2023
Great Falls, Montana

FINANCIAL SECTION

Montana HomeOwnership Network, Inc. dba NeighborWorks Montana**STATEMENT OF FINANCIAL POSITION**

September 30, 2022

(With Comparative Totals for September 30, 2021)

	<u>2022</u>	<u>2021</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 9,522,008	\$ 4,880,542
Miscellaneous receivables	162,933	291,690
Grant receivables	313,527	296,954
Current portion of notes receivable	1,149,004	2,351,706
Current portion of loans receivable	479,629	508,543
Real estate property held for sale	139,384	114,178
Prepaid expenses	<u>16,851</u>	<u>15,584</u>
Total current assets	<u>11,783,336</u>	<u>8,459,197</u>
PROPERTY AND EQUIPMENT		
Building	163,853	163,853
Furniture and office equipment	104,193	104,193
Less: accumulated depreciation	<u>(152,936)</u>	<u>(134,501)</u>
Total property and equipment, net	<u>115,110</u>	<u>133,545</u>
OTHER ASSETS		
Cash - endowment	2,900	2,896
Cash - loan loss reserve	141,975	141,906
Cash - NSP CLT	39,859	958
Cash - LIFT	47,400	95,100
Investments	429,802	429,716
Notes receivable, net of allowance and current portion	11,237,754	9,795,706
Loans receivable, net of allowance, current portion, and NHSA buyback discount	<u>18,982,191</u>	<u>12,330,672</u>
Total other assets	<u>30,881,881</u>	<u>22,796,954</u>
Total assets	<u>\$ 42,780,327</u>	<u>\$ 31,389,696</u>

Montana HomeOwnership Network, Inc. dba NeighborWorks Montana

STATEMENT OF FINANCIAL POSITION (Continued)

September 30, 2022

(With Comparative Totals for September 30, 2021)

	<u>2022</u>	<u>2021</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 397,107	\$ 216,423
Refundable advance	829,485	-
Deferred revenue	1,159,067	442,917
Current portion of long-term debt	<u>633,750</u>	<u>915,000</u>
Total current liabilities	<u>3,019,409</u>	<u>1,574,340</u>
MORTGAGE ESCROW AND TRUST ACCOUNTS	<u>4,143,361</u>	<u>4,584,430</u>
LONG-TERM DEBT		
Notes payable, net of current portion	<u>9,041,207</u>	<u>8,897,855</u>
Total long-term debt	<u>9,041,207</u>	<u>8,897,855</u>
Total liabilities	<u>16,203,977</u>	<u>15,056,625</u>
NET ASSETS		
Without donor restrictions		
Undesignated	11,022,559	9,781,235
With donor restrictions		
Purpose and time restrictions	<u>15,553,791</u>	<u>6,551,836</u>
Total net assets	<u>26,576,350</u>	<u>16,333,071</u>
Total liabilities and net assets	<u>\$ 42,780,327</u>	<u>\$ 31,389,696</u>

Montana HomeOwnership Network, Inc. dba NeighborWorks Montana**STATEMENT OF ACTIVITIES**

Year Ended September 30, 2022

(With Comparative Totals for the Year Ended September 30, 2021)

	Without Donor Restrictions	With Donor Restrictions	2022	2021
REVENUE AND OTHER SUPPORT				
Grants	\$ 2,932,257	\$ 9,125,753	\$ 12,058,010	\$ 2,071,204
Contributions	48,887	-	48,887	161,937
Interest - loans	656,771	-	656,771	623,618
Interest - deposits	12,514	-	12,514	6,956
Loan fees	53,106	-	53,106	64,967
Conference revenue	64,123	-	64,123	79,950
Contract revenue	772,906	-	772,906	885,529
Other revenue	186,271	-	186,271	106,166
Total revenue and other support	<u>4,726,835</u>	<u>9,125,753</u>	<u>13,852,588</u>	<u>4,000,327</u>
EXPENSES				
Program services	2,791,590	123,798	2,915,388	2,674,416
Supporting services	<u>693,921</u>	<u>-</u>	<u>693,921</u>	<u>579,679</u>
Total expenses	<u>3,485,511</u>	<u>123,798</u>	<u>3,609,309</u>	<u>3,254,095</u>
Change in net assets	1,241,324	9,001,955	10,243,279	746,232
Net assets, beginning of year	<u>9,781,235</u>	<u>6,551,836</u>	<u>16,333,071</u>	<u>15,586,839</u>
Net assets, end of year	<u>\$ 11,022,559</u>	<u>\$ 15,553,791</u>	<u>\$ 26,576,350</u>	<u>\$ 16,333,071</u>

Montana HomeOwnership Network, Inc. dba NeighborWorks Montana

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended September 30, 2022

(With Comparative Totals for the Year Ended September 30, 2021)

	Supporting Services			Total Supporting Services	2022 Total	2021 Total
	Program Services	Management and General	Resource Development			
Salaries, benefits and taxes	\$ 789,101	\$ 446,067	\$ 101,928	\$ 547,995	\$ 1,337,096	\$ 1,110,660
Audit	12,070	1,930	-	1,930	14,000	13,500
Bad debt expense	26,836	-	-	-	26,836	84,814
Insurance	9,553	7,549	539	8,088	17,641	13,569
Cyber insurance	-	-	-	-	-	1,157
Computer support	26,741	4,631	2,888	7,519	34,260	31,482
Depreciation	10,658	2,997	4,780	7,777	18,435	18,865
Marketing	17,496	500	10,286	10,786	28,282	14,863
Meeting expense	5,956	4,557	125	4,682	10,638	1,221
Miscellaneous	2,302	3,757	45	3,802	6,104	10,162
HQS/Environmental/Home	713	-	-	-	713	920
Interest expense	227,426	-	-	-	227,426	231,099
Loan processing expense	12,372	-	-	-	12,372	8,990
Repairs and maintenance	11,714	2,532	1,706	4,238	15,952	26,204
Real estate taxes	324	244	120	364	688	682
Office rent	13,107	15,925	1,635	17,560	30,667	30,121
Office supplies	10,013	2,715	1,487	4,202	14,215	10,609
Outside services	35,271	9,217	759	9,976	45,247	26,980
Legal professional Sservices	7,470	-	-	-	7,470	6,897
Partner conference expenses	21,142	-	-	-	21,142	30,051
Postage	2,448	223	95	318	2,766	4,638
Subscriptions/Dues	39,570	10,999	4,963	15,962	55,532	42,758
Telephone	6,460	3,495	1,123	4,618	11,078	12,788
Training	7,034	8,814	6,176	14,990	22,024	11,452
Training-Partners	47,637	-	-	-	47,637	6,532
Travel	29,242	11,413	2,601	14,014	43,256	9,315
Parking	1,875	850	425	1,275	3,150	2,850
Utilities	1,224	991	334	1,325	2,549	1,894
Credit reports	240	-	-	-	240	240
Grant expense	475,746	-	12,500	12,500	488,246	572,782
Distribution to partners	1,063,647	-	-	-	1,063,647	916,000
	<u>\$ 2,915,388</u>	<u>\$ 539,406</u>	<u>\$ 154,515</u>	<u>\$ 693,921</u>	<u>\$ 3,609,309</u>	<u>\$ 3,254,095</u>

Montana HomeOwnership Network, Inc. dba NeighborWorks Montana**STATEMENT OF CASH FLOWS**

Year Ended September 30, 2022

(With Comparative Totals for the Year Ended September 30, 2021)

	<u>2022</u>	<u>2021</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 10,243,279	\$ 746,232
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Bad debt expense	26,836	84,814
Depreciation	18,435	18,865
Amortization of NHSA buyback discount	(429)	(2,824)
Distribution from RB SB Lending, LLC	5,250	5,460
Changes in operating assets and liabilities:		
Receivables	112,184	(195,341)
Prepaid expenses	(1,267)	(265)
Accounts payable and accrued liabilities	180,684	(77,765)
Refundable advance	829,485	-
Deferred revenue	716,150	332,017
Mortgage escrow and trust accounts	<u>(441,069)</u>	<u>(462,186)</u>
Net cash flows from operating activities	<u>11,689,538</u>	<u>449,007</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from real estate held for sale	54,107	121,384
Purchase of real estate held for sale	(79,313)	(120,849)
Cash paid for property and equipment	-	(7,397)
Purchase of investments	(5,336)	(255,337)
Payments received on loans and notes receivable	4,401,338	3,701,362
Additional funds issued on loans and notes receivable	<u>(11,289,696)</u>	<u>(4,069,133)</u>
Net cash flows from investing activities	<u>(6,918,900)</u>	<u>(629,970)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from new debt	237,102	500,000
Payments on debt	<u>(375,000)</u>	<u>(31,250)</u>
Net cash flows from financing activities	<u>(137,898)</u>	<u>468,750</u>
Net change in cash and cash equivalents	4,632,740	287,787
Cash and cash equivalents, beginning of year	<u>5,121,402</u>	<u>4,833,615</u>
Cash and cash equivalents, end of year	<u>\$ 9,754,142</u>	<u>\$ 5,121,402</u>

Montana HomeOwnership Network, Inc. dba NeighborWorks Montana

STATEMENT OF CASH FLOWS (CONTINUED)

Year Ended September 30, 2022

(With Comparative Totals for the Year Ended September 30, 2021)

	<u>2022</u>	<u>2021</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS		
SCHEDULE OF INTEREST PAID		
Interest paid	<u>\$ 227,426</u>	<u>\$ 231,099</u>
SCHEDULE OF CASH AND CASH EQUIVALENTS		
Cash - operating	\$ 9,522,008	\$ 4,880,542
Cash - endowment	2,900	2,896
Cash - loan loss reserve	141,975	141,906
Cash - NSP CLT	39,859	958
Cash - LIFT	<u>47,400</u>	<u>95,100</u>
	<u>\$ 9,754,142</u>	<u>\$ 5,121,402</u>

NONCASH INVESTING AND FINANCING ACTIVITIES

During the year ended September 30, 2022, there was \$349,000 of LIFT loans receivable forgiven in accordance with the terms and conditions of the program.

Montana HomeOwnership Network, Inc. dba NeighborWorks Montana

NOTES TO FINANCIAL STATEMENTS

September 30, 2022

NOTE 1. ORGANIZATION

Montana HomeOwnership Network, Inc. dba NeighborWorks Montana (NWMT) is a nonprofit corporation dedicated to increasing home ownership and preserving affordable housing for low-income families throughout Montana. Revenue is mainly from earned income and government grants, supplemented by donations. NWMT partners with other nonprofit agencies through service agreements, contracts and loans to provide services, encourage development, and finance construction. These agencies are commonly referred to as “partners”, but the use of the term in no way suggests a formal, legal partnership exists between NWMT and the individual agencies.

The services provided by NWMT are segregated in the following program categories:

Homebuyer Education and Housing Counseling – includes the operation of a statewide partner network of local agencies which provide individual homeownership planning services to homebuyers so they are knowledgeable of all aspects of the home buying process to create successful homeownership for the long-term. Foreclosure mitigation services provide counseling, loan servicer negotiations and foreclosure prevention loans to homeowners of all income levels. These services are contracted by NWMT with local agencies.

Lending and Loan Servicing – provides down payment loans to low-and-moderate income families to allow them to become homeowners. Deferred mortgages bridge the gap between the home price and an affordable mortgage for the family, while amortizing mortgages allow families to reduce their down payment and avoid mortgage insurance premiums. For current homeowners, NWMT offers foreclosure mitigation loans to allow them to retain homeownership.

Real Estate Development and Acquisition Program (REDA) – provides loans on projects for pre-development, land, or building acquisition, bridge funds for equity and other structures crafted to serve the needs of development partners. As a Community Development Financial Institution (CDFI), NWMT can leverage grant funds with loans from numerous sources and offer financing to help housing developers complete their financing packages.

Housing and Real Estate – encompasses new home development using factory-built homes, replacement home development using manufactured homes, and conversion of manufactured housing communities into resident-owned cooperatives. Manufactured housing is Montana’s largest unsubsidized form of affordable housing. This line of business works to preserve and enhance the assets of manufactured housing homeowners.

Partner Support – provides funding to the statewide network of local agencies that offer homebuyer education, housing counseling, matched savings accounts, and housing land trust development. Expenses in this program function are pass-through funds to third parties for services provided to homebuyers and homeowners throughout the state.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The financial statements are presented in accordance with accounting principles generally accepted in the United States of America (GAAP), as codified by the Financial Accounting Standards Board (FASB). Under GAAP, NWMT is required to report information regarding its financial position and activities according to two classes of net assets:

- *Net assets without donor restrictions* – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. Designated amounts represent those net assets that the board has set aside for a particular purpose and shall be segregated in the accounting records as “board-designated” funds. There were no board-designated funds at September 30, 2022.
- *Net assets with donor restrictions* – Net assets that are subject to donor or certain grantor imposed stipulations. Some donor or grant restrictions are temporary in nature such as those that will be met by passage of time or other events specified by the donor or grantor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. 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.

Revenues are reported as increases in net assets without donor restrictions, unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on assets or liabilities are reported as increases or decreases in net assets without donor restrictions, unless their use is restricted by explicit donor stipulation or by law. Expirations of restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restriction.

Net Assets With Donor Restrictions

Purpose or Time Restrictions

NWMT has received grants from the state and federal governments that are to be used for neighborhood revitalization to increase home ownership, increase the availability of affordable rentals among low-income individuals and to preserve affordable homes. These grants are reflected as net assets with donor-imposed restrictions due to restrictions as to their purpose and/or usage over time.

Comparative Data

The amounts shown for the year ended September 30, 2021 in the accompanying financial statements are included to provide a basis for comparison with 2022 and present summarized totals only. Accordingly, the 2021 totals are not intended to present all information necessary for a fair presentation in conformity with GAAP. Such information should be read in conjunction with NWMT’s financial statements for the year ended September 30, 2021, from which the summarized information was derived.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Tax Status

NWMT is a nonprofit organization as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal and state income taxes.

Cash and Cash Equivalents

For purposes of the statement of cash flows, NWMT considers all short-term investments with a maturity of three months or less, and all certificates of deposit, to be cash equivalents.

Concentration of Credit Risk for Cash Deposits

NWMT maintains deposits in various financial institutions located in Montana. The deposits are insured by federal agencies for up to \$250,000 per bank. At September 30, 2022, the amount on deposit exceeding the federally insured limit was \$9,503,127. NWMT maintains a repurchase account where large cash balances would be on deposit for more than 30 days.

Property and Equipment

Property and equipment are recorded at cost for purchased assets and fair value as of the date of donation for donated assets. Those assets over \$2,500 are capitalized. In the absence of donor stipulations regarding how long the contributed assets must be used, contributions of property and equipment are recorded as net assets without donor restrictions.

Depreciation is provided over the estimated useful lives of the assets using straight-line depreciation. Total depreciation expense for the year ended September 30, 2022 is \$18,435. Estimated useful lives are as follows:

Building	27.5 years
Furniture and office equipment	3 – 7 years

Revenue Recognition

All fee and contract revenue related to performance obligations satisfied at a point in time and are recognized when services are provided. Performance obligations are determined based on the nature of the services provided by NWMT. Transaction prices are based on agreed-upon charges for services provided or approved transaction prices set by other agencies. Loan service fee revenue and loan origination fees are recorded as earned. See Notes 4 and 5 for revenue recognition of interest income on notes and loans receivable.

Functional Allocation of Expenses

The financial statements report certain expense categories that are attributable to more than one program service or support function. Therefore, expenses require an allocation on a reasonable basis that is consistently applied. Such allocations are determined by management on an equitable basis. The expenses that are allocated include salaries and benefits which are allocated based on estimates of time and effort and occupancy costs which are allocated on a square-footage percentage basis.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Subsequent Events

NWMT has evaluated subsequent events through March 7, 2023, which is the date the financial statements were available to be issued.

NOTE 3. LIQUIDITY AND AVAILABILITY

Financial assets expected to be available to support NWMT in the year ending September 30, 2023 consist of the following:

	<u>2022</u>
Cash and cash equivalents	\$ 9,754,142
Receivables	476,460
Notes receivable	12,386,758
Loans receivable	<u>19,461,820</u>
Total financial assets	<u>42,079,180</u>
Less: financial assets not available	
Long-term notes receivable	(11,237,754)
Long-term loans receivable	(18,982,191)
Restricted cash	<u>(232,134)</u>
Financial assets available within 1 year	<u>\$ 11,627,101</u>

Financial assets include cash and cash equivalents, certificates of deposit and accounts and grants receivable as reported on the statement of financial position. As of September 30, 2022, NWMT has working capital of \$9,177,527 and 550 days cash on hand. Days cash on hand does not include cash designated by management for projects or deferred revenue items.

As part of NWMT's liquidity management plan, NWMT's annual operating budget anticipates receiving funds throughout the year from the following sources, typically allowing them to operate with a positive cash flow position:

- Grants
- Interest income from loans and notes receivable

In addition, NWMT has a \$1 million line of credit, as discussed in more detail in Note 13. As of September 30, 2022, \$1 million remained available on NWMT's line of credit.

Montana HomeOwnership Network, Inc. dba NeighborWorks Montana

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2022

NOTE 4. NOTES RECEIVABLE

NWMT makes loans to nonprofit multi-family housing developers to encourage the development and preservation of affordable rentals. Loan policies are approved by the Real Estate Development and Acquisition Committee of NWMT's Board of Directors. Notes receivable are carried at the unpaid principal balance. Interest on notes receivable is accrued using the simple interest method, based on the unpaid principal balance. Interest income is recognized over the contractual life of the note receivable. Notes are placed on nonaccrual status when management believes the notes are impaired or collection of interest is doubtful. Notes receivable are considered impaired if full principal or interest payments are not anticipated to be received in accordance with the terms of the note. It is NWMT's practice to charge off any note, or portion of a note, when management feels it will be uncollectible due to the borrower's failure to meet repayment terms, the borrower's deteriorating or deteriorated financial condition, or for other reasons.

Credit Risk Policies

NWMT utilizes a process for calculating loan loss reserves on impaired notes receivable. All notes are evaluated for impairment on an individual basis. As of September 30, 2022, there were three impaired notes receivable with a total unpaid principal balance of \$552,142 in nonaccrual status and a loan loss reserve of \$237,465. NWMT's recorded investment and average recorded investment in the impaired notes receivable was \$552,142 as of September 30, 2022.

Notes receivable at September 30, 2022 consist of the following:

A note receivable from Homeword, Inc. to incorporate environmentally friendly aspects into the Equinox II condominium complex in Missoula, Montana. There is a zero interest rate and no stated due date on this note. Due at time of sale if property is sold.	\$ 45,000
A note receivable from Confluence-Homeword, Inc. for predevelopment expenses of a low-income project in Missoula, Montana. There is a zero interest note with no stated due date. Due at time of sale if property is sold.	115,000
A note receivable from Trailer Terrace for infrastructure development financing for the Trailer Terrace park residence in Great Falls, Montana. The note receivable is amortizing with monthly installments through February 28, 2028, including interest at a rate of 5.0%. The note is secured by a lien on the property.	268,425
A note receivable from Missouri Meadows Community for acquisition financing a manufactured home park residence in Great Falls, Montana. The note receivable is deferred until January 15, 2022 and will then amortize at zero interest through December 15, 2037. The note is secured by a trust indenture agreement. This note is on nonaccrual status through December 31, 2022.	256,343

Montana HomeOwnership Network, Inc. dba NeighborWorks Montana
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
September 30, 2022

NOTE 4. NOTES RECEIVABLE (CONTINUED)

A note receivable from Missouri Meadows Community for acquisition financing a manufactured home park residence in Great Falls, Montana. The note receivable is amortizing and due on January 15, 2045. Interest is due monthly at a rate of 3.0%. The note is secured by a trust indenture agreement. This note is on nonaccrual status through December 31, 2022.	113,204
A note receivable from NeighborWorks Great Falls, LLC for predevelopment financing of a supportive housing project located in Great Falls, Montana. The note receivable is nonamortizing and due on December 29, 2022. Interest is due quarterly at a rate of 6%. The note is secured by a trust indenture agreement.	341,101
A note receivable from Mountain Springs Villa for construction financing for a manufactured home park residence in Red Lodge, Montana. This is a zero interest note. No payments were due until December 1, 2021 after which monthly payments of \$750 are made until November 1, 2031. The note is secured by a trust indenture agreement.	97,500
A note receivable from Spruce Grove, LLLP for predevelopment financing of an affordable rental housing project to be rehabilitated in Laurel and Joliet, Montana. The note receivable has a maturity date of October 31, 2051. Principal and interest payments due monthly beginning on October 1, 2023 at a rate of 2.68%. The note is secured by a personal guaranty from the developer.	500,000
A note receivable from Spruce Grove, LLLP for construction of an affordable rental housing project in Laurel and Joliet, Montana. The note receivable is nonamortizing and due on April 7, 2024. Interest is due quarterly at a rate of 6%. The note is secured by a personal guaranty from the developer.	250,000
A note receivable from Buena Vista in Missoula, MT for infrastructure improvements. The note matures on November 27, 2023 and interest accrues at a rate of 6.0%. The note is secured by a lien on the property.	62,381
A note receivable from Human Resource Development Council of District IX for land acquisition in Gardiner, Montana. The note receivable is nonamortizing and due on February 28, 2023. Interest is due quarterly at a rate of 6.5%. The note is secured by a lien on the property.	220,000
A note receivable from Northwood Community in Ronan, MT. The note matures on November 5, 2024. The note is amortized monthly with interest at a rate of 4.0%. The note is secured by a lien on the property. This note is on nonaccrual status through December 31, 2022.	182,595

Montana HomeOwnership Network, Inc. dba NeighborWorks Montana
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
September 30, 2022

NOTE 4. NOTES RECEIVABLE (CONTINUED)

A note receivable from Morning Star Community in Kalispell, Montana for acquisition of property. The note is due on June 6, 2027. The note is amortized monthly with interest at a rate of 5.5%. The note is secured by trust indenture on the property.	140,948
A note receivable from the YWCA in Helena, Montana for renovation of a housing shelter. The note matures on December 31, 2036, and interest accrues at a rate of 4.5%. The note is secured by a lien on the YMCA's main building.	62,525
A note receivable from Creekside Apartments in Missoula, Montana for acquisition funding. The note matures on August 31, 2027, and interest accrues at a rate of 2.5%. The note is secured by a second lien behind the first mortgage.	3,687,500
A note receivable from Echo Enterprises, LLC for the acquisition and rehabilitation of an affordable rental housing project in Havre, Montana. The note is nonamortizing and due on April 30, 2023. Interest is due quarterly at a rate of 6.5%. The note is secured by a personal guaranty from the developer.	383,339
A note receivable from Trust Montana, Inc. for financing to preserve Community Land Trust (CLT) homes through engagement of first right of refusal in Missoula, Red Lodge, Livingston, Belgrade, and Bozeman, Montana. The note is nonamortizing at 5.5% and due on August 8, 2023. The note is secured by a memorandum of understanding (MOU) dated May 13, 2021. The MOU includes NWMT as an insured party of all property until either grant funds from the State of Montana are received by CLT or repayment of the note.	124,389
A note receivable from Country Court Community, Inc. for acquisition financing a manufactured home park residence in Kalispell, Montana. The note matures on June 29, 2028. The note is amortized monthly with interest at 1.0%. The note is secured by a lien on the property.	167,829
A note receivable from Country Court Community, Inc. for acquisition financing a manufactured home park residence in Kalispell, Montana. The note matures on July 1, 2028. The note is amortized monthly with interest at 2.5%. The note is secured by a lien on the property.	62,413
A note receivable from Libby Creek Community, Inc. for acquisition financing. The note matures on September 30, 2028. The note is amortized monthly with interest at 5.25%. The note is secured by a lien on the property.	157,478

Montana HomeOwnership Network, Inc. dba NeighborWorks Montana
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
September 30, 2022

NOTE 4. NOTES RECEIVABLE (CONTINUED)

A note receivable from Libby Creek Community, Inc. for acquisition financing. The note matures on September 30, 2028. The note is amortized monthly with interest at 1.0%. The note is secured by a lien on the property.	62,016
A note receivable from Collin Bangs for acquisition financing. The note matures on July 31, 2031, and interest accrues at a rate of 2.0%. The note is secured by a lien on the property.	150,000
A note receivable from Fraser Tower, LLC for acquisition financing. The note matures on December 31, 2028, and interest accrues at a rate of 2.75%. The note is secured by a lien on the property.	1,241,710
A note receivable from Habitat for Humanity of Gallatin Valley, Inc. for acquisition financing for a 10-home, homeownership-oriented development using the Habitat for Humanity model in Ennis, MT. The note matures on January 31, 2024, and interest accrues at a rate of 5.25%. The note is secured by a lien on the property.	225,000
A note receivable from C & C Community, Inc. for acquisition financing. This is a zero interest note. No payments will be made until several vacant lots are filled and the borrower's income has stabilized after which monthly payments will be made calculated on a 35-year amortization schedule until March 31, 2029. The note is secured by a lien on the property.	150,000
A note receivable from C & C Community, Inc. for acquisition financing. The note matures on March 31, 2029. The note is amortized monthly with interest at 5.25%. The note is secured by a lien on the property.	284,584
A note receivable from Homeword, Inc. for acquisition financing for the Lenox Flats Apartments. The note matures on April 16, 2029, and interest accrues at a rate of 3.25%. The note is secured by a lien on the property.	920,000
A note receivable from View Vista Apartments, Inc. and View Vista Community, Inc. for acquisition financing of the View Vista Community in Livingston, Montana. The note matures on February 28, 2030, and interest accrues at a rate of 5.50%. The note is secured by a lien on the property.	385,451
A note receivable from View Vista Apartments, Inc. and View Vista Community, Inc. for acquisition financing of the View Vista Community in Livingston, Montana. The note matures on February 28, 2030, and interest accrues at a rate of 4%. The note is secured by a lien on the property.	476,514

Montana HomeOwnership Network, Inc. dba NeighborWorks Montana
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
September 30, 2022

NOTE 4. NOTES RECEIVABLE (CONTINUED)

A note receivable from NWGF Golden Valley Homes, LLC for acquisition financing of the real property known as Golden Valley Homes in Belt, Montana. The note matures on May 1, 2050. The note is amortized monthly with interest at 3.36%. The note is secured by a lien on the property.	71,483
A note receivable from NWGF Quiet Day Manor, LLC for acquisition financing of the real property known as Quiet Day Manor in Cascade, Montana. The note matures on May 1, 2050. The note is amortized monthly with interest at 3.4%. The note is secured by a lien on the property.	71,505
A note receivable from Human Resource Development Council of District IX, Inc. for acquisition financing of the real property known as Livingston Land Trust Cottages in Livingston, Montana. The note matures on October 1, 2050. The note is amortized monthly with interest at 4%. The note is secured by a lien on the property.	193,124
A note receivable from Pleasant Park Community, Inc. for acquisition financing of the real property known as Pleasant Park Community in Great Falls, Montana. The note matures on September 30, 2030. The note is amortized monthly with interest at 5.35%. The note is secured by a lien on the property.	245,760
A note receivable from Clear Creek Court Community, Inc. for acquisition financing of the real property in Havre, Montana. The note matures on December 31, 2029. The note is amortized monthly with interest at 5%. The note is secured by a trust indenture agreement.	358,000
A note receivable from Centennial Trail Community, Inc. for acquisition financing of the real property in Stillwater County, Montana. The note matures on October 30, 2052. The note is amortized monthly with interest at 5.5%. The note is secured by a trust indenture agreement.	450,000
Two notes receivable from Hideaway Community for financing of the purchase of a resident owned community in Columbia Falls, Montana. The notes receivable are amortizing with principal and interest due monthly beginning March 1, 2022 at an interest rate of 2.5%. The note is secured by a lien on the property.	197,868

Montana HomeOwnership Network, Inc. dba NeighborWorks Montana
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
September 30, 2022

NOTE 4. NOTES RECEIVABLE (CONTINUED)

A note receivable from GMD Development, LLC for predevelopment financing of an affordable rental housing project in Kalispell, Montana. The note receivable is nonamortizing and due September 30, 2024. Interest is due quarterly at a rate of 6.5%. The note is secured by a personal guaranty from the developer.

	<u>481,726</u>
Total	13,202,711
Less: current portion	<u>(1,149,004)</u>
Notes receivable, net of current portion	12,053,707
Less: allowance for loan loss reserve	<u>(815,953)</u>
Total notes receivable, net of allowance and current portion	<u><u>\$ 11,237,754</u></u>

Maturities of notes receivable are as follows:

2023	\$ 1,149,004
2024	1,071,696
2025	116,969
2026	118,969
2027	3,808,469
Thereafter	<u>6,937,604</u>
	<u><u>\$ 13,202,711</u></u>

NWMT has a reserve for loss on notes receivable in the amount of \$815,953.

NWMT has set aside a certificate of deposit for \$62,244 in connection with the Missouri Meadows loan. A six-month reserve was required by Resident Owned Community (ROC) in their acquisition loan for the park in case of flooding. NWMT provided the guaranty. This was a 15-year loan commencing October 3, 2011.

NOTE 5. LOANS RECEIVABLE

NWMT grants credit to low-to-moderate income home owners, all of whom are in Montana. The Board of Directors approves all loan policies and procedures. The Board is also responsible for the review and approval of eligible loan applications and the interest rate and repayment terms of loans that fall outside of the designated parameters.

Montana HomeOwnership Network, Inc. dba NeighborWorks Montana**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**September 30, 2022

NOTE 5. LOANS RECEIVABLE (CONTINUED)

Loans receivable of \$19,461,820, for which NWMT has the intent and the ability to hold for the foreseeable future or until either maturity or earlier prepayment, are stated at face value, and are net of the allowance for uncollectible loans of \$161,604 and a purchase discount of \$2,625. Management's views regarding the foreseeable future and, consequently, the intent with respect to holding these loans receivables may change due to changes in business strategies, the economic environments of the markets in which NWMT operates, general market conditions, and the availability of various government programs in which NWMT participates. Loans receivable are tested annually for impairment. Loans receivable are considered impaired if the face value plus accrued interest is less than the book value of the property collateralizing the mortgage. No loans receivable were considered to be impaired at September 30, 2022.

Interest on the loans receivable is accrued based on the outstanding principal balance. Interest income is recognized over the contractual life of the loan receivable using the simple interest method, which results in a constant effective yield over the contractual life of the loan. Amortizing loans are interest-bearing at rates ranging between 0.0% and 6.36% per annum. Federal HOME funds are used for deferred mortgages for low-to-moderate income homebuyers below 80% of median income. The deferred mortgages are made at zero interest and require the borrower to repay the loan when the home is sold. Loans receivable are placed on nonaccrual status when management believes the loans are impaired. There were no loans receivable not accruing interest because of impairment at September 30, 2022.

The following table presents informative data of loans receivable regarding their age at September 30, 2022:

	Past due				Total Loans Receivable
	Current	30-59 days	60-89 days	Over 90 days	
Loans receivable	<u>\$ 19,595,653</u>	<u>\$ 26,880</u>	<u>\$ 1,860</u>	<u>\$ 1,656</u>	<u>\$ 30,396</u>
					<u>\$ 19,626,049</u>

Credit Risk Policies

Loans receivable are considered past due and delinquent when payments are 30 days late. There were no loans receivable that were past due 90 days or over and still accruing interest as of September 30, 2022. A loan that is 120 days past due is written off as uncollectible.

If repayment of a past due loan is expected to be obtained solely from the proceeds of selling the property that is collateral for the loan, the loan is designated as being collateral-dependent. When a collateral-dependent loan is over 120 days past due, a fair value assessment of the property that is pledged as collateral for the loan is initiated. NWMT considers the sufficiency of a loan's collateral by comparing the estimated fair value of the collateral less an estimate to cover potential expenses of foreclosure to the recorded investment in the loan, adjusted for any superior liens to which the collateral is subject.

NOTE 5. LOANS RECEIVABLE (CONTINUED)

Credit Risk Policies (Continued)

If the estimated fair value of the collateral, net of estimated foreclosure-related expenses equals or exceeds the adjusted recorded investment in the loan, the loan is judged to be sufficiently collateralized. NWMT recognizes the allowance for uncollectible loans in an amount believed to be sufficient to absorb losses inherent in the loan portfolio, including those losses not yet specifically identifiable.

Neighborhood Reinvestment Corporation will allow NWMT to use net assets with donor restrictions to supplement its loan loss reserves. Loans receivable are evaluated for impairment on a collective basis. An allowance for uncollectible loans has been established based on review of loans that are in default. The allowance is established at the three year average plus one percent of each year-end pool balance.

Loan reserve balance, October 1, 2021	\$ 173,629
Loans written off	(4,506)
Reserve deployed	<u>(7,519)</u>
Loan reserve balance, September 30, 2022	<u>\$ 161,604</u>

NHSA Loan Buy Back

In 2010, Neighborhood Housing Services of America (NHSA) sold loans back to NWMT that they had previously purchased from NWMT. The total principal of the loans as of September 30, 2022 is \$4,998 with a purchase discount of \$2,625 for a net purchase of \$2,373. The discount is amortized to interest income over the life of the loans effectively increasing the interest rate earned on the loans. The net purchase amount is included in the loans receivable balance at September 30, 2022.

Glacier Affordable Housing

NWMT operates a revolving loan fund of \$4,347,663 made up of grants assigned to Glacier Affordable Housing between 1995 and 2005. NWMT has no liability for these grants. Of this amount, \$3,492,797 is in loans receivable at September 30, 2022.

Maturities of loans receivable are as follows:

Year Ended September, 30	Loans Receivable
2023	\$ 479,629
2024	468,004
2025	450,116
2026	118,877
2027	111,313
Thereafter	<u>17,998,110</u>
	<u>\$ 19,626,049</u>

Included in the "Thereafter" category are loans that are due on sale of the customers' home.

NOTE 6. REAL ESTATE PROPERTY HELD FOR SALE

NWMT has purchased properties with the intention of selling them to qualifying buyers in accordance with NWMT's mission. All costs associated with the property including preacquisition, acquisition, development, and construction costs are capitalized and included in the total cost of the property. The real estate property held for sale is stated at the lower of the carrying value or fair value.

The reconciliation of the changes in the real estate property is as follows:

October 1, 2021	\$ 114,178
Net expenses	79,313
Sales and ROC park infill proceeds	<u>(54,107)</u>
September 30, 2022	<u>\$ 139,384</u>

NOTE 7. CASH – LOAN LOSS RESERVE

NWMT currently maintains a cash reserve of \$141,975 in an account at D.A. Davidson for potential loan losses.

NOTE 8. CASH – NSP

NWMT currently maintains a cash reserve of \$39,859 in an account at Stockman Bank for program income that is being administered for the Northwest Montana Community Land Trust, Inc. in Kalispell.

NOTE 9. CASH – LIFT

NWMT currently maintains a cash reserve of \$47,400 for the Wells Fargo Neighborhood LIFT Down Payment Assistance Loan Program. The reserve will be utilized to fund additional down payment assistance grants and program delivery costs.

NOTE 10. INVESTMENTS

In July 2012, NWMT invested \$179,500 into RB SB Lending, LLC to partner with Homeword, Inc. in Missoula to fund the development and renovation of housing units in Missoula. NWMT's investment in this entity was initially recorded at cost and is adjusted annually for its 21% share of the current year income or loss (equity method). The current balance as of September 30, 2022 is \$179,802.

Montana HomeOwnership Network, Inc. dba NeighborWorks Montana

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2022

NOTE 10. INVESTMENTS (CONTINUED)

Condensed financial information reported by RB SB Lending, LLC as of September 30, 2022 is as follows:

Current assets	\$ 1,029
Noncurrent assets	<u>830,365</u>
Equity	<u>\$ 831,394</u>
Net income	<u>\$ 25,411</u>
Distributions	<u>\$ 25,000</u>

In August 2021, NWMT invested \$250,000 into a participation investment in the Great Falls North Apartments, LLC to fund the development of affordable housing in Great Falls, Montana. The participation investment is an undivided 4.87% interest in the outstanding balance of principal and interest of the loan funding the project. NWMT holds a pro-rata share of the interest in the collateral. The loan will mature on May 1, 2024 and accrues interest at 7.50%.

NOTE 11. REFUNDABLE ADVANCE

Refundable advances include \$829,485 of amounts received from the State of Montana Department of Commerce during the year ended September 30, 2022. Amounts will be recognized as revenue when NWMT has incurred expenditures in compliance with specific contract or grant provisions.

NOTE 12. DEFERRED REVENUE

NWMT has received funds from NeighborWorks America (\$834,128), Providence Health Systems (\$2,905), City of Kalispell Neighborhood Stabilization Program (\$194,582), Wells Fargo (\$92,500), Lake County Woods Bay Housing Study Program (\$5,000), and Assets for Independence Individual Development Account program (\$29,952), but had not yet used all those funds for their intended purpose as of September 30, 2022. These unused funds are reported as deferred revenue until used by NWMT.

NOTE 13. LINE OF CREDIT

NWMT has a line-of-credit with Stockman Bank for up to \$1,000,000. The interest rate is fixed at 4.0%. There was no outstanding balance on the line-of-credit at September 30, 2022. The line-of-credit matures on June 10, 2023.

Montana HomeOwnership Network, Inc. dba NeighborWorks Montana

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2022

NOTE 14. ENDOWMENT

In December of 2010, the NeighborWorks Great Falls Board of Directors voted to permanently restrict certain memorial contributions received to create the NeighborWorks Endowment. The endowment was established to preserve funds for future operations and out of the total, \$2,900 was designated for NWMT. Funds have been passed back to NWMT and will be carried in a Certificate of Deposit until the organization decides on a course of action. NWMT also owns an insurance policy, the proceeds of which are designated to the endowment.

NOTE 15. NOTES PAYABLE

Notes payable consists of the following at September 30, 2022:

Notes payable of varying amounts with ten financial institutions for the EQ2 loan program to promote community and economic development. Interest-only payments are due quarterly at rates varying between 2% and 3%. The agreements will reach maturity at staggered intervals through 2030.	\$ 7,867,960
A note with Opportunity Finance Network for loan funds. The note matures on December 31, 2023. Interest at 3.50% is paid quarterly.	500,000
A note as a private offering for loan funds. The note matures on September 15, 2024. Interest at 2.00% is paid quarterly.	50,000
A note as a private offering for loan funds. The note matures on April 1, 2025. Interest at 2.00% is paid annually.	10,000
A note as a private offering for loan funds. The note matures on October 25, 2023. Interest at 2.00% is paid annually.	9,853
A note as a private offering for loan funds. The note matures on August 25, 2026. Interest at 2.00% is paid quarterly.	9,772
A note as a private offering for loan funds. The note matures on June 30, 2028. Interest at 3.00% is paid quarterly.	26,270
A note as a private offering for loan funds. The note matures on December 20, 2026. Interest at 2.00% is paid quarterly.	49,000
A note as a private offering for loan funds. The note matures on July 20, 2029. Interest at 3.00% is paid quarterly.	10,000

Montana HomeOwnership Network, Inc. dba NeighborWorks Montana
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
September 30, 2022

NOTE 15. NOTES PAYABLE (CONTINUED)

A note as a private offering for loan funds. The note matures on July 7, 2025. Interest at 2.00% is paid quarterly.	50,000
A note as a private offering for loan funds. The note matures on January 30, 2025. Interest at 2.00% is paid quarterly.	100,000
A note as a private offering for loan funds. The note matures on July 19, 2028. Interest at 3.00% is paid quarterly.	50,000
A note as a private offering for loan funds. The note matures on July 23, 2028. Interest at 3.00% is paid quarterly.	50,000
A note as a private offering for loan funds. The note matures on July 25, 2023. Interest at 1.00% is paid quarterly.	15,000
A note as a private offering for loan funds. The note matures on February 1, 2023. Interest at 1.00% is paid quarterly.	100,000
A note as a private offering for loan funds. The note matures on October 8, 2031. Interest at 3.00% is paid quarterly.	10,000
A note as a private offering for loan funds. The note matures on March 1, 2032. Interest at 3.00% is paid quarterly.	50,000
A note as a private offering for loan funds. The note matures on July 31, 2028. Interest at 3.00% is paid quarterly.	50,000
A note as a private offering for loan funds. The note matures on September 25, 2028. Interest at 3.00% is paid quarterly.	50,000
A note as a private offering for loan funds. The note matures on October 22, 2028. Interest at 3.00% is paid annually.	40,000
A note with TheCommunity Development Financial Institutions Fund for loan funds. The note matures on July 18, 2035. Interest at 3.00% is paid quarterly.	77,102
A note with Community Benefit Financial Company, LLC, for loan funds. The note matures on January 22, 2026. Interest at 2.00% is paid annually.	<u>500,000</u>
Total	9,674,957
Less current portion	<u>(633,750)</u>
Total long-term debt, net of current portion	<u><u>\$ 9,041,207</u></u>

Montana HomeOwnership Network, Inc. dba NeighborWorks Montana
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
September 30, 2022

NOTE 15. NOTES PAYABLE (CONTINUED)

The following is a summary of estimated maturities due on notes payable as of September 30, 2022:

2023	\$ 633,750
2024	3,021,563
2025	260,000
2026	1,109,772
2027	3,736,500
Thereafter	<u>913,372</u>
	<u>\$ 9,674,957</u>

The notes payable owed by NWMT are all unsecured. Notes payable include notes referenced as private offerings. NWMT filed for an exemption under MT law to offer investments in its loan fund in 2014. The Commissioner of Securities and Insurance (Office of the State Auditor) issued a letter stating the offer and sale of these investments is exempt by virtue of 30-10-104(1) and/or (8), MCA. The Circular is updated annually. The Investment Circular is provided to potential investors and is available upon request from NWMT. Each investment is structured as a term loan with NWMT paying periodic interest from 1% to 3% depending on the term. NWMT anticipates additional investments in its loan pool through this structure.

NOTE 16. NET ASSETS WITH DONOR RESTRICTIONS

Net Assets with Donor-Imposed Purpose and Time Restrictions

As of September 30, 2022, net assets with donor-imposed purpose and time restrictions were available for the following purposes:

Downpayment and purchase assistance for	
first time homebuyers	\$ 5,662,882
Development of rental properties	9,730,909
Improvement of properties	<u>160,000</u>
	<u>\$ 15,553,791</u>

No net assets were released from donor restrictions by incurring expenses satisfying the purpose and time of restrictions specified by donors.

NOTE 17. LEASES

NWMT has entered into various property and equipment leases. The following is a schedule of future minimum lease payments for long-term operating agreements:

2023	\$	35,292
2024		600
2025		600
2026		600
2027		600
		<u>37,692</u>

Total lease expense for the year ended September 2022, amounted to \$33,817.

NOTE 18. PENSION PLAN

NWMT maintains a 401(k) plan administered by D.A. Davidson and Company covering all full-time employees. Employee contributions are matched as made. NWMT will match up to 5% on a 1 for 1 basis. Total match expense for fiscal year ended September 30, 2022 was \$48,590.

SINGLE AUDIT SECTION

INDEPENDENT AUDITORS' 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*

Board of Directors
Montana HomeOwnership Network, Inc.
dba NeighborWorks Montana
Great Falls, Montana

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 financial statements of Montana HomeOwnership Network, Inc. dba NeighborWorks Montana (a nonprofit organization), which comprise the statement of financial position as of September 30, 2022, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 7, 2023.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Montana HomeOwnership Network, Inc. dba NeighborWorks Montana'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 financial statements, but not for the purpose of expressing an opinion on the effectiveness of Montana HomeOwnership Network, Inc. dba NeighborWorks Montana's internal control. Accordingly, we do not express an opinion on the effectiveness of HomeOwnership Network, Inc. dba NeighborWorks Montana's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**INDEPENDENT AUDITORS' 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**

(Continued)

Report on Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization'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 Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KCoe Jam, LLP

March 7, 2023
Great Falls, Montana

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM
GUIDANCE**

Board of Directors
Montana HomeOwnership Network, Inc.
dba NeighborWorks Montana
Great Falls, Montana

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Montana HomeOwnership Network, Inc. dba NeighborWorks Montana's compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of Montana HomeOwnership Network, Inc. dba NeighborWorks Montana's major federal programs for the year ended September 30, 2022. Montana HomeOwnership Network, Inc. dba NeighborWorks Montana's major federal programs are identified in the summary of Auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, Montana HomeOwnership Network, Inc. dba NeighborWorks Montana 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 federal programs for the year ended September 30, 2022.

Basis for Opinion on Each Major Federal Program

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

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

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(Continued)

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 Montana HomeOwnership Network, Inc. dba NeighborWorks Montana's federal programs.

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Montana HomeOwnership Network, Inc. dba NeighborWorks Montana'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 generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Montana HomeOwnership Network, Inc. dba NeighborWorks Montana's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Montana HomeOwnership Network, Inc. dba NeighborWorks Montana's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM
GUIDANCE**

(Continued)

- Obtain an understanding of Montana HomeOwnership Network, Inc. dba NeighborWorks Montana's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of Montana HomeOwnership Network, Inc. dba NeighborWorks Montana's internal control over compliance. Accordingly, no such opinion is expressed.

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

Report on Internal Control over Compliance

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

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

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

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM
GUIDANCE**

(Continued)

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

KCae Jom, LLP

March 7, 2023
Great Falls, Montana

Montana HomeOwnership Network, Inc. dba NeighborWorks Montana
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended September 30, 2022

Funding Agency	Federal AL Number	Pass Through Grantor's Number	Total Federal Award	Grant Revenues	Expenditures	Passed Through to Subrecipients
<u>Neighborhood Reinvestment Corporation Public Law 115-141 U.S. Department of Treasury, NeighborWorks America</u>						
Capital Grants	N/A	N/A	\$ 185,000	\$ 185,000	\$ 185,000	\$ -
Expendable Grants	N/A	N/A	462,058	462,058	356,558	-
Housing Stability Counseling Program	99.U19	N/A	<u>2,041,640</u>	<u>871,050</u>	<u>164,316</u>	<u>133,661</u>
Total			<u>2,688,698</u>	<u>1,518,108</u>	<u>705,874</u>	<u>133,661</u>
<u>U.S. Department of Housing and Urban Development</u>						
HUD Counseling Grant (FY 2020)	14.169	HC2000011027	507,837	199,332	199,332	180,560
HUD Counseling Grant (FY 2021)	14.169	HC21001102	584,837	377,041	377,041	302,165
Community Development Block Grant Program Pass-Through From:						
City of Billings	14.218	N/A	540,000	220,191	220,191	192,151
Lake County	14.218	MT-CDBG-17HSP-01	291,934	107,901	107,901	88,725
HOME Investment Partnership Program Pass-Through From:						
Montana Department of Commerce	14.239	MT-HOME-21RD-02	1,789,704	1,753,910	1,753,910	-
Montana Department of Commerce	14.239	MT-HOME-21RD-03	665,000	-	-	-
Montana Department of Commerce	14.239	MT-HOME-HBA-21-01	<u>1,400,000</u>	<u>175,107</u>	<u>175,107</u>	<u>-</u>
Total			<u>5,779,312</u>	<u>2,833,482</u>	<u>2,833,482</u>	<u>763,601</u>
<u>U.S. Department of Treasury</u>						
Community Development Financial Institutions (Financial Assistance)	21.020	N/A	650,000	272,898	272,898	-
Community Development Financial Institutions (Rapid Response Program)	21.024	N/A	1,826,265	1,015,000	1,015,000	-
Community Development Financial Institutions (Capital Magnet Fund)	21.011	N/A	2,000,000	2,000,000	-	-
Coronavirus State and Local Recovery Funds Pass-through From:						
Montana Department of Commerce	21.027	22-747-009	2,000,000	2,000,000	1,828,871	-
Montana Department of Commerce	21.027	22-747-010	2,000,000	2,000,000	2,000,000	-
Montana Department of Commerce	21.027	22-747-011	<u>2,000,000</u>	<u>2,000,000</u>	<u>1,341,644</u>	<u>-</u>
Total			<u>10,476,265</u>	<u>9,287,898</u>	<u>6,458,413</u>	<u>-</u>
Total Federal Awards			<u>\$ 18,944,275</u>	<u>\$ 13,639,488</u>	<u>\$ 9,997,769</u>	<u>\$ 897,262</u>

Montana HomeOwnership Network, Inc. dba NeighborWorks Montana

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended September 30, 2022

NOTE 1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Montana HomeOwnership Network, Inc. dba NeighborWorks Montana and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 US Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in, the preparation of the basic financial statements.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the schedule of expenditures of federal awards are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE 3. INDIRECT COST RATE

Montana HomeOwnership Network, Inc. dba NeighborWorks Montana has elected not to use the 10% de minimis indirect cost rate from Uniform Guidance.

NOTE 4. UNKNOWN ASSISTANCE LISTING NUMBER

The Neighborhood Reinvestment Corporation, doing business as NeighborWorks America, is a congressionally chartered nonprofit organization that received direct federal appropriations. They have not been issued an Assistance Listing (AL) number for federal appropriations. Public Law number 115.141 was issued for the appropriations awarded for the year ended September 30, 2022.

Montana HomeOwnership Network, Inc. dba NeighborWorks Montana
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended September 30, 2022

Summary of Auditors' Results:

Financial Statements:

Type of Auditors' report issued: Unmodified

Internal control over financial reporting:

Material weakness identified? None

Significant deficiencies identified that are not considered
to be material weaknesses? None reported

Noncompliance material to financial statements? None

Federal Awards:

Internal control over major programs:

Material weakness identified? None

Significant deficiencies identified that are not considered
to be material weaknesses? None reported

Type of Auditors' report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in
accordance with 2 CFR 200.516(a)? None

The major programs for the year ended September 30, 2022 were as follows:

	<u>AL #</u>
HOME Investment Partnerships Program	14.239
Community Development Financial Institutions Rapid Response Program	21.024
Coronavirus State and Local Recovery Funds	21.027

Dollar threshold for Type A programs: \$750,000

Auditee qualified as low-risk auditee? Yes

Montana HomeOwnership Network, Inc. dba NeighborWorks Montana
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended September 30, 2022

Findings Relating to Financial Statements

None

Findings Relating to Federal Awards

None

Montana HomeOwnership Network, Inc. dba NeighborWorks Montana
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended September 30, 2022

There were no prior year findings relative to federal award programs.