Neighborhood Housing Services of Chicago, Inc. and Related Entities

Consolidated Financial Report
with Supplemental Information
March 31, 2019

Contents

Plante & Moran, PLLC
10 South Riverside Plaza
9th floor
Chicago, IL 60606
Tel: 312.207.1040
Fax: 312.207.1066
plantemoran.com

Independent Auditor's Report

To the Board of Directors
Neighborhood Housing Services of Chicago, Inc.
and Related Entities

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Neighborhood Housing Services of Chicago, Inc. and Related Entities (the "Organization"), which comprise the consolidated statement of financial position as of March 31, 2019 and the related consolidated statements of activities, changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

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 audit. We did not audit the financial statements of certain Multifamily Limited Partnerships (see Note 1 for the list of the partnerships), whose statements reflect total assets constituting 15 percent of consolidated total assets at March 31, 2019 and total revenue constituting 12 percent of consolidated total revenue for the year ended March 31, 2019. Those statements were audited by other auditors in accordance with auditing standards generally accepted in the United States of America whose report has been furnished to us and, in our opinion, insofar as it relates to the amounts included for certain Multifamily Limited Partnerships, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 from material misstatement. The Multifamily Limited Partnerships and Neighborhood Lending Services of Chicago, Inc. were not audited under *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, based on our audits and the report of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Neighborhood Housing Services of Chicago, Inc. and Related Entities as of March 31, 2019 and the results of their changes in net assets, functional expenses, and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

To the Board of Directors
Neighborhood Housing Services of Chicago, Inc.
and Related Entities

Emphasis of Matter

As more completely disclosed in Note 2 to the consolidated financial statements, as part of its Neighborhood Lending Program contract with the City of Chicago, Illinois, the Organization makes deferred loans to individuals that bear no interest and do not become due and payable until the occurrence of a future event, as defined in the contract. These "deferred" loans are recorded net of an allowance for loan losses and discounted to their present value. The Organization believes its estimate of the allowance for loan losses for these loans is adequate; however, the Organization has limited historical experience to support this estimate, given that few loans have entered repayment status. Accordingly, there is a reasonable possibility of a change in this estimate in the near term, as the Organization continues to accumulate and analyze historical data.

As described in Note 2 to the consolidated financial statements, the Organization adopted the provisions of Financial Accounting Standards Board Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, as of April 1, 2018.

Our opinion is not modified with respect to these matters.

Other Matter

The pro forma financial information disclosed in Note 16 to the consolidated financial statements is unaudited.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2019 on our consideration of Neighborhood Housing Services of Chicago, Inc. and Related Entities' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is 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 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 Neighborhood Housing Services of Chicago, Inc. and Related Entities' internal control over financial reporting and compliance.

Plante & Moran, PLLC

December 10, 2019

Consolidated Statement of Financial Position

	March 31, 2019
Assets	
Cash and cash equivalents	$ 6,022,967
Restricted cash	714,615
Contracts receivable	2,172,003
Loans held for sale - Net	11,461,696
Loans receivable - Net:	
Loans held for investment - Net	808,127
Deferred loans - Net	3,391,269
Prepaid expenses and other assets	648,534
Receivership and development project advances	1,243,893
Advances to sponsored PSSAs	771,189
Property held:	
Property held for rental and development - Net	1,373,972
Property held for sale	6,714,533
Property and equipment used in operations - Net	299,628
Total assets	**$ 35,622,426**
Liabilities and Net Assets (Deficit)	
Liabilities	
Accounts payable and accrued expenses	$ 2,275,514
Accrued expenses - Multifamily Limited Partnerships	548,626
Loss reserve liability	714,615
Funds held for agency transactions and deferred revenue	2,715,549
Program receipts payable	2,552,367
Customer deposits and other liabilities	172,316
Debt - Net (Note 8)	14,250,404
Debt - Multifamily Limited Partnerships (Note 8)	13,957,100
Total liabilities	37,186,491
Net Assets (Deficit)	
Without donor restrictions:	
Controlling interest/partners' deficit	(6,473,005)
Noncontrolling interest	(2,689,562)
Total without donor restrictions	(9,162,567)
With donor restrictions	7,598,502
Total net deficit	(1,564,065)
Total liabilities and net deficit	**$ 35,622,426**

See notes to consolidated financial statements.

Consolidated Statement of Activities

Year Ended March 31, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, Gains, and Other Support			
Contract revenue - Net	$ 5,044,651	$ -	$ 5,044,651
Servicing and lending-related income	1,856,061	-	1,856,061
Property management and development fees	208,901	-	208,901
Rental income	3,469,706	-	3,469,706
Miscellaneous	387,722	-	387,722
Contributions and private grants	1,807,086	613,942	2,421,028
Satisfaction of donor restrictions	354,533	(354,533)	-
Release of donor support	1,748,911	(1,748,911)	-
Total revenue, gains, and other support	14,877,571	(1,489,502)	13,388,069
Expenses			
Program services	12,118,314	-	12,118,314
Support services:			
Management and general	2,954,644	-	2,954,644
Fundraising	793,742	-	793,742
Total support services	3,748,386	-	3,748,386
Total expenses	15,866,700	-	15,866,700
Decrease in Net Assets	(989,129)	(1,489,502)	(2,478,631)
Change in Net Assets Attributable to Noncontrolling Interest	298,282	-	298,282
Decrease in Net Assets Attributable to NHS	**$ (690,847)**	**$ (1,489,502)**	**$ (2,180,349)**

Consolidated Statement of Changes in Net Assets

Year Ended March 31, 2019

	Without Donor Restrictions			
	Noncontrolling Interest	NHS	With Donor Restrictions	Total
Balance - April 1, 2018	$ (6,781,525)	$ (1,391,913)	$ 9,088,004	$ 914,566
Change in net assets	(298,282)	(690,847)	(1,489,502)	(2,478,631)
Assignment of interests (Note 1)	4,390,245	(4,390,245)	-	-
Balance - March 31, 2019	**$ (2,689,562)**	**$ (6,473,005)**	**$ 7,598,502**	**$ (1,564,065)**

See notes to consolidated financial statements.

Consolidated Statement of Functional Expenses

Year Ended March 31, 2019

	Program Services	Support Services: Management and General	Support Services: Fundraising	Support Services: Total	Total
Salaries and related expenses	$ 4,712,972	$ 1,703,907	$ 335,600	$ 2,039,507	$ 6,752,479
Occupancy	461,976	192,955	28,273	221,228	683,204
Professional fees	-	557,950	-	557,950	557,950
Interest	191,514	44,837	-	44,837	236,351
Loan origination and servicing	314,548	-	-	-	314,548
Bad debt	596,031	-	-	-	596,031
Depreciation	73,968	54,791	-	54,791	128,759
Information technology	346,734	200,230	33,444	233,674	580,408
Fundraising	-	60,715	372,080	432,795	432,795
Single family homes - Operating costs	662,756	-	-	-	662,756
Other	174,870	139,259	24,345	163,604	338,474
Subtotal - NHS entities	7,535,369	2,954,644	793,742	3,748,386	11,283,755
Multifamily Limited Partnerships - Operating costs	2,679,286	-	-	-	2,679,286
Multifamily Limited Partnerships - Real estate taxes	266,774	-	-	-	266,774
Multifamily Limited Partnerships - Depreciation	431,470	-	-	-	431,470
Multifamily Limited Partnerships - Repairs and maintenance	1,205,415	-	-	-	1,205,415
Subtotal - Multifamily Limited Partnerships	4,582,945	-	-	-	4,582,945
Total functional expenses	**$ 12,118,314**	**$ 2,954,644**	**$ 793,742**	**$ 3,748,386**	**$ 15,866,700**

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

	Year Ended March 31, 2019
Cash Flows from Operating Activities	
Change in net assets	$ (2,478,631)
Adjustments to reconcile change in net assets to net cash from operating activities:	
Bad debt expense	596,031
Depreciation and amortization expense	560,229
Impairment of property held for sale	325,000
Loss on sale of property	98,638
Imputed interest expense	44,450
Loss reserve expense	38,091
Accretion of interest income	(228,952)
Originations of loans held for sale	(19,402,690)
Principal payments and sales proceeds on loans held for sale	15,641,009
Changes in operating assets and liabilities that provided (used) cash:	
Contracts receivable	301,739
Prepaid expenses and other assets	(301,614)
Receivership and development project advances	66,258
Advances to sponsored PSSAs	298,036
Accounts payable and accrued expenses	264,239
Funds held for agency transactions and deferred revenue	560,180
Program receipts payable	167,232
Customer deposits and other liabilities	321
Net cash used in operating activities	(3,450,434)
Cash Flows from Investing Activities	
Origination of loans receivable	(44,589)
Principal collections on loans receivable	75,178
Additions to property held for rehabilitation and resale	(91,791)
Proceeds from sale of property held for rehabilitation and resale and rental	828,231
Additions to property held for rental and development	(49,325)
Additions to property held for sale	(182,166)
Net cash provided by investing activities	535,538
Cash Flows from Financing Activities	
Borrowings under lines of credit	2,200,000
Repayments of debt	(240,863)
Net cash provided by financing activities	1,959,137
Net Decrease in Cash, Cash Equivalents, and Restricted Cash	(955,759)
Cash, Cash Equivalents, and Restricted Cash - Beginning of year	7,693,341
Cash, Cash Equivalents, and Restricted Cash - End of year	**$ 6,737,582**
Supplemental Cash Flow Information - Cash paid for interest	$ 164,200

See notes to consolidated financial statements.

Note 1 - Description of Operations

Neighborhood Housing Services of Chicago, Inc. (NHS) and Related Entities help homeowners and strengthen communities by offering home ownership services, lending options, home buyer education, real estate management services, and foreclosure prevention. The accompanying consolidated financial statements include the accounts of Neighborhood Housing Services of Chicago, Inc. and Related Entities (collectively referred to as the “Organization”), whether wholly owned or in which NHS owns the general partner interest and controls the limited partnership. The following entities are included in the consolidated financial statements for the year ended March 31, 2019:

- Neighborhood Housing Services of Chicago, Inc.
- Neighborhood Lending Services, Inc.
- NHS Redevelopment Corporation
- NHSRC Initiatives, Inc.
- NHS of the Fox Valley
- Multifamily Limited Partnerships

Neighborhood Housing Services of Chicago, Inc.

Neighborhood Housing Services of Chicago, Inc. was organized in 1975 exclusively for charitable purposes under the Illinois General Not-for-Profit Corporation Act and is tax exempt under Section 501(c)(3). NHS was organized to provide services to residents and owners of real property, including (i) dissemination of information concerning housing and community improvement programs; (ii) stimulation in the availability of improvement loans and other financing to assist and encourage the preservation, repair, and improvement of the supply of residential housing; (iii) encouragement for all levels of government to provide services, improvements, and incentives to stimulate the housing conservation process; (iv) improvement of the flow of information and communication between community residents, city and county government, and financial institutions regarding financing terms and methods, as well as cooperative efforts to prevent community deterioration; (v) providing technical assistance in both housing matters and other activities for the community good; (vi) encouragement and assistance in formation of local organizations of community residents to achieve these goals; and (vii) financial support of these community organizations and providing loan funds for those who could not otherwise obtain financing. NHS is a chartered member of NeighborWorks America.

NHS partners with corporations, foundations, government agencies, nonprofit partners and community residents to create opportunities for people to live in affordable homes, improve their lives, and strengthen their neighborhoods. Since its founding, NHS has created thousands of new homeowners and invested millions back into Chicagoland’s underinvested community. The Organization's work also improves the quality of housing stock by rehabilitating thousands of troubled properties. Since 2003, NHS has saved over 10,000 families from foreclosure. Neighborhood residents, representatives from NHS corporate partners, professional staff, and other partners work together to rehabilitate and improve housing in Chicago area neighborhoods, including West Humboldt Park, North Lawndale, Chicago Lawn/Gage Park, Chatham, Greater Grand Crossing, Auburn Gresham, Avalon Park, Englewood, and the south suburbs of Cook County. NHS operations are funded both by fee and contract income and by contributions and grants from the corporate community, governmental agencies, and individuals.

Note 1 - Description of Operations (Continued)

Neighborhood Lending Services, Inc

Neighborhood Lending Services, Inc. (NLS) was organized in 1987 under the Illinois General Not-for-Profit Corporation Act and is tax exempt under Section 501(c)(3). The purposes for which the Organization was organized were (i) to make loans for the benefit of persons of low and moderate income who reside primarily in targeted inner-city neighborhoods for improvements to their residences; (ii) to stem or otherwise prevent deterioration of existing housing stock in targeted inner-city neighborhoods, and (iii) to provide improved housing facilities for persons of low and moderate income.

NLS is a residential mortgage licensee in the state of Illinois and a Community Development Financial Institution (CDFI), certified by the United States Department of the Treasury on June 30, 1999. To meet organizational purposes, NLS operates a range of loan programs using both public and private resources to assist homeowners in buying, sustaining ownership, and rehabilitating their one- to four-unit homes.

Participation, Sale, and Servicing Agreements

NLS originates first and subordinate residential mortgages, packages the loans into Mortgage Loan Ownership Certificates, and sells the certificates to investors (certificate holders) in accordance with participation, sale, and servicing agreements (PSSAs). Each PSSA has a three-year purchase period wherein certificate holders commit to purchase certificates up to a specific amount. The PSSAs are agreements between the seller (NLS); the loan servicer (NLS); and certificate holders, which are financial institutions. The PSSA loans are not assets of NLS, as the sale of the certificates is without recourse. NLS, as servicer, subcontracts out daily subservicing duties.

The following table presents information regarding each of the PSSA Series:

Series	Effective Date	Commitment to Purchase	Total Amount Sold through March 31, 2019	PSSA Outstanding Pool Balance at March 31, 2019
2009	4/24/2009	$ 110,250,000	$ 58,247,995	$ 28,024,682
2009-X	7/13/2012	30,000,000	29,927,536	21,396,661
2014	3/1/2014	40,000,000	38,916,823	34,572,105
2017	6/28/2017	39,000,000	26,511,074	26,093,043

In 2017, the majority of the 2002 and 2006 PSSA Loan Pools were sold by the certificate holders to a third-party buyer. NLS agreed to act as the interim servicer of these pools until the buyer retained a servicer, which occurred in 2018. Certain 2002 and 2006 PSSA loans were not included in the sale transaction (the "unsold loans") because the loans did not meet the buyer's criteria. NLS continues to service these unsold loans on behalf of the certificate holders, which includes incurring foreclosure, maintenance, and other costs to see the unsold loans through to final disposition. NLS is also responsible for managing remaining funds from reserve cash accounts that were established under the 2002 and 2006 PSSAs (the "remaining reserve funds"). In 2019, remaining reserve funds totaling approximately $1,200,000 were transferred from the PSSA reserve cash accounts to NLS. At the time the funds were received, NLS established a liability to reserve the funds for future costs incurred on servicing the unsold loans. During 2019, NLS used approximately $524,000 of the remaining reserve funds to cover or offset costs associated with servicing the unsold loans. As of March 31, 2019, the remaining reserve funds balance is $676,000, which is included in accounts payable and accrued expenses on the accompanying consolidated statement of financial position. Management expects that the majority of the remaining reserve funds balance will be used to cover future costs incurred to manage the unsold loans to final disposition.

The Organization is currently in the process of negotiating the 2019 series PSSA offering and expects that it will close in early 2020.

Note 1 - Description of Operations (Continued)

NHS Redevelopment Corporation

NHS Redevelopment Corporation (NHSRC) was organized in 1979 under the Illinois General Not-for-Profit Corporation Act and is tax exempt under Section 501(c)(3). NHSRC was organized (i) to receive and administer funds exclusively for scientific, educational, and charitable purposes without pecuniary gain or profit to its members; (ii) to assist in projects, undertakings, studies, and other activities in cooperation and in conjunction with governmental and civic bodies for the elimination of slum, blight, and blighting conditions; (iii) to aid, assist, and foster the planning, replanning development, renewal, and redevelopment of the city of Chicago, Illinois; (iv) to combat community deterioration; and (v) to promote adequate housing, community facilities, and other related facilities and services and conditions, economic or otherwise, conducive to the progress and general welfare of the community.

Neighborhood rehabilitation activities include renovating and constructing single-family homes for resale, renovating multifamily housing for rental, and renovating and managing multifamily housing for others.

NHSRC Initiatives, Inc.

NHSRC Initiatives, Inc. (NHSRCI) was organized in December 2005 under the Illinois General Not-for-Profit Corporation Act in part for, but not limited to, the purpose of taking ownership of or exercising control under court order of troubled and blighted buildings located within the city of Chicago, Illinois. These troubled and blighted buildings will then be rehabilitated to, at a minimum, meet the City of Chicago Building Code requirements. Some properties may be sold to third parties using various city and federally funded programs.

NHS of the Fox Valley

NHS of the Fox Valley (NHSFV) was organized under the Illinois General Not-for-Profit Corporation Act and is tax exempt under Section 501(c)(3). NHSFV ceased operations during the year ended March 31, 2018 but has not yet been legally dissolved. As of and for the year ended March 31, 2019, there are no NHSFV balances or transactions included in the accompanying consolidated financial statements.

Multifamily Limited Partnerships

NHSRC wholly owns the general partners (NHSRC general partners) of certain limited partnerships (the "Multifamily Limited Partnerships") that own affordable housing apartment complexes (the "Multifamily Properties"), serving families in Chicago. The Multifamily Properties were eligible for low-income housing tax credits (LIHTCs) that were all claimed in prior years. Each Multifamily Limited Partnership had an unrelated limited partner, which assigned and transferred their interests to NHSRC in 2019 or a prior year (Transfer Dates), which caused the Multifamily Limited Partnerships to become wholly owned by NHSRC subsequent to the transfer dates. As a result, the balances and transactions of the Multifamily Limited Partnerships have been wholly consolidated in the accompanying consolidated financial statements beginning on the respective transfer dates (except Pine Race II, LP, as noted below).

Prior to the transfer dates, the Multifamily Limited Partnerships, and their NHSRC general partners, were consolidated in the Organization's financial statements as a result of the NHSRC general partners' control over the Multifamily Limited Partnerships, and the unrelated limited partners' interests were reflected as noncontrolling interests in the consolidated financial statements prior to and through the transfer dates. On the transfer dates, the limited partners' capital account balances were reclassified from noncontrolling equity to controlling equity, as there was little or no consideration paid for the transfers.

The Multifamily Limited Partnerships that are included in the accompanying consolidated financial statements are as follows:

Note 1 - Description of Operations (Continued)

- 701 N. Central Associates, LP
- 600 N. Central Associates, LP
- East Garfield Limited Partnership
- East Garfield Park II, LP
- Roseland Ridge, LP
- Pine Central, LP
- Pine Race II, LP **

** The limited partner of Pine Race II, LP assigned and transferred its interests to NHSRC in April 2019 (subsequent to year end). Accordingly, the limited partner's ownership interest is reported as noncontrolling interest in the accompanying consolidated financial statements as of March 31, 2019.

The Multifamily Properties were sold in April 2019, as discussed in Note 15.

Note 2 - Significant Accounting Policies

Principles of Consolidation

NHS is the sole member of NLS, NHSRC, NHSRCI, and NHSFV, and each entity's board of directors is accountable to the board of directors of NHS. Additionally, as discussed in Note 1, NHSRC controls the Multifamily Limited Partnerships through its ownership of the entire partnership or the general partner of each Multifamily Limited Partnership.

Accordingly, the consolidated financial statements include the accounts of NHS, NLS, NHSRC, NHSRCI, NHSFV, and the Multifamily Limited Partnerships. All material intercompany accounts and transactions have been eliminated in consolidation.

Classification of Net Assets

Net assets of the Organization are classified based on the presence or absence of donor-imposed restrictions.

Net assets without donor restrictions: Net assets that are not restricted by donors or for which the donor-imposed restrictions have expired or been fulfilled.

Net assets with donor restrictions: Net assets consist of contributions received with donor-imposed restrictions that expire with the passage of time or that can be removed by meeting certain requirements. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Earnings, gains, and losses on donor-restricted net assets are classified as net assets without donor restriction unless specifically restricted by the donor or by applicable state law. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, donor-restricted net assets are released to net assets without donor restriction.

Revenue is reported as increases in net assets without donor restriction unless the use of the related assets is limited by donor-imposed restrictions. When a donor-imposed restriction expires (i.e., when a stipulated time restriction ends or the purpose of the restriction is accomplished), donor-restricted net assets are reclassified to net assets without donor restriction and are reported in the consolidated statement of activities and changes in net assets as net assets released from restrictions. Expenses are reported as decreases in net assets without donor restriction. Gains and losses on other assets or liabilities are reported as increases or decreases in net assets without donor restriction unless their use is restricted by explicit donor stipulation or by law.

In fiscal year 2019, a donor that had made contributions restricted for long-term purposes in prior years released the restrictions on a portion of the contribution. By donor stipulation, the donor restriction remains on the remaining net assets unless and until the donor communicates additional releases in writing.

Note 2 - Significant Accounting Policies (Continued)

Cash and Cash Equivalents

The Organization considers all investments with an original maturity of three months or less when purchased to be cash equivalents. The Organization maintains its cash in bank deposit accounts, which at times may exceed federally insured limits. The Organization has not experienced any losses in such accounts and does not believe it is exposed to any significant credit risk on cash.

Restricted Cash and Loss Reserve Liability

Under the terms of the PSSAs, the Organization is required to maintain separate restricted cash accounts to reserve for future losses incurred on loans that have been sold by NLS to certificate holders. Since these loans are no longer held by NLS, a corresponding loss reserve liability of the same amount is established. The loss reserve liability is increased by charges to bad debt expense and decreased at the time the PSSAs incur a loan loss that is required to be recovered through funding from the respective restricted cash account.

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

Cash and cash equivalents	$ 6,022,967
Restricted cash	714,615
Total cash, cash equivalents, and restricted cash shown in the consolidated statement of cash flows	$ 6,737,582

Contracts Receivable

Contracts receivable represent revenue from government contracts designated for use in specific activities. Contracts receivable are carried at the original granted amount. Receivables are written off when deemed uncollectible. The Organization believes that an allowance for doubtful accounts is not necessary as of March 31, 2019.

Loans Held for Sale

Loans held for sale represent individual mortgage notes originated and warehoused by NLS that the Organization is currently offering for sale under the PSSA program. These mortgage notes are expected to be sold within one year after origination and are carried at the lower of cost or fair value. Management estimates fair value based on the agreed-upon sale price established in the PSSAs, which is the outstanding principal balance (par). Accordingly, no valuation allowance has been established since the cost of the loans does not exceed the estimated fair value.

Loans held for sale are reclassified as loans held for investment, which are discussed below, at the time management determines a loan is not eligible, or likely to become eligible, for sale under the PSSA program, which is typically when the loan becomes 120 days contractually past due. Transferred loans are evaluated for impairment in accordance with the allowance for loan loss policy related to loans held for investment, which is also discussed below.

Loans Held for Investment and Allowance for Loan Losses

Loans are evidenced by promissory notes, which are collateralized generally by a first and/or second mortgage on the underlying residence. Loans are originated under a range of programs using both public and private resources. All of the Organization’s programs are targeted to low-/moderate-income neighborhoods in Chicago.

Note 2 - Significant Accounting Policies (Continued)

The loans held for investment balance primarily consist of first and subordinate mortgages deemed ineligible for sale under the PSSA program after origination and also include certain loans that were originated with the intent to hold by NLS based on their funding source. These loans bear interest at annual rates ranging from 0.01 to 6.46 percent. The loans mature on various dates ranging from May 2020 through November 2046. From time to time, the Organization will assist qualified mortgage note holders through a loan modification process. These loan modifications are not material to the financial statements as of and for the year ended March 31, 2019, but have the potential to be material in future periods.

An allowance for loan losses has been established to provide for loans that may not be repaid in their entirety. The allowance is increased by provisions for loan losses charged to expense and decreased by charge-offs, net of recoveries. Although a loan is charged off by management when deemed uncollectible, collection efforts continue and future recoveries may occur.

The allowance is maintained by management at a level considered adequate to cover losses that are currently anticipated based on past loss experience, general economic conditions, information about specific borrower situations, including personal financial position and collateral values, and other factors and estimates that are subject to change over time. Estimating the risk and amount of loss is necessarily subjective, and ultimate losses may vary from current estimates. These estimates are reviewed periodically and, as adjustments become necessary, they are reported in earnings in the periods in which they become known.

The allowance consists of both specific and general reserve components. The specific component relates to loans that are classified as nonperforming. The general component covers nonclassified (performing) loans and is based on historical loss experience adjusted for qualitative factors.

Loans receivable are considered for impairment once the borrower is 120 days past due or if management becomes aware of other trends or information indicating deterioration of the borrower’s ability to repay. If management determines it is probable that less than all amounts due will be collected, an allowance is recognized based on the Organization's secured position. When loans are considered for impairment, if the Organization has a first or senior position, an allowance is created for the loans to obtain a net value equal to the loan’s collateral less estimated selling costs. If the Organization has a subordinated position, the loan is fully reserved.

Deferred Loans and Allowance for Loan Losses

As part of its Neighborhood Lending Program (NLP) contract with the City of Chicago, Illinois to promote community development by preserving and expanding affordable home ownership, NLS makes loans to individuals using capital funds from the U.S. Department of Housing and Urban Development (HUD) Community Development Block Grant (CDBG), which bear no interest and have no required payments at the inception of the loan. These “deferred” loans are subordinate loans used to complement private lending products. These dollars can be used as “interim” funding for income eligible transactions and “permanent” financing/subsidies for eligible families. Deferred loans become due and payable upon the occurrence of a "future event," such as a refinance or sale or transfer of ownership interest in the property. The CDBG funds are restricted in purpose and are recorded as restricted revenue. Upon repayment from the borrower, the funds are to be used for similar loans.

Note 2 - Significant Accounting Policies (Continued)

Deferred loans are recorded net of an allowance for loan losses, which is estimated at approximately 35 percent of the outstanding loan balance at each year end. Management tracks the performance of the mortgage notes associated with these deferred loans and, upon discovery of a mortgage note default, the deferred loan is written off in the period in which the default occurred. Management believes its allowance estimate for these loans is adequate; however, the Organization does not have sufficient historical experience to support this estimate given that few loans have entered repayment status. Accordingly, there is a reasonable possibility of a change in this estimate in the near term, as NLS continues to accumulate and analyze historical data. The activity in the allowance is released from net assets with donor restrictions.

Advances to Sponsored PSSAs

Advances to sponsored PSSAs consist of receivables from certificate holders resulting from the sale of loans and servicing-related fees and advances. Under the PSSA, the Organization must advance the shortfall in certain insurance and tax escrows. In addition, the Organization must advance the costs to foreclose and liquidate any delinquent mortgages. The Organization generally recovers its advances at the time the loans are foreclosed and liquidated. No allowance for bad debts has been established for these receivables because management considers all material accounts receivable to be collectible.

Additionally, NLS expenses certain costs and professional fees incurred to service the PSSA loans. Some amount of these costs may be recovered in the future, when the loans are repaid or are transferred to third parties; however, no amount is recorded until it can be quantified and collection is probable.

Property Held for Rental and Development

Property held for rental and development is stated at cost, net of impairments and accumulated depreciation, and represents the land, buildings, and improvements of the properties held by the Organization for the purpose of renovation, improvement, and rental. The Organization’s policy is to depreciate the buildings and improvements over the estimated useful lives of the assets using the straight-line method. The Organization’s management has determined that the useful life of the buildings and improvements is 40 years from the time the rehabilitation of the property occurred.

Property Held for Sale

Property held for sale represents the land, building, improvements, and furniture and equipment of the Multifamily Properties (see Note 1). Property held for sale is stated at the lower of carrying value or fair value, less costs to sell.

NHSRC has been in negotiations with a third-party buyer (the "Buyer") for several years to sell the Multifamily Properties. NHSRC and the Buyer had previously agreed to the principal terms of the sale transaction, one of which was the settlement of certain debt obligations that the Multifamily Limited Partnerships had with City of Chicago, Illinois (see Note 8). In September 2018, the Chicago City Council approved a settlement amount for these obligations. At this time, the Multifamily Properties were reclassified as "held for sale," depreciation was discontinued, and an impairment of $325,000 was recorded to reflect the estimated fair value, less costs to sell. As described in Note 15, the Multifamily Properties were sold subsequent to year end in April 2019. Management does not anticipate a significant gain or loss related to the sale of the Multifamily Properties in fiscal year 2020.

Property and Equipment Used in Operations

Purchased property and equipment are stated at cost. Donated property is recorded at its fair market value at the date of donation. The Organization’s policy is to depreciate or amortize the cost of property and equipment over the estimated useful lives of the assets, as indicated in the following tabulation, using the straight-line method. The cost of leasehold improvements is amortized over the remaining term of the related leases or their estimated useful lives, if shorter.

Note 2 - Significant Accounting Policies (Continued)

	Years
Buildings	10-30
Office furniture and equipment	2-10
Leasehold improvements	3

Impairment or Disposal of Long-lived Assets

The Organization reviews the recoverability of long-lived assets, including property held for rental and development and property and equipment used in operations, when events or changes in circumstances occur that indicate the carrying value of the asset may not be recoverable. The assessment of possible impairment is based on the ability to recover the carrying value of the asset from the expected future pretax cash flows (undiscounted and without interest charges) of the related operations. If these cash flows are less than the carrying value of such asset, an impairment loss is recognized for the difference between estimated fair value and carrying value. The measurement of impairment requires management to make estimates of these cash flows related to long-lived assets, as well as other fair value determinations. For the year ended March 31, 2019, no impairment losses were recognized on property held for rental and development or property and equipment used in operations.

Funds Held for Agency Transactions and Deferred Revenue

Funds held for agency transactions consist of cash received related to various purchase and rehab programs, which the Organization will use to administer down payment assistance and lending programs implemented by the granting organization.

Deferred revenue consists of cash received for future contractual services, which will be recognized as revenue as the related services are provided.

Program Receipts Payable

Program receipts payable consist of program income generated from several grant programs. The program receipts are due to the City of Chicago, Illinois.

Contract Revenue Recognition

The Organization enters into contracts with certain governmental and private agencies. Revenue under these contracts is recognized when earned. The activities of the Organization relating to certain contracts are subject to audit by the counterparty and may be subject to adjustment based on negotiations with the counterparty.

Servicing and Lending-related Income

Interest income is recognized when collected, which is not materially different from the level yield method.

Premium income consists of fees earned by NLS on pooled loan sales through the PSSA program. The fee is established in the PSSA and is equal to 3 percent of the agreed-upon sale price of the pooled loans. Premium income is recognized when the sale proceeds are received.

Servicing fee revenue consists of the Organization's portion of collection on mortgage notes sold through the PSSA program and generally equals 0.30 percent of collections. Management has estimated that the servicing income is just adequate to compensate NLS for its servicing responsibilities. Accordingly, there is no related servicing asset or liability associated with the agreement. Management's estimate is based on the margin in excess of fees it pays to the subservicer, which performs all of the related servicing activities for the mortgage notes.

Note 2 - Significant Accounting Policies (Continued)

Rental Income

Rental income from operating leases is recognized when earned and is mainly related to the Multifamily Properties. Advanced rental receipts of rental income are deferred and classified as customer deposits until earned. All leases are classified as operating leases, as defined under related accounting guidance.

Contributions

Contributions of cash and other assets, including unconditional promises to give in the future, are reported as revenue on the date the promise is received, measured at fair value. Contributions without donor-imposed restrictions are reported as unrestricted support. Restricted gifts are reported as donor restricted net assets.

Functional Allocation of Expenses

Costs are charged to program services and support services on an actual basis when available. In addition, costs may be allocated between the program and support functions based on various allocation methods and estimates. Allocations for personnel expenses are based on estimates of time and effort of personnel involved in each function.

Income Taxes

NHS, NLS, NHSRC, and NHSFV are not-for-profit corporations and are exempt from tax under the provisions of Internal Revenue Code Section 501(c)(3).

NHSRCI was not exempt from federal and state income taxes as of March 31, 2019. Any tax liability related to NHSRCI as of March 31, 2019 is anticipated to be insignificant.

The Multifamily Limited Partnerships are treated as partnerships for federal and state tax purposes. Consequently, federal and state income taxes are not payable by, or provided for, the Multifamily Limited Partnerships. Partners are taxed individually on their share of the respective Multifamily Limited Partnership's earnings.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Adoption of New Accounting Pronouncement

As of April 1, 2018, the Organization adopted Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The standard requires net assets to be classified into two categories, net assets with donor restrictions and net assets without donor restrictions. This standard also requires changes in the way certain information is aggregated and reported by the Organization, including disclosures of quantitative and qualitative information about the liquidity and availability of resources and the presentation of expenses by both functional and natural classification. The standard also clarifies the definition of management and general. All applicable changes to the reporting model have been incorporated into the financial statements.

Note 2 - Significant Accounting Policies (Continued)

Upcoming Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which will supersede the current revenue recognition requirements in Topic 605, *Revenue Recognition*. The ASU is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The new guidance will be effective for the Organization's year ending March 31, 2020. The ASU permits application of the new revenue recognition guidance using one of two retrospective application methods. The Organization plans to apply the standard using the modified retrospective method. The Organization has determined that the standard will not have a significant impact on the financial statements and is currently gathering the appropriate information to implement the disclosure changes in a timely manner.

The FASB issued ASU No. 2016-02, *Leases*, which will supersede the current lease requirements in ASC 840. The ASU requires lessees to recognize a right-to-use asset and related lease liability for all leases, with a limited exception for short-term leases. Leases will be classified as either finance or operating, with the classification affecting the pattern of expense recognition in the statement of operations. Currently, leases are classified as either capital or operating, with only capital leases recognized on the balance sheet. The reporting of lease-related expenses in the statements of operations and cash flows will be generally consistent with the current guidance. The new lease guidance will be effective for the Organization's year ending March 31, 2022 and will be applied using a modified retrospective transition method to the beginning of the earliest period presented. The new lease standard is expected to have a significant effect on the Organization’s financial statements as a result of the leases for office facilities classified as operating leases, as disclosed in Note 11, that will be reported on the consolidated statement of financial position at adoption. Upon adoption, the Organization will recognize a lease liability and corresponding right-to-use asset based on the present value of the minimum lease payments. The effects on the changes in net assets are not expected to be significant, as recognition and measurement of expenses and cash flows for the leases will be substantially the same under the new standard.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments*. The ASU includes changes to the accounting and measurement of financial assets, including the Organization's loans receivable, by requiring the Organization to recognize an allowance for all expected losses over the life of the financial asset at origination. This is different from the current practice where an allowance is not recognized until the losses are considered probable. The new guidance will be effective for the Organization's year ending March 31, 2024. Upon adoption, the ASU will be applied using a modified retrospective transition method to the beginning of the earliest period presented. Early adoption for all institutions is permitted for fiscal years beginning after December 15, 2018. The Organization has not yet determined the effect that the adoption of the new credit losses standard will have on its financial statements.

In June 2018, the FASB issued Accounting Standards Update No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which provides enhanced guidance to assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal transactions) and (2) determining whether a contribution is conditional. The accounting guidance will result in more governmental contracts being accounted for as contributions and may delay revenue recognition for certain grants and contributions that no longer meet the definition of unconditional. The new guidance will be effective for the Organization’s year ending March 31, 2020 and will be applied on a modified prospective basis. The Organization does not expect the standard to have a significant impact on the timing of revenue recognition for government grants and contracts but has not yet determined the impact on the timing of recognition of foundation and individual grants and contributions.

Note 3 - Loans Held for Sale - Net

Loans held for sale are carried at the lower of cost or fair value. As of March 31, 2019, loans held for sale are carried at cost, with no valuation allowance, as the loans are subsequently sold at par under the PSSAs.

The Organization received cash proceeds on loan sales of $14,582,013 for sales executed during the year ended March 31, 2019. No gains or losses were recorded on these transactions.

At March 31, 2019, loans held for sale commitments of $13,533,004 are reported net of unfunded construction holdbacks of $2,071,308. The unfunded construction holdbacks are advanced to borrowers as rehabilitation progresses on the respective secured properties.

Note 4 - Loans Receivable - Net

Loan program receivables consist of the following:

	Loans Held for Investment	Deferred Loans	Total
Outstanding principal balance	$ 1,358,127	$ 5,226,861	$ 6,584,988
Less allowance for loan losses	550,000	1,835,592	2,385,592
Loan receivable - Net	$ 808,127	$ 3,391,269	$ 4,199,396

Activity in the allowance for loan losses is summarized as follows:

	Loans Held for Investment	Deferred Loans	Total
Beginning balance	$ 550,000	$ 1,957,083	$ 2,507,083
Charge-offs	(21,240)	(350,443)	(371,683)
Recoveries	2,139	-	2,139
Provision	19,101	228,952	248,053
Ending balance	$ 550,000	$ 1,835,592	$ 2,385,592
Ending allowance balance attributable to loans:			
Individually evaluated for impairment	$ 290,000	$ -	$ 290,000
Collectively evaluated for impairment	260,000	1,835,592	2,095,592
Ending allowance balance	$ 550,000	$ 1,835,592	$ 2,385,592
Loans:			
Individually evaluated for impairment	$ 902,383	$ -	$ 902,383
Collectively evaluated for impairment	455,744	5,226,861	5,682,605
Total loans	$ 1,358,127	$ 5,226,861	$ 6,584,988

Note 4 - Loans Receivable - Net (Continued)

Credit Risk Grading

The Organization uses one credit quality indicator, days contractually past due, for its systematic methodology of evaluating its projected loan losses. Loans fewer than 120 days contractually past due are considered performing, whereas loans 120 days contractually past due, or greater, are considered nonperforming. The following table stratifies loans receivable by class, using the credit quality indicator:

	Loans Held for Investment	Deferred Loans	Total
Performing	$ 455,744	$ 5,226,861	$ 5,682,605
Nonperforming	902,383	-	902,383
Total	$ 1,358,127	$ 5,226,861	$ 6,584,988

Age Analysis of Past-due Loans

Loans held for investment are aged based on the contractual terms of the loan agreements. As discussed in Note 2, deferred loans become due and payable upon the occurrence of a "future event," such as a refinance or sale or transfer of ownership interest in the property. The aging of the deferred loans in the table below is based on the days since the occurrence of such a future event. The following table presents the aging analysis of the recorded investment in loans receivable:

	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days	Total Past Due	Current	Total
Loans held for investment	$ -	$ -	$ 902,383	$ 902,383	$ 455,744	$ 1,358,127
Deferred loans	-	-	-	-	5,226,861	5,226,861
Total	$ -	$ -	$ 902,383	$ 902,383	$ 5,682,605	$ 6,584,988

Impaired Loans

A loan is considered impaired when it is probable that not all principal and interest amounts will be collected according to the loan contract. Individual loans receivable are evaluated for impairment. Impaired loans are written down by the establishment of a specific allowance where necessary. Information regarding impaired loans is as follows:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With an allowance recorded - Loans held for investment	$ 902,383	$ 902,383	$ 290,000	$ 897,179	$ 10,200

Note 5 - Property Held for Rental and Development

Vacant lots	$ 312,319
Buildings and improvements	1,302,320
Total	1,614,639
Less accumulated depreciation and amortization	(240,667)
Total	$ 1,373,972

Note 6 - Property and Equipment Used in Operations

Land	$ 6,300
Buildings and improvements	1,302,986
Office furniture and equipment	423,814
Leasehold improvements	139,866
Total cost	1,872,966
Less accumulated depreciation and amortization	1,573,338
Net property and equipment	$ 299,628

Note 7 - Funds Held for Agency Transactions and Deferred Revenue

A summary of the changes in funds held for agency transactions and deferred revenue is as follows:

Beginning balance	$ 2,155,369
Additions - Funds received in advance	7,188,500
Deductions - Funds expended, revenue recognized, or properties sold	(6,628,320)
Ending balance	$ 2,715,549

Note 8 - Debt

Debt payable by NHS, NLS, and NHSRC consists of the following as of March 31, 2019:

NHS	
Note payable to the Northern Trust Bank with annual interest-only payments of 1 percent per annum. The agreement matures on May 1, 2022, at which time the entire outstanding principal plus accrued interest are due and payable in full	$ 750,000
Note payable to the John D. & Catherine T. MacArthur Foundation with interest payments of 3 percent per annum due quarterly through December 1, 2021. Beginning March 31, 2018, quarterly principal payments of $43,808 are due through September 30, 2021, with a balloon payment of $241,004 due on December 1, 2021. An payment of $1,401,910 was due 30 days after the sale of the Multifamily Properties. As discussed in Note 15, the Multifamily Properties were sold, and the agreement was amended subsequent to year end	2,124,766
NLS	
Line of credit with Fifth Third Bank with maximum available borrowings of $2,000,000, which are limited to the borrowing base defined in the agreement. Outstanding borrowings bear interest, which is payable monthly, at the bank's reference rate (effective rate of 5.50 percent at March 31, 2019). The agreement matures on December 26, 2019, at which time the entire outstanding principal plus accrued interest are due and payable in full. The line of credit has been guaranteed by NHS. As discussed in Note 15, the entire outstanding balance of the line of credit was paid off, and the agreement was terminated in August 2019	2,000,000
Note payable to the Ford Foundation with quarterly principal payments of $18,692 plus interest at 1 percent per annum due through September 30, 2021 and a balloon payment of $102,828, plus accrued interest, due on December 1, 2021. An initial principal installment of $598,130 was due 30 days after the sale of the Multifamily Properties. As discussed in Note 15, the Multifamily Properties were sold, and the agreement was amended subsequent to year end. This loan is guaranteed by NHS and NHSRC (1)	906,566

Note 8 - Debt (Continued)

Note payable to the John D. & Catherine T. MacArthur Foundation with quarterly interest-only payments of 1 percent per annum. The agreement matures on December 1, 2021, at which time the entire outstanding principal plus accrued interest are due and payable in full	$	3,763,125
Note payable to the Northern Trust Bank with annual interest-only payments of 1 percent per annum. The agreement matures on May 1, 2022, at which time the entire outstanding principal plus accrued interest are due and payable in full		2,500,000
NHSRC		
Note payable to the Northern Trust Bank with annual interest-only payments of 1 percent per annum. The agreement matures on May 1, 2022, at which time the entire outstanding principal plus accrued interest are due and payable in full		1,750,000
Note payable to the Department of Housing, City of Chicago, Illinois payable in monthly installments of $458 with no interest. Monthly payments are to continue until March 1, 2025, at which time the remaining balance is due and payable in full. The loan is secured by the underlying mortgage receivable covering the property at 901-903 North Hamlin Avenue (the "Hamlin Property"). As discussed in Note 15, the Hamlin Property was sold with the Multifamily Properties in April 2019, and this entire outstanding debt balance was settled with the City of Chicago, Illinois at the time of sale		451,421
Note payable to Byline Bank with annual interest-only payments of 4 percent per annum. The agreement matures on February 15, 2024, at which time the entire outstanding principal plus accrued interest are due and payable in full		200,000
Subtotal debt		14,445,878
Less unamortized discount		195,474
Total debt - Net	$	14,250,404

(1) The Ford Foundation loan agreement contains several covenants, including limitations on additional indebtedness, minimum net assets, changes in net assets and current ratios, and limitations on delinquencies and loss rates in the underlying loan program. As of March 31, 2019, NLS is in compliance with the financial covenants contained in the loan agreement.

Debt is payable in future periods, based upon principal payments determined using the stated, rather than effective, rate of interest, as follows:

Years Ending March 31		Amount
2020	$	4,317,998
2021		255,498
2022		4,237,450
2023		5,005,496
2024		205,496
Thereafter		423,940
Unamortized discount		(195,474)
Total	$	14,250,404

Note 8 - Debt (Continued)

City of Chicago, Illinois - First and subordinated mortgages payable to the City of Chicago, Illinois with outstanding balances ranging from $3,206,780 to $270,000, all bearing no interest, with maturity dates ranging from March 1, 2020 to June 24, 2035. The mortgages are collateralized by the respective Multifamily Properties. As discussed in Note 15, this entire outstanding balance of City of Chicago, Illinois debt was settled at the time the Multifamily Properties were sold in April 2019	$	12,323,332
BMO Harris Bank - First and subordinated mortgages payable to BMO Harris Bank with outstanding balances ranging from $23,208 to $399,194, bearing interest at annual rates ranging from 4.25 percent to 9.25 percent, with maturities ranging from March 31, 2017 to December 31, 2024. The mortgages are collateralized by the respective Multifamily Properties. As discussed in Note 15, this entire outstanding balance of BMO Harris Bank debt, plus accrued interest, was repaid in full at the time the Multifamily Properties were sold in April 2019		1,177,441
IHDA - Subordinated mortgage payable to the Illinois Housing Development Authority (IHDA) in the original amount of $500,000, bearing no interest, and maturing on July 1, 2023. The mortgage is collateralized by one of the Multifamily Properties. As discussed in Note 15, this entire outstanding balance, plus accrued interest, was repaid in full at the time the Multifamily Properties were sold in April 2019		193,896
Pacific Life Bank - First mortgage payable to Pacific Life Bank in the original amount of $400,000, bearing interest at 7.55 percent per annum, and maturing on December 31, 2030. The mortgage is collateralized by one of the Multifamily Properties. As discussed in Note 15, this entire outstanding balance, plus accrued interest, was repaid in full at the time the Multifamily Properties were sold in April 2019		262,431
Total current debt - Multifamily Limited Partnerships	$	13,957,100

Note 9 - Net Assets with Donor Restrictions

Net assets with donor restrictions consist of the following as of March 31, 2019:

Time and purpose restrictions:		
Public grants - Loan capital	$	4,741,102
NeighborWorks America Funds (1)		2,661,926
Imputed interest		195,474
Total net assets with donor-restrictions	$	7,598,502

(1) NeighborWorks America funds classified as donor restricted are to be used for capital purposes, including the funding of loans, rehabilitation of neighborhood properties, or property development initiatives and can only be released with written approval from NeighborWorks America. Any earnings from such activity may be used for unrestricted purposes.

Note 10 - Related Party Transactions

NHSRC wholly owns entities that are co-general partners (the "NHSRC Co-General Partners") of certain limited partnerships that own affordable housing apartment complexes, serving seniors in Chicago. The NHSRC Co-General Partners are not afforded specific managerial and decision-making rights (substantive rights) under the respective operating agreements. Since the NHSRC Co-General Partners do not have control of these limited partnerships, they have not been consolidated in the accompanying financial statements.

Note 10 - Related Party Transactions (Continued)

NHS and its affiliates, including NLS, NHSRC, NHSRCI, and NHSFV have entered an interagency agreement (the "Agreement"), whereby all affiliated entities are entitled to transfer resources among each other in a manner deemed by NHS to be necessary and appropriate in order to further their common mission. Under the Agreement, NHS makes available office space, use of office equipment, postage, and other administrative equipment and supplies, as well as advisory, administrative, financial and accounting, legal, information security, and human resource services. Additionally, pursuant to the Agreement, all affiliated entities are entitled to transfer financial resources, primarily cash, among each other, as deemed appropriate by NHS management. All intercompany balances and transactions have been eliminated in consolidation.

Note 11 - Leases

NHS leases office space in neighborhood offices throughout the Chicagoland area. Rent expense for all offices was $399,499 for the year ended March 31, 2019. Effective June 13, 2012, NHS negotiated an extension to its lease through December 31, 2022 for its central office located at 1279 N. Milwaukee Avenue, Chicago, Illinois. NHS also leases various office equipment under long-term leases. Office equipment rental expense was $21,762 for the year ended March 31, 2019. Leases expire on dates ranging from 2020 to 2023.

The total minimum annual rental payments for those leases are as follows:

Years Ending March 31	Amount
2020	$ 363,906
2021	351,298
2022	320,054
2023	298,752
Total	$ 1,334,010

Note 12 - Retirement Plan

The Organization sponsors a defined contribution retirement plan for all full-time employees. Participants who have attained age 21 and have completed one year of service are eligible for the employer's matching contribution. Participants are immediately 100 percent vested in their account balances, including employer contributions plus actual earnings thereon. For the year ended March 31, 2019, the Organization contributed $57,146 to the plan.

Note 13 - Concentrations and Contingencies

NHS receives a substantial portion of its support and revenue from the City of Chicago, Illinois. This support totaled approximately 47 percent of total revenue for the fiscal year ended March 31, 2019.

In the ordinary course of business, the Organization occasionally becomes involved in legal proceedings related to contracts and other matters. While any proceedings or litigation have an element of uncertainty, management believes the outcome of any pending or threatened actions will not have a material adverse effect on the business or financial condition of the Organization.

Note 14 - Liquidity and Availability of Resources

The Organization has $17,106,469 of financial assets available within one year of the consolidated statement of financial position date to meet cash needs for general expenditures. This consists of cash and cash equivalents of $3,472,770, contracts receivable of $2,172,003, and loans held for sale of $11,461,696 at March 31, 2019. Cash and cash equivalents totaling $2,550,197 at March 31, 2019 are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the consolidated statement of financial position date. The loans held for sale are subject to requirements of the PSSAs but are expected to be sold within one year.

The Organization closely monitors its cash balances and has established credit facilities with a lender to provide sufficient liquidity to (a) fund operations, (b) fund contract costs prior to collection from units of government, and (c) fund loans during the period from application to closing and completion of the approved property rehabilitation.

The Organization only initiates loans that it knows to be saleable, based on contract relationships with the loan buyers. Government contract-related costs are only expended for approved contracts within budget parameters. Operational costs are limited to those provided for in the board-approved budget.

At March 31, 2019, the Organization estimates that it has cash on hand to fund operational expenses for at least six months, assuming no revenue was collected and further assuming that operational expenses were not reduced in the face of such absence of revenue. This estimate is for disclosure purposes only and does not reflect the strategy that management would adopt in such circumstances.

Management believes that it has sufficient cash and credit facility resources (see Note 15) to operate its business during fiscal year 2020 and consistently monitors these items. It may, from time to time, consider increasing credit facilities for greater operational flexibility or to pursue specific business opportunities.

Note 15 - Subsequent Events

The financial statements and related disclosures include evaluation of events up through and including November 6, 2019, which is the date the financial statements were available to be issued.

In April 2019, the Organization sold its portfolio of Multifamily Properties, as well as one property directly owned by NHSRC (Hamlin Property), to a third-party buyer. The aggregate gross sale price was $7.8 million, less negotiated allowances, prorations, and transaction costs of $2.1 million. The remaining $5.7 million was used to retire the debt and accrued interest of the Multifamily Limited Partnerships as follows: (a) $3.9 million owed to third-party lenders, (b) $1.0 million owed to NLS, and (c) $800,000 owed to NHSRC. The transaction was facilitated by the forgiveness of $10.7 million of debt by the City of Chicago, Illinois, acknowledging the Organization’s many years of funding operating cash flow deficits incurred by the properties, thus maintaining affordable housing in the City. The Organization expects that a gross gain on forgiveness of debt of $10.7 million will be recognized in fiscal year 2020. Various transaction and operating costs are also expected to be expenses in fiscal year 2020. Transaction costs did not include any cost attributed to the substantial time required by Organization personnel to negotiate and close the transaction. The Organization expects to file final tax returns and dissolve the Multifamily Limited Partnerships in fiscal year 2020.

The sale of the Multifamily Properties triggered principal payments of $598,130 and $1,401,870 to become due on the Ford Foundation and MacArthur Foundation (the "Foundations") notes payable, respectively (see Note 8). At the time of the sale in April 2019, the Organization commenced negotiations with the Foundations regarding these required payments. In August 2019, as a condition to entering the NWC line of credit discussed in the following paragraph, the Foundations waived the triggered principal payments, amended their respective loan agreements, and required immediate principal payments of $149,533 (Ford) and $350,467 (MacArthur), which were duly paid.

Note 15 - Subsequent Events (Continued)

In August 2019, NLS entered a line of credit agreement with NeighborWorks Capital Corporation (NWC), an affiliate of NeighborWorks America, with maximum available borrowings of $5,000,000, which are limited to the borrowing base of 75 percent of eligible loans held for sale, as defined by the agreement. Outstanding borrowings bear interest at an annual rate of 5.75 percent, payable monthly. The agreement matures on September 1, 2022, at which time the entire outstanding balance plus accrued interest are due and payable in full. Under the agreement, NLS is subject to a minimum liquidity financial covenant. Additionally, the line of credit is guaranteed by NHS.

A portion of the initial advance received upon closing of the NWC line of credit was used to pay off the entire $2,000,000 outstanding balance of the Fifth Third Bank line of credit (see Note 8). The Fifth Third Bank line of credit agreement was terminated upon the payoff in August 2019.

Note 16 - Pro Forma Financial Information (Unaudited)

As discussed in Note 15, the Multifamily Properties were sold on April 19, 2019, and the related debt was paid off or forgiven on the sale date. The following pro forma financial information is presented as if the transaction occurred on March 31, 2019.

	As Reported, March 31, 2019	Pro Forma, March 31, 2019
Total assets	$ 35,622,426	$ 30,043,240
Total liabilities	37,186,491	22,229,802
Total net assets	(1,564,065)	7,813,438
Total revenue	13,388,069	13,388,069
Total expenses	15,866,700	15,866,700
Gain on forgiveness of debt, net of transaction and operating costs	-	9,377,503
Change in net assets	(2,478,631)	6,898,872
Change in net assets attributable to noncontrolling interest	298,282	-
Change in net assets attributable to NHS	(2,180,349)	6,898,872
Total net assets, beginning of year	914,566	914,566
Total net assets, end of year	(1,564,065)	7,813,438

Supplemental Information

Plante & Moran, PLLC
10 South Riverside Plaza
9th floor
Chicago, IL 60606
Tel: 312.207.1040
Fax: 312.207.1066
plantemoran.com

Independent Auditor's Report on Supplemental Information

To the Board of Directors
Neighborhood Housing Services of Chicago, Inc.
and Related Entities

We have audited the consolidated financial statements of Neighborhood Housing Services of Chicago, Inc. and Related Entities as of and for the year ended March 31, 2019 and have issued our report thereon dated December 10, 2019, which contained an unmodified opinion on those consolidated financial statements. Our audit was performed for the purpose of forming an opinion on the 2019 consolidated financial statements as a whole. The consolidating statements of financial position and activities are presented for the purpose of additional analysis and are 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 2019 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the 2019 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 information is fairly stated in all material respects in relation to the 2019 consolidated financial statements as a whole.

Plante & Moran, PLLC

December 10, 2019

Consolidating Statement of Financial Position

March 31, 2019

	NHS	NLS	NHSRC	NHSRCI	Subtotal	Multifamily Limited Partnerships	Eliminations	Total
Assets								
Cash and cash equivalents	$ 2,377,702	$ 2,803,633	$ 488,570	$ 353,062	$ 6,022,967	$ -	$ -	$ 6,022,967
Restricted cash	-	714,615	-	-	714,615	-	-	714,615
Contracts receivable	228,294	1,544,409	407,773	(8,473)	2,172,003	-	-	2,172,003
Loans held for sale - Net	-	11,461,696	-	-	11,461,696	-	-	11,461,696
Loans receivable - Net:								
Loans held for investment - Net	-	808,127	-	-	808,127	-	-	808,127
Deferred loans - Net	-	3,391,269	-	-	3,391,269	-	-	3,391,269
Prepaid expenses and other assets	33,872	7,160	59,310	582	100,924	547,610	-	648,534
Receivership and development project advances	-	-	1,242,519	1,374	1,243,893	-	-	1,243,893
Advances to sponsored PSSAs	-	771,189	-	-	771,189	-	-	771,189
Intercompany receivables	4,084,143	4,053,585	4,716,020	1,777,508	14,631,256	-	(14,631,256)	-
Property held:								
Property held for rental and development - Net	39,071	-	1,334,901	-	1,373,972	-	-	1,373,972
Property held for sale	-	-	-	-	-	6,714,533	-	6,714,533
Property and equipment used in operations - Net	108,977	-	190,651	-	299,628	-	-	299,628
Total assets	**$ 6,872,059**	**$ 25,555,683**	**$ 8,439,744**	**$ 2,124,053**	**$ 42,991,539**	**$ 7,262,143**	**$ (14,631,256)**	**$ 35,622,426**

Consolidating Statement of Financial Position (Continued)

March 31, 2019

	NHS	NLS	NHSRC	NHSRCI	Subtotal	Multifamily Limited Partnerships	Eliminations	Total
Liabilities and Net Assets (Deficit)								
Liabilities								
Accounts payable and accrued expenses	$ 1,008,527	$ 1,101,406	$ 111,689	$ 53,892	$ 2,275,514	$ -	$ -	$ 2,275,514
Accrued expenses - Multifamily Limited Partnerships	-	-	-	-	-	548,626	-	548,626
Intercompany payables	4,189,077	612,740	4,501,485	783,044	10,086,346	7,846,661	(17,933,007)	-
Loss reserve liability	-	714,615	-	-	714,615	-	-	714,615
Funds held for agency transactions and deferred revenue	1,318,891	1,354,658	42,000	-	2,715,549	-	-	2,715,549
Program receipts payable	65,152	296,334	372,883	1,817,998	2,552,367	-	-	2,552,367
Customer deposits and other liabilities	-	-	15,555	156,761	172,316	-	-	172,316
Debt - Net	3,074,766	9,096,684	2,078,954	-	14,250,404	-	-	14,250,404
Debt - Multifamily Limited Partnerships	-	-	-	-	-	13,957,100	-	13,957,100
Total liabilities	9,656,413	13,176,437	7,122,566	2,811,695	32,767,111	22,352,387	(17,933,007)	37,186,491
Net Assets (Deficit)								
Without donor restrictions:								
Controlling interest/partners' deficit	(2,975,402)	6,750,247	(461,277)	(687,642)	2,625,926	(15,090,244)	5,991,313	(6,473,005)
Noncontrolling interest	-	-	-	-	-	-	(2,689,562)	(2,689,562)
With donor restrictions	191,048	5,628,999	1,778,455	-	7,598,502	-	-	7,598,502
Total net assets (deficit)	(2,784,354)	12,379,246	1,317,178	(687,642)	10,224,428	(15,090,244)	3,301,751	(1,564,065)
Total liabilities and net assets (deficit)	**$ 6,872,059**	**$ 25,555,683**	**$ 8,439,744**	**$ 2,124,053**	**$ 42,991,539**	**$ 7,262,143**	**$ (14,631,256)**	**$ 35,622,426**

Consolidating Statement of Activities

Year Ended March 31, 2019

	NHS	NLS	NHSRC	NHSRCI	Subtotal	Multifamily Limited Partnerships	Eliminations	Total
Changes Net Assets without Donor Restrictions								
Revenue, gains, and other support:								
Contract revenues - Net	$ 1,525,189	$ 2,931,690	$ 587,772	$ -	$ 5,044,651	$ -	$ -	$ 5,044,651
Servicing and lending-related income	-	1,856,061	-	-	1,856,061	-	-	1,856,061
Property management and development fees	-	-	42,916	165,985	208,901	-	-	208,901
Rental income	-	-	235,762	-	235,762	3,233,944	-	3,469,706
Miscellaneous	865	354,450	32,407	-	387,722	-	-	387,722
Contributions and private grants	1,776,126	30,960	-	-	1,807,086	-	-	1,807,086
Satisfaction of donor restrictions	233,000	64,385	57,148	-	354,533	-	-	354,533
Release of donor support	-	1,748,911	-	-	1,748,911	-	-	1,748,911
Total revenue, gains, and other support	3,535,180	6,986,457	956,005	165,985	11,643,627	3,233,944	-	14,877,571
Expenses:								
Program services	3,741,559	2,932,450	913,354	178,575	7,765,938	4,582,945	(230,569)	12,118,314
Support services								
Management and general	618,894	1,849,836	372,045	113,869	2,954,644	-	-	2,954,644
Fundraising	757,368	-	27,937	8,437	793,742	-	-	793,742
Total support services	1,376,262	1,849,836	399,982	122,306	3,748,386	-	-	3,748,386
Total expenses	5,117,821	4,782,286	1,313,336	300,881	11,514,324	4,582,945	(230,569)	15,866,700
(Decrease) Increase in Net Assets without Donor Restrictions - Before (decrease) increase in net assets without donor restrictions attributable to noncontrolling interest	(1,582,641)	2,204,171	(357,331)	(134,896)	129,303	(1,349,001)	230,569	(989,129)
(Decrease) Increase in Net Assets without Donor Restrictions Attributable to Noncontrolling Interest	-	-	-	-	-	-	298,282	298,282
(Decrease) Increase in Net Assets without Donor Restrictions Attributable to NHS	(1,582,641)	2,204,171	(357,331)	(134,896)	129,303	(1,349,001)	528,851	(690,847)
Changes in Net Assets with Donor Restrictions								
Contributions and private grants	190,000	423,942	-	-	613,942	-	-	613,942
Satisfaction of donor restrictions	(233,000)	(64,385)	(57,148)	-	(354,533)	-	-	(354,533)
Release of donor support	-	(1,748,911)	-	-	(1,748,911)	-	-	(1,748,911)
Decrease in Net Assets with Donor Restrictions	(43,000)	(1,389,354)	(57,148)	-	(1,489,502)	-	-	(1,489,502)
(Decrease) Increase in Net Assets	**$ (1,625,641)**	**$ 814,817**	**$ (414,479)**	**$ (134,896)**	**$ (1,360,199)**	**$ (1,349,001)**	**$ 528,851**	**$ (2,180,349)**