

**National Association for Latino
Community Asset Builders**

**Consolidated Financial Statements
(With Supplementary Information)
and Independent Auditor's Report**

December 31, 2020 and 2019

National Association for Latino Community Asset Builders

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Independent Auditor's Report

To the Board of Trustees
National Association for Latino Community Asset Builders

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of National Association for Latino Community Asset Builders (NALCAB) (a nonprofit organization), which comprise the consolidated statements of financial position as of December 31, 2020 and 2019, and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The financial statements of certain subsidiaries and affiliates of National Association for Latino Community Asset Builders were not audited in accordance with *Government Auditing Standards*.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of National Association for Latino Community Asset Builders as of December 31, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Other Matters**Report on Supplementary Information*

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidating statement of financial position and consolidating statement of activities on pages 28 and 29 are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. The accompanying schedule of expenditures of federal awards on page 31 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 consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedules are fairly stated in all material respects in relation to the consolidated 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 June 11, 2021, on our consideration of National Association for Latino Community Asset Builders' internal control over financial reporting and 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 National Association for Latino Community Asset Builders' 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 National Association for Latino Community Asset Builders' internal control over financial reporting and compliance.



Charlotte, North Carolina
June 11, 2021

National Association for Latino Community Asset Builders

**Consolidated Statements of Financial Position
December 31, 2020 and 2019**

	<u>Assets</u>	
	<u>2020</u>	<u>2019</u>
Current assets		
Cash and cash equivalents	\$ 14,706,196	\$ 9,035,190
Cash restricted for revolving loan fund	493,557	77,423
Receivables	386,570	186,910
Promises to give, current	1,950,000	5,675,000
Notes receivable - current	1,932,385	2,459,818
Accrued interest receivable	9,306	10,798
Prepaid expenses	24,199	17,046
Deposits	26,041	24,390
	<u>19,528,254</u>	<u>17,486,575</u>
Total current assets		
Property and equipment		
Land and improvements	1,179,505	1,179,505
Buildings and improvements	3,512,675	3,348,540
Furniture and equipment	241,180	242,929
	<u>4,933,360</u>	<u>4,770,974</u>
Total property and equipment		
Less accumulated depreciation	<u>(512,019)</u>	<u>(382,953)</u>
Net property and equipment	<u>4,421,341</u>	<u>4,388,021</u>
Other assets		
Property held for sale	1,265,483	946,139
Land held for development/sale	245,643	210,098
Notes receivable	2,371,599	797,238
	<u>3,882,725</u>	<u>1,953,475</u>
Total other assets		
Total assets	<u>\$ 27,832,320</u>	<u>\$ 23,828,071</u>

National Association for Latino Community Asset Builders

**Consolidated Statements of Financial Position
December 31, 2020 and 2019**

Liabilities and Net Assets

	<u>2020</u>	<u>2019</u>
Current liabilities		
Accounts payable	\$ 336,778	\$ 428,149
Grants payable	165,000	9,443,263
Accrued expenses	72,440	96,809
Deferred revenue	6,291	5,266
Tenant security deposits held	15,236	17,386
Federal income tax payable	-	1,503
Current portion of notes payable	<u>1,076,111</u>	<u>34,133</u>
Total current liabilities	1,671,856	10,026,509
Notes payable, net of current portion	<u>3,682,238</u>	<u>3,878,433</u>
Total liabilities	<u>5,354,094</u>	<u>13,904,942</u>
Commitments and contingencies	-	-
Net assets		
Net assets, attributable to NALCAB		
Without donor restrictions	3,855,009	2,502,216
With donor restrictions	<u>6,617,901</u>	<u>4,499,564</u>
Total net assets attributable to NALCAB	10,472,910	7,001,780
Net assets, attributable to noncontrolling interests - without donor restrictions	<u>12,005,316</u>	<u>2,921,349</u>
Total net assets	<u>22,478,226</u>	<u>9,923,129</u>
Total liabilities and net assets	<u><u>\$ 27,832,320</u></u>	<u><u>\$ 23,828,071</u></u>

See Notes to Consolidated Financial Statements.

National Association for Latino Community Asset Builders

Consolidated Statements of Activities and Changes in Net Assets Years Ended December 31, 2020 and 2019

	2020			2019		
	Without donor restrictions	With donor restrictions	Total	Without donor restrictions	With donor restrictions	Total
Public support and other operating revenue						
Contracts and grants from						
Federal grants	\$ 1,025,104	\$ 296,084	\$ 1,321,188	\$ 817,197	\$ 573,487	\$ 1,390,684
Other contributions and grants	679,624	7,620,000	8,299,624	174,789	13,450,000	13,624,789
Net assets released from restrictions	5,797,747	(5,797,747)	-	13,415,621	(13,415,621)	-
Total contracts and grants funding	7,502,475	2,118,337	9,620,812	14,407,607	607,866	15,015,473
Program service revenue	134,906	-	134,906	427,000	-	427,000
Rental income	352,914	-	352,914	307,089	-	307,089
Energy award	-	-	-	20,560	-	20,560
Interest income	103,670	-	103,670	88,982	-	88,982
Gain on sale of investment	300,677	-	300,677	244,145	-	244,145
Gain on sale of fixed asset	200	-	200	-	-	-
Total support and revenues	8,394,842	2,118,337	10,513,179	15,495,383	607,866	16,103,249
Expenses						
Organizational capacity building	4,551,544	-	4,551,544	3,509,250	-	3,509,250
Policy and field-building	416,217	-	416,217	309,696	-	309,696
Lending and asset management	882,950	-	882,950	9,715,206	-	9,715,206
Commercial leasing activity	-	-	-	50,998	-	50,998
Supporting services						
Management and general	1,254,289	-	1,254,289	1,055,388	-	1,055,388
Fundraising	19,745	-	19,745	46,097	-	46,097
Total expenses	7,124,745	-	7,124,745	14,686,635	-	14,686,635
Change in net assets	1,270,097	2,118,337	3,388,434	808,748	607,866	1,416,614
Net assets, beginning of year	5,423,565	4,499,564	9,923,129	4,479,817	3,891,698	8,371,515
Capital contributions	9,166,663	-	9,166,663	135,000	-	135,000
Net assets, end of year	<u>\$ 15,860,325</u>	<u>\$ 6,617,901</u>	<u>\$ 22,478,226</u>	<u>\$ 5,423,565</u>	<u>\$ 4,499,564</u>	<u>\$ 9,923,129</u>
Change in net assets, attributable to NALCAB						
Net assets, beginning of year	\$ 2,502,216	\$ 4,499,564	\$ 7,001,780	\$ 1,713,608	\$ 3,891,698	\$ 5,605,306
Change in net assets	1,352,793	2,118,337	3,471,130	788,608	607,866	1,396,474
Net assets, end of year	3,855,009	6,617,901	10,472,910	2,502,216	4,499,564	7,001,780
Change in net assets, attributable to noncontrolling interests						
Net assets, beginning of year	2,921,349	-	2,921,349	2,766,209	-	2,766,209
Change in net assets	(82,696)	-	(82,696)	20,140	-	20,140
Capital contributions	9,166,663	-	9,166,663	135,000	-	135,000
Net assets, end of period	12,005,316	-	12,005,316	2,921,349	-	2,921,349
Total net assets	<u>\$ 15,860,325</u>	<u>\$ 6,617,901</u>	<u>\$ 22,478,226</u>	<u>\$ 5,423,565</u>	<u>\$ 4,499,564</u>	<u>\$ 9,923,129</u>

See Notes to Consolidated Financial Statements.

National Association for Latino Community Asset Builders

Consolidated Statement of Functional Expenses Year Ended December 31, 2020

	Programs				Commercial leasing activity	Support services			Grand total
	Organizational Capacity Building	Policy and Field-Building	Lending and Asset Management	Total		Management and general	Fundraising	Total	
Grants	\$ 2,323,435	\$ 74,500	\$ -	\$ 2,397,935	\$ -	\$ -	\$ -	\$ -	\$ 2,397,935
Salaries, benefits and payroll taxes	1,337,082	200,265	107,832	1,645,179	-	937,565	17,456	955,021	2,600,200
Professional services	613,268	103,710	114,663	831,641	-	162,227	-	162,227	993,868
Property operating expenses	-	-	460,330	460,330	-	-	-	-	460,330
Property taxes on investment property	-	-	7,122	7,122	-	-	-	-	7,122
Advertising and public relations	574	774	-	1,348	-	-	-	-	1,348
Office expenses	32,108	9,574	7,520	49,202	-	20,211	376	20,587	69,789
Information technology	61,165	8,020	4,318	73,503	-	37,548	699	38,247	111,750
Rent and building occupancy	46,591	6,978	3,757	57,326	-	32,670	609	33,279	90,605
Travel	7,177	1,723	-	8,900	-	-	-	-	8,900
Conferences, conventions and meetings	78,026	741	-	78,767	-	2,163	-	2,163	80,930
Depreciation expense	23,261	3,484	87,456	114,201	-	16,311	303	16,614	130,815
Insurance	2,440	365	197	3,002	-	1,711	32	1,743	4,745
Interest expense	20,701	3,101	72,346	96,148	-	14,516	270	14,786	110,934
Staff training and development	5,716	2,982	75	8,773	-	26,767	-	26,767	35,540
Bad debt expense	-	-	16,434	16,434	-	-	-	-	16,434
Federal and state income tax	-	-	900	900	-	2,600	-	2,600	3,500
Total expenses	\$ 4,551,544	\$ 416,217	\$ 882,950	\$ 5,850,711	\$ -	\$ 1,254,289	\$ 19,745	\$ 1,274,034	\$ 7,124,745

National Association for Latino Community Asset Builders

Consolidated Statement of Functional Expenses Year Ended December 31, 2019

	Programs				Commercial leasing activity	Support services			Grand total
	Organizational Capacity Building	Policy and Field-Building	Lending and Asset Management	Total		Management and general	Fundraising	Total	
Grants	\$ 1,377,990	\$ 4,760	\$ 9,206,663	\$ 10,589,413	\$ -	\$ -	\$ -	\$ -	\$ 10,589,413
Salaries, benefits and payroll taxes	1,179,623	177,310	78,988	1,435,921	1,127	785,787	40,958	826,745	2,263,793
Professional services	551,551	58,895	73,422	683,868	3,220	129,779	-	129,779	816,867
Advertising and public relations	330	-	-	330	-	-	-	-	330
Office expenses	36,339	6,327	6,283	48,949	55	20,918	1,090	22,008	71,012
Information technology	31,487	3,616	1,951	37,054	-	16,027	835	16,862	53,916
Rent and building occupancy	43,360	6,517	2,903	52,780	14,498	28,883	1,506	30,389	97,667
Property operating expenses	-	-	151,778	151,778	-	-	-	-	151,778
Property taxes on investment property	-	-	2,976	2,976	-	-	-	-	2,976
Travel	103,473	29,043	993	133,509	-	17,065	354	17,419	150,928
Conferences, conventions and meetings	135,295	5,936	1,546	142,777	-	16,907	-	16,907	159,684
Depreciation expense	21,834	3,282	41,842	66,958	8,601	14,545	758	15,303	90,862
Insurance	2,584	388	199	3,171	-	1,721	90	1,811	4,982
Interest expense	14,577	2,191	61,195	77,963	13,997	9,711	506	10,217	102,177
Staff training and development	10,807	11,431	1,770	24,008	-	14,045	-	14,045	38,053
Startup expenditures	-	-	82,097	82,097	-	-	-	-	82,097
Federal and state income tax	-	-	600	600	9,500	-	-	-	10,100
Total expenses	<u>\$ 3,509,250</u>	<u>\$ 309,696</u>	<u>\$ 9,715,206</u>	<u>\$ 13,534,152</u>	<u>\$ 50,998</u>	<u>\$ 1,055,388</u>	<u>\$ 46,097</u>	<u>\$ 1,101,485</u>	<u>\$ 14,686,635</u>

See Notes to Consolidated Financial Statements.

National Association for Latino Community Asset Builders

Consolidated Statements of Cash Flows Years Ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash flow from operations		
Change in net assets	\$ 3,388,434	\$ 1,416,614
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities		
Depreciation	130,815	90,862
Gain on sale of land held for investment	(300,677)	(244,145)
Bad debt expense	45,184	-
Forgiveness of note payable	(28,750)	-
(Increase) decrease in assets		
Receivables	(199,660)	175,276
Promises to give	3,725,000	(3,500,000)
Accrued interest receivable	1,492	4,777
Federal income tax refund receivable	-	216
Prepaid expenses	(7,153)	(1,895)
(Decrease) increase in liabilities		
Accounts payable	(91,371)	82,221
Grants payable	(9,278,263)	9,443,263
Accrued expenses	(24,369)	93,170
Tenant security deposits held	(2,150)	10,426
Federal income tax payable	(1,503)	(600)
Deferred revenue	1,025	(1,219)
Net cash provided (used) by operations	<u>(2,641,946)</u>	<u>7,568,966</u>
Cash flows from investing activities		
Proceeds from sale of land held for investment	1,246,817	1,138,726
Cash used for purchase of property and equipment	(164,135)	(2,372,495)
Cash used to purchase, improve, and hold land held for development	-	(56,277)
Cash used to purchase real property held for investment/sale	(1,301,028)	-
Cash used for improvements to land held for investment	-	(1,353)
Revolving credit loans made	(200,000)	(573,916)
Revolving credit loan repayments received	458,216	77,300
Loans receivable disbursed	(6,371,275)	-
Loans receivable repaid	5,780,947	-
Real estate loan made	(760,000)	(161,040)
Repayments received on secured real estate notes	-	54,000
Net cash used in investing activities	<u>(1,310,458)</u>	<u>(1,895,055)</u>
Cash flows from financing activities		
Cash used to pay long-term debt	(34,130)	(39,283)
Proceeds from notes payable	908,662	150,000
Proceeds from capital contributions	9,166,663	135,000
Net cash provided by financing activities	<u>10,041,195</u>	<u>245,717</u>
Increase in cash, cash equivalents, and restricted cash	6,088,791	5,919,628
Cash, cash equivalents, and restricted cash at beginning of year	<u>9,136,524</u>	<u>3,216,896</u>
Cash, cash equivalents, and restricted cash at end of year	<u>\$ 15,225,315</u>	<u>\$ 9,136,524</u>

National Association for Latino Community Asset Builders

Consolidated Statements of Cash Flows
Years Ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Supplemental disclosures		
Cash paid for interest	<u>\$ 110,934</u>	<u>\$ 102,177</u>
Supplemental schedule of noncash investing activities		
Increase in accounts payable for acquisition of fixed assets	\$ (37,138)	\$ -
Increase in rental property included in accounts payable	<u>37,138</u>	<u>-</u>
	<u>\$ -</u>	<u>\$ -</u>

See Notes to Consolidated Financial Statements.

National Association for Latino Community Asset Builders

Notes to Consolidated Financial Statements December 31, 2020 and 2019

Note 1 - Nature of Organization

National Association for Latino Community Asset Builders (NALCAB) is a membership organization headquartered in San Antonio, Texas, that is exempt from taxation under Section 501(c)(3) of the Internal Revenue Code. NALCAB's mission is to strengthen the economy by advancing economic mobility in Latino communities. NALCAB's vision is to dramatically scale the flow of public and private sector capital that responsibly builds and preserves assets in the communities and families we serve. NALCAB achieves its mission by strengthening and coordinating the capacity of a geographically and ethnically diverse group of Latino-led community development corporations (CDCs), community development finance institutions (CDFIs) and other community-based organizations to deploy capital, and by influencing investors and policy makers with research, advocacy, and technical advice. NALCAB's members serve tens of thousands of low and moderate-income people annually by developing and managing affordable housing, business lending, economic development strategies, and providing consumer financial education, and providing wealth-building products and services. Escalera Community Investments, LLC is a wholly-owned subsidiary of NALCAB established to manage social investment funds to further NALCAB's mission.

NALCAB organizes its mission-driven activities into the following program areas.

Organizational Capacity Building

The Organizational Capacity Building Program builds the systems and capacity of NALCAB Network members, other non-profits, and units of government to implement programs and projects that ultimately advance economic mobility in low- and moderate-income communities. The program provides development services to organizations that may potentially borrow from NALCAB (see description of lending below) and assist organizations in securing capital investment from other sources.

NALCAB implements this work through grant-making, technical assistance, training, and the facilitation of peer-to-peer collaboration. NALCAB provides culturally-relevant training to practitioners in the field of community and economic development by hosting an annual National Training, presenting educational webinars throughout the year, and through the Pete Garcia Community Economic Development Fellowship Program which prepares next-generation leaders.

Since 2007 NALCAB has made grants of over \$22 million to non-profit organizations and utilized over \$11.6 million in federal funding (US HUD and SBA) to provide technical assistance to non-profits and local/state government agencies (urban and rural). Since 2008, member organizations have secured more than \$400 million (unaudited) for their programs as a direct result of NALCAB's support. NALCAB has also provided culturally-relevant training to over 1,000 practitioners and graduated 150 Fellows from the Pete Garcia Fellowship.

The Organization Capacity Building Program accounted for approximately 78% and 26%, respectively, of total program expenditures for the years ended December 31, 2020 and 2019.

Policy and Field-Building

The Policy and Field-Building Program includes research, policy education, and advocacy efforts aimed at influencing private, philanthropic, and governmental investors to responsibly meet the asset-building needs and opportunities in low- and moderate-income communities.

National Association for Latino Community Asset Builders

Notes to Consolidated Financial Statements December 31, 2020 and 2019

NALCAB has published numerous reports on topics including small business lending in Latino communities, housing vulnerability and gentrification, and place-based economic development. NALCAB also engages in multiple partnerships in the community development and impact investing fields and supports the policy advocacy efforts of member organizations at the local, state, and federal levels.

The Policy and Field-Building Program accounted for approximately 7% and 2%, respectively, of total program expenditures for the years ended December 31, 2020 and 2019.

Lending and Asset Management

NALCAB lends to member organizations to support the liquidity of non-profit small business lenders and to support the work of non-profit affordable housing developers. NALCAB's lending is supported by funding from private philanthropies as well as specialized funding from US HUD to make loans to rural affordable housing organizations.

Through Escalera Community Investments, LLC, NALCAB'S wholly-owned asset management company, NALCAB controls the NALCAB Catalyst Fund I, LLC (NCF I) a real estate-focused social impact fund established to preserve and produce housing opportunities affordable to low-income and minority individuals. It targets investments in single- and multi-family projects that provide households with access to employment, quality education, and health care resources, all essential factors for advancing economic mobility. NCF I operates a portfolio of affordable residential rental housing in San Antonio and Houston, Texas, engages in residential real estate development and lends to non-profit affordable housing organizations.

NALCAB also controls the Acceso Loan Fund, LLC (Acceso), a national small business loan fund created to support growth-oriented lending to minority-owned businesses nationwide through a network of Latino-led nonprofit business lenders. Acceso helps diverse entrepreneurs in underserved minority business communities scale to a larger size - expanding their revenue, impact on the economy, and ability to provide jobs.

Lending and Asset Management activities accounted for approximately 15% and 72% of total program expenditures for the years ended December 31, 2020 and 2019, respectively.

Note 2 - Significant Accounting Policies

Basis of Consolidation

NALCAB's policy is to consolidate its wholly-owned subsidiaries and those entities that are controlled by NALCAB. Investments in partnerships (and limited liability companies treated as partnerships) in which NALCAB has a controlling interest, or in which Escalera is the managing member, and its presumption of control is not overcome, are consolidated. NALCAB also consolidates investments in partnerships it controls through Escalera by contract. The accompanying consolidated financial statements include the following entities within each functional area.

NALCAB

NALCAB is the entity responsible for carrying out all activities under the Organizational Capacity Building Program, the Policy and Field Building Program, and the CFDI lending activity accounted for in the Lending and Asset Management functional area.

Escalera's management activities are consolidated under the Lending and Asset Management functional area.

National Association for Latino Community Asset Builders

Notes to Consolidated Financial Statements December 31, 2020 and 2019

NALCAB Catalyst Fund I, LLC

The NALCAB Catalyst Fund I, LLC (NCF I), is a partnership that operates a portfolio of affordable residential rental housing, develops affordable housing, and lends to non-profit affordable housing organizations. Escalera Community Investments is the Managing Member of NCF I. NCF I is owned 29% by NALCAB, 36% by independent non-profit organizations that identify as NALCAB members, and 35% by other investors.

Property used for rental purposes or development is held in wholly-owned subsidiaries of NCF I, established for the purpose of executing specific investment transactions on its behalf. These subsidiaries include Ingram Road Investments, LLC, MDYO, LLC, 3010 N. St. Mary's, LLC, Eastwood Villa Apartments, LLC, Leeland Apartments, LLC, and Samano Development, LLC.

NALCAB Network Investors, LLC

NALCAB Network Investors, LLC (NNI) is a partnership that was formed prior to the establishment of the NALCAB Catalyst Fund I, LLC to provide seed capital for NCF I, and to acquire and warehouse investments for the benefit of NCF I before its launch. NNI is owned by NALCAB and three non-profit CDFI partners. Substantially all assets of NNI are invested in the NALCAB Catalyst Fund I, LLC.

Acceso Loan Fund I, LLC

The Acceso Loan Fund I, LLC (Acceso) is a partnership that makes loans to small businesses in underserved minority business communities. It is owned equally by NALCAB and eleven CDFI NALCAB Network members, and it is managed by Escalera Community Investments. Acceso was in the startup phase at the end of 2019. Acceso was in operation during 2020. In response to the COVID-19 pandemic, Acceso made short-term, very low-interest loans to members who are eligible lenders under the federal Paycheck Protection Program to support their lending to underserved small businesses.

Consolidation

The consolidated financial statements include the assets, liabilities, net assets and financial activities of the entities described above.

The interests owned by NALCAB member organizations and unaffiliated investors are referred to in the accompanying consolidated financial statements as the non-controlling interest and represent various investor members' proportionate share of equity and net results from operations. Except as otherwise specified in the operating agreements, all items of income, expense, gain, loss, tax credits, tax preferences and cash are allocated to the partners based upon their ownership percentage. All material intercompany transactions and accounts have been eliminated in consolidation. The consolidated statements of activities report all changes in net assets, including changes in net assets without donor restrictions.

Financial Statement Presentation

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles in the United States of America (GAAP), including current pronouncements applicable to nonprofit organizations.

National Association for Latino Community Asset Builders

Notes to Consolidated Financial Statements December 31, 2020 and 2019

Under these provisions, net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, NALCAB's net assets and changes therein are classified and reported as follows:

Net assets without donor restrictions attributable to NALCAB - Net assets that are the remaining part of NALCAB's net assets that do not have donor-imposed stipulations.

Net assets without donor restrictions attributable to non-controlling interests - Net assets that are not subject to donor-imposed restrictions. Net assets without donor restrictions attributable to non-controlling interests consist of assets and contributions available for the support of Fund investments that are attributable to the ownership interests of third-party investors in those properties.

Net assets with donor restrictions - Net assets that result from contributions and other inflow of assets that are limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of NALCAB pursuant to those stipulations. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. Restricted contributions whose restrictions are met in the same reporting period are recorded as income with donor restrictions and as net assets released from restrictions.

Accounts Receivable

An allowance for doubtful accounts is recorded when receivables are deemed uncollectible. The estimated losses are based on a review of the current status of existing receivables. As of December 31, 2020 and 2019, the allowance for doubtful accounts was \$16,434 and \$0, respectively.

Contributions

Contributions received are recorded as support with donor restrictions or support without donor restrictions depending on the existence or nature of any donor restrictions.

Unconditional and substantiated promises to give are recorded as revenue at estimated net realizable value. NALCAB recognizes contributions when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. 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. NALCAB's federal and state contracts and grants are conditioned upon certain performance requirements and the incurrence of allowable qualifying expenses. Consequently, at December 31, 2020 and 2019, no conditional contributions have been received in advance, which would have not been recognized in the accompanying consolidated financial statements. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as revenue without donor restrictions in the period of receipt. Unconditional promises to give with payments due in future periods are discounted to present value and reported as revenue with donor restrictions.

National Association for Latino Community Asset Builders

Notes to Consolidated Financial Statements December 31, 2020 and 2019

Functional Expenses

NALCAB's costs for programs, supporting services, and equity fund investments have been reported on a functional basis. This requires the allocation of certain common expenses among the various programs, supporting services and equity fund investments based on estimates made by management. Management has allocated the common expenses on the basis of direct labor charged to each functional area. For purposes of the statements of functional expenses, program services include all direct program expenses plus allocated common expenses determined by management to benefit programs operated by NALCAB.

Deferred Revenue

Income drawn from grant awards and not expensed is deferred and will be recognized in the periods in which expenses for the grant are incurred. Funds received in advance of performing fee-for-service contracts are deferred and will be recognized as revenue when the services are performed.

Syndication and Organization Costs

Syndication and organization costs of NCF I are expensed as incurred. Syndication costs represent costs incurred for the preparation and offering of the private placement memorandum. These costs are reflected as a direct reduction of partners' capital. Organization costs represent costs incident to the creation of the LLC and the preparation of the Operating Agreement. Approximately \$75,000 was incurred for syndication and organization costs in the initial year of the NCF I.

Organization costs of the Acceso are expensed as incurred. Approximately \$42,000 was incurred for organization costs in 2019.

Estimates

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

Income Taxes

NALCAB Catalyst Fund I, LLC, NALCAB Network Investors, LLC, and Acceso Loan Fund, LLC, are limited liability companies that have elected to be treated as partnerships for federal income tax purposes, and all taxable income and losses are allocated to the partners.

NALCAB qualifies as an organization formed for charitable purposes under Section 501(c)(3) of the Internal Revenue Code (IRC) and, therefore, is not subject to income tax. Certain unrelated business income, as defined in the IRC, is subject to federal income tax. For the years ended December 31, 2020 and 2019, NALCAB had unrelated business income of \$17,674 and \$45,296, respectively.

Cash and Cash Equivalents

For the statements of cash flows, NALCAB considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

National Association for Latino Community Asset Builders

Notes to Consolidated Financial Statements December 31, 2020 and 2019

Property and Equipment

Property and equipment is stated at cost at date of acquisition or fair value at the date of gift. All items over \$2,500 are capitalized. Depreciation on equipment is calculated using the straight-line method over the estimated useful lives of the assets as follows:

Land	None
Building and improvements	15 - 40 years
Land improvements	15 - 20 years
Furniture, fixtures, and equipment	5 - 12 years

Property Under Development

Property under development is recorded using the cost method. Costs associated with the acquisition, development and construction of property including property taxes, interest and insurance, are capitalized as a cost of the property. Property under development consists of costs to develop affordable single-family homes or rental units in buildings that may also include retail or commercial space.

Impairment of Long-Lived Assets

NALCAB reviews its rental property for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. When recovery is reviewed, if the undiscounted cash flows estimated to be generated by the property are less than its carrying amount, management compares the carrying amount of the property to its fair value in order to determine whether an impairment loss has occurred. The amount of the impairment loss is equal to the excess of the asset's carrying value over its estimated fair value. No impairment loss has been recognized during the years ended December 31, 2020 and 2019.

Note 3 - Liquidity and Availability

NALCAB and its consolidated entities have the following financial assets available within one year of the statement of financial position date to meet cash needs for general expenditures and investments as follows:

	2020	2019
Cash and cash equivalents	\$ 14,706,196	\$ 9,035,190
Less: cash held for loan funds	<u>(6,576,875)</u>	<u>(41,667)</u>
Net cash and cash equivalents available	8,129,321	8,993,523
Promises to give and accounts receivable	<u>822,390</u>	<u>5,574,410</u>
Total	<u><u>\$ 8,951,711</u></u>	<u><u>\$ 14,567,933</u></u>

Long-term assets and amounts related to restricted deposits and promises to give anticipated to be used more than one year after the statement of financial position date have been excluded from the above amounts.

Financial assets of the consolidated entities are intended to be sufficient to meet their general expenditures, liabilities and other obligations as they become due.

National Association for Latino Community Asset Builders

Notes to Consolidated Financial Statements December 31, 2020 and 2019

In addition to financial assets, NALCAB has been awarded cooperative agreements from US HUD to provide technical assistance. A total of \$5,434,000 is available under those cooperative agreements, dependent upon work assignments from HUD.

A \$500,000 bank line of credit is also available.

Note 4 - Cash and Restricted Cash

NALCAB and its affiliates maintain cash in bank deposit accounts which may, at times, exceed federally insured limits. NALCAB has not experienced any losses in such accounts and it monitors the credit-worthiness of the financial institutions with which it conducts business. Management does not perceive any significant credit risk on its cash, cash equivalents and other deposits during years ended December 31, 2020 and 2019.

Note 5 - Receivables and Promises to Give

Receivables and promises to give consist of the following:

	2020	2019
Federal grants	\$ 291,731	\$ 119,206
Foundations	1,950,000	5,675,000
Other organizations	94,839	67,704
Total	<u>\$ 2,336,570</u>	<u>\$ 5,861,910</u>

NALCAB considers accounts receivable to be fully collectible. Therefore, no allowance for doubtful accounts is reported. Future maturities of receivables and promises to give are estimated as follows:

2021	\$ 2,336,570
2021	-
2022	-
2023	-
2024	-
Thereafter	<u>-</u>
Total	<u>\$ 2,336,570</u>

Note 6 - Notes Receivable

	2020	2019
Notes receivable from an unaffiliated organization in the amount of \$529,200, bearing simple interest at 6%, interest payable semi-annually beginning February 2, 2018 in the amount of \$15,876, declining as principal payments are made, until maturity on August 2, 2022. The note is secured by real estate.	\$ 188,600	\$ 199,400

National Association for Latino Community Asset Builders

**Notes to Consolidated Financial Statements
December 31, 2020 and 2019**

	<u>2020</u>	<u>2019</u>
Notes receivable from Latino Economic Development Center - MN in the amount of \$500,000, bearing simple interest at 3%, interest and principal due at maturity on June 30, 2022.	360,963	500,000
Notes receivable from LiftFund Inc. in the amount of \$500,000, bearing simple interest at 3%, interest and principal due at maturity on June 30, 2022.	203,612	500,000
Notes receivable from FINANTA in the amount of \$500,000, bearing simple interest at 3%, interest and principal due at maturity on August 14, 2020.	-	500,000
Notes receivable from Mission Economic Development Agency in the amount of \$500,000, bearing simple interest at 3%, interest and principal due at maturity on June 30, 2022.	150,000	500,000
Notes receivable from Homes in Partnership, Inc. in the amount of \$400,000, bears no interest, maturing November 30, 2020.	-	67,500
Notes receivable from Affordable Homes of South Texas, Inc. in the amount of \$265,000, bearing simple interest at 3%, interest payable semi-annually beginning August 2, 2019, and declining as principal payments are made, until maturity on August 2, 2022.	265,000	265,000
Notes receivable from Rural Community Development Resources in the amount of \$200,000, bears no interest, principal due at maturity on May 10, 2022.	173,400	190,200
Notes receivable from Neighborhood Housing Services of San Antonio, Inc. in the amount of \$161,040, bearing annual interest of 5.76%, interest and principal due monthly in the amount of \$940.81 beginning February 1, 2020 until maturity on January 1, 2022.	158,972	161,040
Notes receivable from Affordable Housing for South Florida, Inc. in the amount of \$373,916, bearing annual interest of 0%, principal due at maturity on June 18, 2020.	-	373,916

National Association for Latino Community Asset Builders

**Notes to Consolidated Financial Statements
December 31, 2020 and 2019**

	<u>2020</u>	<u>2019</u>
Notes receivable from Latino Economic Development Center - MN in the amount of \$760,000, bearing simple interest at 3.5%, interest and principal due at maturity on June 30, 2022.	760,000	-
Notes receivable from El Pajaro Community Development Corporation in the amount of \$200,000, bearing annual interest of 0%, principal due at maturity on December 29, 2025.	200,000	-
Notes receivable from Latino Economic Development Corporation of Washington, DC, in the amount of \$1,625,000, bearing simple interest of 0.75% for loans borrowed before February 11, 2021 (Round One), and 1.5% for loans borrowed on or after February 11, 2021 (Round Two). Round One matures March 27, 2021; Round Two matures February 11, 2022.	953,639	-
Notes receivable from Opportunity Fund Community Development in the amount of \$3,625,000, bearing simple interest of 0.75% for loans borrowed before January 15, 2021 (Round One), and 1.5% for loans borrowed on or after January 15, 2021 (Round Two). Round One matures January 27, 2021; Round Two matures January 15, 2022.	<u>906,232</u>	<u>-</u>
Total notes receivable	4,320,418	3,257,056
Less: Allowance for doubtful accounts	<u>(16,434)</u>	<u>-</u>
Net notes receivable	<u><u>\$ 4,303,984</u></u>	<u><u>\$ 3,257,056</u></u>

Note 7 - Property Held for Sale

In accordance with GAAP, the results of operations for properties classified as held for sale at the end of the current and prior periods are measured at the lower of their carrying amount or the fair value less costs to sell. Once an asset is classified as held for sale no further depreciation is recorded. As of December 31, 2020, NCF I considered the assets of Samano Development, LLC as held for sale. As of December 31, 2019, NCF I considered the assets of Ingram Road Investments, LLC as held for sale. Management believes that the fair value less costs to sell exceeds the carrying amount for both Samano Development, LLC and Ingram Road Investments, LLC; therefore no loss was charged to operations for the years ended December 31, 2020 and 2019.

NCF I's assets in Samano consist of a five-story building acquired in 2020 to facilitate the development of a multi-family housing project. As of December 31, 2020, the property is under contract to sell for \$1,348,200.

National Association for Latino Community Asset Builders

Notes to Consolidated Financial Statements December 31, 2020 and 2019

NCF I's assets in Ingram consist of unimproved land acquired to develop and sell 45 single-family homes to mixed-income individuals and families in San Antonio, Texas. Predevelopment activities commenced in 2016. In 2018, after infrastructure development, NCF I made a strategic decision to sell the improved lots to a regional homebuilder in a two-phase transaction. In 2019, 22 of the lots were sold for \$1,210,000, resulting in a gain on sale of \$244,145. The remaining 23 lots were sold on January 9, 2020 for \$1,302,430, resulting in a gain on the sale of \$300,677.

As of December 31, 2020 and 2019, property held for sale was \$1,265,483 and \$946,139, respectively.

Note 8 - Property and Equipment

Property and equipment, partially pledged, consisted of the following at December 31, 2020 and 2019:

<u>NALCAB</u>	<u>2020</u>	<u>2019</u>
Land and land improvements	\$ 301,755	\$ 301,755
Building and improvements	885,510	881,365
Furniture, fixtures, and equipment	223,180	224,929
Total property equipment	1,410,445	1,408,049
Less accumulated depreciation	(329,591)	(286,105)
Property and equipment, net	1,080,854	1,121,944
<u>Rental Properties</u>		
Land and land improvements	877,750	877,750
Building and improvements	2,627,165	2,467,175
Furniture, fixtures, and equipment	18,000	18,000
Total property equipment	3,522,915	3,362,925
Less accumulated depreciation	(182,428)	(96,848)
Property and equipment, net	3,340,487	3,266,077
Total property and equipment	<u>\$ 4,421,341</u>	<u>\$ 4,388,021</u>

Depreciation expense for the years ended December 31, 2020 and 2019 was \$130,815 and \$90,862, respectively.

Note 9 - Investment in Partnerships

NALCAB received a \$6 million grant from the JP Morgan Chase Foundation to form a controlled real estate fund (NCF I) to produce and preserve affordable housing opportunities that advance economic mobility for low- and moderate-income households in predominately Latino communities. NALCAB made subgrants to three CDFI NALCAB Network members, and together, they contributed \$2.6 million to form NALCAB Network Investors, LLC (NNI), owned 40% by NALCAB and 20% by each of the other partners. NNI acquired and warehoused one investment for the

National Association for Latino Community Asset Builders

Notes to Consolidated Financial Statements December 31, 2020 and 2019

benefit of NCF I, which formed in May of 2016 and launched on September 23, 2016. NNI and Other Members contributed capital of \$2,548,470 and \$685,000, respectively, to NCF I as of December 31, 2017, representing the total capital commitments at the time. In 2018, Other Members committed to contributing capital of \$960,000 to NCF I. As of December 31, 2019, all capital commitments were funded.

A portion of NNI's capital contributions to NCF I were satisfied through its assignment of a 100% membership interest in 3010 N. St. Mary's, LLC, valued at \$630,184.

\$75,000 of NALCAB's capital contributions were satisfied in lieu of reimbursement for syndication and organization costs it incurred on behalf of NCF I.

During 2019 NALCAB received a \$10 million grant from the Wells Fargo Foundation to form a national small business loan fund to support growth-oriented lending to minority-owned businesses nationwide through a network of Latino-led nonprofit business lenders. NALCAB made subgrants to eleven NALCAB Network CDFIs, and together, they formed the Acceso Loan Fund, LLC, owned equally by each of the partners. Included in grants payable as of December 31, 2019 is \$9,166,666 payable to Acceso by NALCAB and the eleven CDFIs. In 2020, NALCAB and the other CDFI members contributed \$10,000,000 to Acceso to fund the partnership's initial capitalization.

Note 10 - Related Party Transactions

NALCAB considers Escalera Community Investments, LLC, the NALCAB Catalyst Fund I, LLC, NALCAB Network Investors, LLC, the Acceso Loan Fund, LLC, members of management, boards or committees, members of their immediate families, and entities under common control to be related parties. Amounts due from and due to related parties are generally settled in the normal course of business without formal payment terms.

In the ordinary course of business, NALCAB provided grants to member organizations who have representation on the Board of NALCAB. During the years ended December 31, 2020 and 2019, grants to member organizations amounted to \$153,400 and \$4,442,584, respectively.

In connection with the management of the NALCAB Catalyst Fund, LLC, and NALCAB Network Investors, LLC, as of December 31, 2020 and 2019, Escalera was paid management fees of \$83,869 and \$83,869 respectively, and accounting, tax and administrative expenses of \$24,000 and \$24,000, respectively.

In connection with the management of the Acceso Loan Fund, LLC, as of December 31, 2020 and 2019, Escalera was paid management fees of \$34,942 and \$0, respectively.

The Acceso Loan Fund, LLC incurred startup expenses of \$82,097 during the year ended December 31, 2019 for services performed by and payable to a member organization who has representation on the Board of NALCAB.

Certain non-controlling NCF I Members are related parties of NALCAB. The aggregate value of non-controlling Members' capital owned by related parties for years ended December 31, 2020 and 2019 is \$599,593 and \$611,246, respectively.

Certain non-controlling Acceso Members are related parties of NALCAB. The aggregate value of non-controlling Acceso Members' capital owned by related parties for years ended December 31, 2020 and 2019 is \$4,115,813 and \$0, respectively.

National Association for Latino Community Asset Builders

Notes to Consolidated Financial Statements December 31, 2020 and 2019

Note 11 - Deferred Revenue

NALCAB records grant awards accounted for as exchange transactions and advances on fee-for-service contracts as deferred revenue until related services are performed, at which time they are recognized as revenue. The activity in the deferred revenue account is reported as follows:

	2020	2019
Deferred revenue, beginning of year	\$ 5,266	\$ 6,485
Grant awards and other advances	19,175	148,852
Performance on grants and contracts	(18,150)	(150,071)
Deferred revenue, end of year	<u>\$ 6,291</u>	<u>\$ 5,266</u>

In addition to deferred revenue, NALCAB has eleven federal grant awards on which it has the availability to draw \$5,434,000 as of December 31, 2020.

Note 12 - Federal Grants

Federal grants were as follows:

Name of Grant	2020	2019
HUD-Community Compass	\$ 168,369	\$ 297,938
HUD-Rural Capacity Building	746,382	1,025,248
SBA Prime	232,502	17,498
CNS VAHPP	73,935	-
NeighborWorks America	100,000	50,000
Total federal grant support	<u>\$ 1,321,188</u>	<u>\$ 1,390,684</u>

The NeighborWorks America grant of \$100,000 was not expended as of December 31, 2020.

Note 13 - Retirement Plan

NALCAB has a 401(k) retirement plan that matches up to 5% for all eligible employees who contribute. For the years ended December 31, 2020 and 2019 contributions made to the plan were \$76,401 and \$68,206, respectively.

Note 14 - Concentration of Credit Risk

Financial instruments which potentially subject NALCAB to credit risk consist principally of cash accounts and accounts receivable. NALCAB places its cash accounts at highly rated local banks and they may at times exceed the federally insured limit of \$250,000.

Historically, NALCAB has not incurred any significant credit related losses.

National Association for Latino Community Asset Builders

**Notes to Consolidated Financial Statements
December 31, 2020 and 2019**

Note 15 - Net assets

<u>Net assets without donor restrictions at December 31, 2020 and 2019 consist of the following:</u>	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Undesignated	\$ 3,055,438	\$ 2,102,216
Designated by the Board for the Rural Loan Fund	799,571	400,000
Total net assets without donor restrictions	3,855,009	2,502,216
<u>Net assets with donor restrictions at December 31, 2020 and 2019 consist of the following:</u>	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Subject to expenditure for specified purpose:		
Non-Federal		
Community Economic Development and Lending	6,147,901	3,926,077
Federal		
Rural Capacity Building for Community Development and Affordable Housing	370,000	573,487
Community Economic Development and Lending	100,000	-
	470,000	573,487
Total net assets with donor restrictions	6,617,901	4,499,564
Total net assets	\$ 10,472,910	\$ 7,001,780

National Association for Latino Community Asset Builders

Notes to Consolidated Financial Statements December 31, 2020 and 2019

Note 16 - Notes Payable

	<u>2020</u>	<u>2019</u>
Note payable to Wells Fargo, N.A., dated March 28, 2014 bearing interest at 5.25%, payable in monthly installments of \$6,212 including principal and interest, maturing October 1, 2024, secured by building.	\$ 738,437	\$ 772,566
PPP note payable to Self-Help Credit Union dated April 21, 2020, bearing interest at 1%, with payments deferred through date of forgiveness determination, which was required to be sought by August 6, 2021. The loan, including accrued interest was, forgiven by the SBA on February 8, 2021	408,662	-
Note payable to Surdna Foundation, dated December 15, 2017, bearing interest at 2%, interest payable in quarterly installments, maturing August 6, 2022, secured by Qualified Loans, as defined.	1,971,250	2,000,000
Note payable to The Meadows Foundation, dated February 15, 2019, bearing no interest, principal due on or before maturity, March 15, 2022.	100,000	100,000
Notes payable to several lenders, Members of the Catalyst Fund, funded as of July 12, 2017, bearing interest at 2%, interest payable in quarterly installments, maturing September 23, 2021.	590,000	590,000
Notes payable to several lenders, Members of the Catalyst Fund, funded as of November 8, 2017 bearing interest at 2%, interest payable in quarterly installments, maturing September 23, 2021.	400,000	400,000
Notes payable to several lenders, Members of the Catalyst Fund, funded as of August 1, 2019, bearing interest at 2%, interest payable in quarterly installments, maturing September 23, 2021.	50,000	50,000
Note payable to the Opportunity Finance Network, dated June 8, 2020, bearing interest at 3.50%, payable in quarterly installments, principal due on or before maturity, June 30, 2023.	<u>500,000</u>	<u>-</u>
Total notes payable	4,758,349	3,912,566
Less current portion	<u>(1,076,111)</u>	<u>(34,133)</u>
Long-term debt, net of current portion	<u>\$ 3,682,238</u>	<u>\$ 3,878,433</u>

NALCAB has a \$3,000,000 credit facility from Chase New Markets Corporation to fund commercial real estate loans in NALCAB's CDFI target market. The credit facility, dated November 24, 2020, bears interest at 1% through May 24, 2022, 2% after that date, and matures on November 24, 2027. As of December 31, 2020, the outstanding balance was \$0.

National Association for Latino Community Asset Builders

Notes to Consolidated Financial Statements December 31, 2020 and 2019

The aggregate annual maturities of the notes payable over each of the next five years and thereafter are as follows:

Future maturities of the notes payable are as follows:

2021	\$ 1,076,111
2022	2,517,993
2023	540,158
2024	624,087
2025	-
Thereafter	-
	<hr/>
Total	<u><u>\$ 4,758,349</u></u>

Note 17 - Statements of Cash Flows

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the consolidated statements of financial position that sum to the total of the same such amounts in the consolidated statements of cash flows.

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 14,706,196	\$ 9,035,190
Cash restricted for revolving loan fund	493,557	77,423
Reserve deposits with management company	4,000	4,000
Tenant and utility deposits	<u>21,562</u>	<u>19,911</u>
Total cash, cash equivalents, and restricted cash shown in the consolidated statements of cash flows	<u><u>\$ 15,225,315</u></u>	<u><u>\$ 9,136,524</u></u>

Amounts included in restricted cash are comprised of security deposits held in trust for the future benefit of tenants upon moving out of the properties as required by regulatory authority.

Note 18 - Risk Factor

NCF I seeks investment opportunities that offer the possibility of attaining capital appreciation. NCF I intends to make investments in distressed and low-income communities which may, in certain cases, involve certain non-performing or other distressed assets. These investments may involve a high degree of financial risk and there can be no assurance that NCF I's rate of return objectives will be realized or that there will be any return of capital from these investments. Numerous other risks also arise in distressed communities or in connection with troubled assets. Investments in NCF I are also subject to the general risk inherent in real estate investments, such as operating risks common to the construction and development of real estate, market risks associated with selling or renting property, and occupancy rates of rental property. The value of real property and the ability to generate income from real property is affected by many factors such as general and local economic conditions, energy supplies, the supply of and demand for property of the kind in which NCF I has invested, environmental regulations, changing regulatory and tax environments, Federal and local controls and real property tax rates. These factors are beyond NCF I's control, and the likelihood that they may occur cannot be predicted.

National Association for Latino Community Asset Builders

Notes to Consolidated Financial Statements December 31, 2020 and 2019

Note 19 - Commitments and Contingencies

NALCAB participates in a number of federal, state, and local programs that are fully or partially funded by grants received from other organizations. Expenses financed by grants are subject to audit by the appropriate grantor. If expenses are disallowed due to noncompliance with the grant program regulators, NALCAB may be required to reimburse the grantor. As of December 31, 2020 and 2019, significant amounts of grant expenses have not been audited by the grantor agencies, but NALCAB believes that subsequent audits will not have a material effect on the overall financial position of NALCAB.

In the opinion of management, there are no contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provisions have been made in the accompanying financial statements for such contingencies.

The financial instruments for NALCAB include cash and cash equivalents, accounts receivables, prepaid expenses, other assets, and accounts payable. The carrying amounts reported in the statements of financial position approximate fair values because of the short-term maturities of those instruments.

NCF I has provided general indemnifications to Escalera, any affiliate of Escalera, and any person acting on behalf of the Escalera or that affiliate when they act, in good faith, in the best interest of NCF I. NCF I is unable to develop an estimate of the maximum potential amount of future payments that could potentially result from any hypothetical future claim but expects the risk of having to make any payments under these general business indemnifications to be remote.

The COVID-19 pandemic, whose effects first became known in January 2020, is having a broad and negative impact on commerce and financial markets around the world. The United States and global markets experienced significant declines in value resulting from uncertainty caused by the pandemic. NALCAB is closely monitoring its investment portfolio and its liquidity and is actively working to minimize the impact of these declines. The extent of the impact of COVID-19 on NALCAB's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak and its impacts on NALCAB's customers, employees, and vendors, all of which at present, cannot be determined. Accordingly, the extent to which COVID-19 may impact NALCAB's financial position and changes in net assets and cash flows is uncertain and the accompanying consolidated financial statements include no adjustments relating to the effects of this pandemic.

Note 20 - Subsequent Events

NALCAB evaluates subsequent events in accordance with ASC Topic No. 855, "Subsequent Events" (formally SFAS No. 165). The guidance requires an entity to disclose the date through which subsequent events have been evaluated, as well as whether that date is the date the financial statements were issued or the date the financial statements were available to be issued. In preparing these financial statements, NALCAB has evaluated events and transactions for potential recognition or disclosure through June 11, 2021, the date the financial statements were available to be issued and concluded that, other than the subsequent event identified in Note 19, no subsequent events have occurred that would require recognition in the financial statements or disclosure is required in the notes to the financial statements.

Supplementary Information

National Association for Latino Community Asset Builders

Consolidating Statement of Financial Position December 31, 2020

<u>Assets</u>	National Association for Latino Community Asset Builders	NALCAB Catalyst Fund I, LLC	NALCAB Network Investors, LLC	Acceso Loan Fund, LLC	Eliminations	Total
Current assets:						
Cash and cash equivalents	\$ 7,515,831	\$ 234,023	\$ 11,946	\$ 6,944,396	\$ -	\$ 14,706,196
Cash restricted for revolving loan fund	493,557	-	-	-	-	493,557
Receivables	341,069	57,501	-	-	(12,000)	386,570
Promises to give, current	1,950,000	-	-	-	-	1,950,000
Notes receivable - current	18,514	54,000	-	1,859,871	-	1,932,385
Accrued interest receivable	4,206	4,725	-	375	-	9,306
Prepaid expenses	10,109	14,090	-	-	-	24,199
Deposits	4,280	21,761	-	-	-	26,041
Receivable from related parties	-	-	-	1,125,379	(1,125,379)	-
Total current assets	10,337,566	386,100	11,946	9,930,021	(1,137,379)	19,528,254
Property and equipment:						
Land and improvements	301,755	877,750	-	-	-	1,179,505
Buildings and improvements	885,510	2,627,165	-	-	-	3,512,675
Furniture and equipment	223,180	18,000	-	-	-	241,180
Total property and equipment	1,410,445	3,522,915	-	-	-	4,933,360
Less accumulated depreciation	(329,591)	(182,428)	-	-	-	(512,019)
Net property and equipment	1,080,854	3,340,487	-	-	-	4,421,341
Other assets:						
Land held for development/sale	-	245,643	-	-	-	245,643
Notes receivable	2,236,999	134,600	-	-	-	2,371,599
Property held for sale	-	1,265,483	-	-	-	1,265,483
Investment in NALCAB Network Investors, LLC	1,002,025	-	-	-	(1,002,025)	-
Investment in NALCAB Catalyst Fund I, LLC	172,517	-	2,493,116	-	(2,665,633)	-
Investment in Acceso Loan Fund, Inc.	823,167	-	-	-	(823,167)	-
Total other assets	4,234,708	1,645,726	2,493,116	-	(4,490,825)	3,882,725
Total assets	\$ 15,653,128	\$ 5,372,313	\$ 2,505,062	\$ 9,930,021	\$ (5,628,204)	\$ 27,832,320
<u>Liabilities and Net Assets</u>						
Current liabilities:						
Accounts payable	\$ 289,147	\$ 47,631	\$ -	\$ -	\$ -	\$ 336,778
Grants payable	165,000	-	-	-	-	165,000
Accrued expenses	69,171	3,269	-	-	-	72,440
Deferred revenue	1,650	4,641	-	-	-	6,291
Tenant security deposits held	-	15,236	-	-	-	15,236
Current portion of long-term debt	36,111	1,040,000	-	-	-	1,076,111
Intercompany payable	936,899	148,414	-	52,066	(1,137,379)	-
Total current liabilities	1,497,978	1,259,191	-	52,066	(1,137,379)	1,671,856
Long-term debt, net of current portion	3,682,238	-	-	-	-	3,682,238
Total liabilities	5,180,216	1,259,191	-	52,066	(1,137,379)	5,354,094
Net assets:						
Net assets, attributable to NALCAB						
Without donor restrictions	3,055,438	1,169,762	1,002,026	823,166	(2,994,954)	3,055,438
With donor restrictions	6,617,901	-	-	-	-	6,617,901
Designated for rural loan fund	799,571	-	-	-	-	799,571
Total net assets attributable to NALCAB	10,472,910	1,169,762	1,002,026	823,166	(2,994,954)	10,472,910
Net assets, attributable to non-controlling interests - without donor restrictions	-	2,943,360	1,503,036	9,054,789	(1,495,869)	12,005,316
Total net assets	10,472,910	4,113,122	2,505,062	9,877,955	(4,490,823)	22,478,226
Total liabilities and net assets	\$ 15,653,126	\$ 5,372,313	\$ 2,505,062	\$ 9,930,021	\$ (5,628,202)	\$ 27,832,320

See Independent Auditor's Report.

National Association for Latino Community Asset Builders

Consolidating Statement of Activities and Changes in Net Assets Year Ended December 31, 2020

	National Association for Latino Community Asset Builders	NALCAB Catalyst Fund I, LLC	NALCAB Network Investors, LLC	Acceso Loan Fund, LLC	Eliminations	Total
Public support and other operating revenue:						
Contract and grants from:						
Federal grants	\$ 1,321,188	\$ -	\$ -	\$ -	\$ -	\$ 1,321,188
Other contributions and grants	8,299,624	-	-	-	-	8,299,624
Satisfaction of use restriction	5,797,747	-	-	-	-	5,797,747
Change in net assets with donor restrictions	(5,797,747)	-	-	-	-	(5,797,747)
Total contracts and grants funding	9,620,812	-	-	-	-	9,620,812
Program service revenue	134,906	-	-	-	-	134,906
Management fees	142,811	-	-	-	(142,811)	-
Rental income	19,474	333,440	-	-	-	352,914
Interest income	67,479	12,391	1	23,799	-	103,670
Gain on sale of investment	-	300,677	-	-	-	300,677
Gain on sale of fixed asset	200	-	-	-	-	200
Income (loss) from subsidiaries and affiliates	(26,130)	-	(47,923)	-	74,053	-
Total support and revenues	9,959,552	646,508	(47,922)	23,799	(68,758)	10,513,179
Expenses						
Organizational Capacity Building	4,551,544	-	-	-	-	4,551,544
Policy and Field-Building	416,217	-	-	-	-	416,217
Lending and Asset Management	246,627	715,087	300	63,747	(142,811)	882,950
Supporting services:						
Management and general	1,254,289	-	-	-	-	1,254,289
Fundraising	19,745	-	-	-	-	19,745
Total expenses	6,488,422	715,087	300	63,747	(142,811)	7,124,745
Change in net assets	3,471,130	(68,579)	(48,222)	(39,948)	74,053	3,388,434
Net assets, beginning of period	7,001,780	4,181,701	2,553,284	(82,097)	(3,731,539)	9,923,129
Capital contributions	-	-	-	10,000,000	(833,337)	9,166,663
Net assets, end of period	\$ 10,472,910	\$ 4,113,122	\$ 2,505,062	\$ 9,877,955	\$ (4,490,823)	\$ 22,478,226
Change in net assets, attributable to NALCAB						
Net assets, beginning of period	\$ 7,001,780	\$ 1,192,443	\$ 1,021,315	\$ (6,842)	\$ (2,206,916)	\$ 7,001,780
Change in net assets	3,471,130	(22,681)	(19,289)	(3,329)	45,299	3,471,130
Capital contributions	-	-	-	833,337	(833,337)	-
Net assets, end of period	10,472,910	1,169,762	1,002,026	823,166	(2,994,954)	10,472,910
Change in net assets, attributable to non-controlling interests						
Net assets, beginning of period	-	2,989,258	1,531,969	(75,255)	(1,524,623)	2,921,349
Change in net assets	-	(45,898)	(28,933)	(36,619)	28,754	(82,696)
Capital contributions	-	-	-	9,166,663	-	9,166,663
Net assets, end of period	-	2,943,360	1,503,036	9,054,789	(1,495,869)	12,005,316
Total net assets	\$ 10,472,910	\$ 4,113,122	\$ 2,505,062	\$ 9,877,955	\$ (4,490,823)	\$ 22,478,226

See Independent Auditor's Report.

Single Audit Compliance Information

National Association for Latino Community Asset Builders

Schedule of Expenditures of Federal Awards Year Ended December 31, 2020

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Federal Grant Number	Pass-Through Entity Identifying Number	Provided to Subrecipients	Total Federal Expenditures
Department of Housing and Urban Development					
Rural Capacity Building	14.265	B-15-RCB-TX-0001		\$ -	\$ 38
Rural Capacity Building	14.265	B-16-RCB-TX-001		70,000	440,195
Rural Capacity Building	14.265	B-18-RCB-NAL-01		143,400	306,149
				<u>213,400</u>	<u>746,382</u>
Community Compass	14.259	C-15-TA-TX-0010		-	7,451
Community Compass	14.259	C-16-TA-TX-0010		-	3,759
Community Compass	14.259	G-16-TA-TX-0010		-	92,156
Community Compass	14.259	C-17-TA-TX-0010		-	2,799
Community Compass	14.259	D-17-TA-TX-0010		-	33,069
Community Compass	14.259	B-20-TA-TX-0010		-	29,135
				<u>-</u>	<u>168,369</u>
Corporation for National and Community Service					
Volunteers in Service to America	94.013	20VSWTX015		-	73,934
Small Business Administration					
PRIME 2019	59.050	SBAHQ-19-PR-0017		44,989	232,502
Total expenditures of federal awards				<u>\$ 258,389</u>	<u>\$ 1,221,187</u>

See Notes to Schedule of Expenditures of Federal Awards.

National Association for Latino Community Asset Builders

Notes to Schedule of Expenditures of Federal Awards Year Ended December 31, 2020

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of NALCAB under programs of the federal government for the year ended December 31, 2020. The information in this Schedule is presented in accordance with the 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). Because the Schedule presents only a selected portion of the operations of NALCAB, it is not intended to and does not present the financial position, changes in net assets, or cash flows of NALCAB.

Note 2 - Summary of Significant Accounting Policies

Expenditures reported on the Schedule 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. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

Note 3 - Indirect Cost Rate

The Association has elected to not use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

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 Trustees
National Association for Latino Community Asset Builders

We have audited, 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, the financial statements of National Association for Latino Community Asset Builders, which comprise the consolidated statement of financial position as of December 31, 2020 and the related consolidated 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 June 11, 2021. The financial statements of certain subsidiaries and affiliates were not audited in accordance with *Government Auditing Standards* and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with these subsidiaries and affiliates.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered National Association for Latino Community Asset Builders' 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 National Association for Latino Community Asset Builders' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of National Association for Latino Community Asset Builders' internal control over financial reporting.

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 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 weakness 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 weakness may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether National Association for Latino Community Asset Builders' 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

This report is intended 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 National Association for Latino Community Asset Builders' internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering National Association for Latino Community Asset Builders' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Charlotte, North Carolina
June 11, 2021

Independent Auditor's Report on Compliance for the Major Federal Program and on
Internal Control over Compliance Required by the Uniform Guidance

To the Board of Trustees
National Association for Latino Community Asset Builders

Report on Compliance for the Major Federal Program

We have audited National Association for Latino Community Asset Builders' compliance with the types of compliance requirements described in the OMB Compliance Supplement that could have a direct and material effect on National Association for Latino Community Asset Builders' major federal program for the year ended December 31, 2020. National Association for Latino Community Asset Builders' major federal programs is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for National Association for Latino Community Asset Builders' major federal program based on our audit of the types of compliance requirements referred to above. 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). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about National Association for Latino Community Asset Builders' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of National Association for Latino Community Asset Builders' compliance.

Opinion on the Major Federal Program

In our opinion, National Association for Latino Community Asset Builders complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2020.

Report on Internal Control Over Compliance

Management of National Association for Latino Community Asset Builders is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered National Association for Latino Community Asset Builders' internal control over compliance with the types of requirements that could have a direct and material effect on its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for its major federal program 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 internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of National Association for Latino Community Asset Builders' 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 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 first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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.



Charlotte, North Carolina
June 11, 2021

National Association for Latino Community Asset Builders

**Schedule of Findings and Questioned Costs
Year Ended December 31, 2020**

I. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued on whether the financial statements audited were prepared in accordance with generally accepted accounting principles:

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? ☐ Yes ☒ No
- Significant deficiency(ies) identified ☐ Yes ☒ None Reported

Noncompliance material to financial statements noted? ☐ Yes ☒ No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? ☐ Yes ☒ No
- Significant deficiency(ies) identified ☐ Yes ☒ None Reported

Type of auditor's report issued on compliance for major federal programs:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR Section 200.516(a) ☐ Yes ☒ No

Identification of major programs:

- Federal Programs
 - CFDA 14.265 Rural Capacity Building for Community Development and Affordable Housing Grants

Dollar threshold used to distinguish type A and B programs: \$750,000

Auditee qualified as a low-risk auditee? ☒ Yes ☐ No

II. Findings - Financial Statement Audit

None.

III. Findings - Major Federal Awards Program Audit

None.



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