Neighborhood Housing Services of Chicago, Inc. and Related Entities

Consolidated Financial Report

March 31, 2021

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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, 2021 and 2020 and the related consolidated statements of activities, 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 audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. Neighborhood Lending Services, Inc. was 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, 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, 2021 and 2020 and the results of its changes in net assets, functional expenses, and cash flows for the years 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 described 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 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 allowance for loans losses and discounted to their present value. The Organization believes its estimates of the allowance for loan losses for these loans are adequate; however, the Organization has limited historical experience to support these estimates given that few loans have entered repayment status. Accordingly, there is a reasonable possibility of a change in these estimates in the near term, as the Organization continues to accumulate and analyze historical data. Our opinion is not modified with respect to this matter.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 25, 2021 on our consideration of Neighborhood Housing Services of Chicago, Inc. and Related Entities' internal control over financial reporting and on our tests of their 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

October 25, 2021

Consolidated Statement of Financial Position

March 31, 2021 and 2020

	2021	2020
Assets		
Cash and cash equivalents	$ 9,923,060	$ 6,737,601
Nonoperating cash	5,000,000	5,000,000
Restricted cash	611,365	604,359
Contracts receivable	1,354,925	1,150,322
Loans held for sale - Net (Note 4)	7,348,637	10,366,041
Loans receivable: (Note 5)		
Loans held for investment - Net	2,492,549	1,490,909
Deferred loans - Net	3,287,634	3,327,634
Prepaid expenses and other assets	95,647	51,679
Receivership and development project advances	671,074	1,212,355
Servicing advances	620,379	467,714
Property held for rental and development - Net (Note 6)	967,098	1,353,326
Property and equipment used in operations - Net (Note 7)	49,996	126,689
Total assets	**$ 32,422,364**	**$ 31,888,629**
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	$ 2,134,005	$ 2,626,606
Loss reserve liability	611,365	604,359
Funds held for agency transactions and deferred revenue (Note 8)	6,382,412	7,079,441
Program receipts payable	2,329,816	2,682,235
Customer deposits and other liabilities	185,316	181,316
Debt - Net (Note 9)	11,927,018	14,152,620
Total liabilities	23,569,932	27,326,577
Net Assets		
Without donor restrictions	4,892,871	(1,912,300)
With donor restrictions (Note 10)	3,959,561	6,474,352
Total net assets	8,852,432	4,562,052
Total liabilities and net assets	**$ 32,422,364**	**$ 31,888,629**

Consolidated Statement of Activities

Years Ended March 31, 2021 and 2020

	2021			2020		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, Gains, and Other Support						
Contract revenue - Net	$ 5,842,981	$ -	$ 5,842,981	$ 4,417,694	$ -	$ 4,417,694
Servicing and lending-related income	1,200,983	-	1,200,983	1,411,398	-	1,411,398
Property management and development fees	44,161	-	44,161	55,145	-	55,145
Rental income	99,734	-	99,734	187,946	-	187,946
Miscellaneous	303,616	-	303,616	92,802	-	92,802
Contributions and private grants	3,652,166	240,000	3,892,166	1,637,749	290,000	1,927,749
Satisfaction of restrictions	2,754,791	(2,754,791)	-	1,414,150	(1,414,150)	-
Gain on sale of property	299,492	-	299,492	-	-	-
Gain on forgiveness of debt	2,298,619	-	2,298,619	-	-	-
Total revenue, gains, and other support	16,496,543	(2,514,791)	13,981,752	9,216,884	(1,124,150)	8,092,734
Expenses						
Program services	5,882,900	-	5,882,900	6,687,537	-	6,687,537
Support services:						
Management and general	3,207,566	-	3,207,566	3,869,046	-	3,869,046
Fundraising	600,906	-	600,906	775,098	-	775,098
Total expenses	9,691,372	-	9,691,372	11,331,681	-	11,331,681
Change in Net Assets - Before net gain on sale of the multifamily properties	6,805,171	(2,514,791)	4,290,380	(2,114,797)	(1,124,150)	(3,238,947)
Net Gain on Sale of the Multifamily Properties (Note 1)	-	-	-	9,365,064	-	9,365,064
Change in Net Assets	**$ 6,805,171**	**$ (2,514,791)**	**$ 4,290,380**	**$ 7,250,267**	**$ (1,124,150)**	**$ 6,126,117**

See notes to consolidated financial statements.

Consolidated Statement of Changes in Net Assets

Years Ended March 31, 2021 and 2020

	Without Donor Restrictions - Noncontrolling Interest	Without Donor Restrictions - NHS	With Donor Restrictions	Total
Balance - April 1, 2019	$ (2,689,562)	$ (6,473,005)	$ 7,598,502	$ (1,564,065)
Change in net assets	-	7,250,267	(1,124,150)	6,126,117
Assignment of interests (Note 1)	2,689,562	(2,689,562)	-	-
Balance - March 31, 2020	-	(1,912,300)	6,474,352	4,562,052
Change in net assets	-	6,805,171	(2,514,791)	4,290,380
Balance - March 31, 2021	**$ -**	**$ 4,892,871**	**$ 3,959,561**	**$ 8,852,432**

Consolidated Statement of Functional Expenses

Year Ended March 31, 2021

	Program Services	Support Services: Management and General	Support Services: Fundraising	Support Services: Total	Total
Salaries and related expenses	$ 3,568,997	$ 1,505,910	$ 495,777	$ 2,001,687	$ 5,570,684
Occupancy	331,185	139,740	46,005	185,745	516,930
Professional fees	-	461,545	-	461,545	461,545
Interest	269,145	-	-	-	269,145
Loan origination and servicing	471,221	-	-	-	471,221
Bad debt	1,332	-	-	-	1,332
Depreciation and amortization	36,715	56,530	-	56,530	93,245
Information technology	-	732,481	-	732,481	732,481
Fundraising	-	-	59,124	59,124	59,124
Insurance	-	110,605	-	110,605	110,605
Mortgage assistance	1,088,665	-	-	-	1,088,665
Single-family homes - Operating costs	115,640	-	-	-	115,640
Other	-	200,755	-	200,755	200,755
Total functional expenses	**$ 5,882,900**	**$ 3,207,566**	**$ 600,906**	**$ 3,808,472**	**$ 9,691,372**

Consolidated Statement of Functional Expenses

Year Ended March 31, 2020

		Support Services			
	Program Services	Management and General	Fundraising	Total	Total
Salaries and related expenses	$ 4,043,372	$ 1,684,565	$ 531,802	$ 2,216,367	$ 6,259,739
Occupancy	339,381	141,427	44,853	186,280	525,661
Professional fees	-	659,123	-	659,123	659,123
Interest	359,843	-	-	-	359,843
Loan origination and servicing	536,295	-	-	-	536,295
Bad debt	1,234,292	-	-	-	1,234,292
Depreciation and amortization	44,170	84,756	-	84,756	128,926
Information technology	-	636,378	-	636,378	636,378
Fundraising	-	-	198,443	198,443	198,443
Insurance	-	257,395	-	257,395	257,395
Single-family homes - Operating costs	130,184	-	-	-	130,184
Other	-	405,402	-	405,402	405,402
Total functional expenses	**$ 6,687,537**	**$ 3,869,046**	**$ 775,098**	**$ 4,644,144**	**$ 11,331,681**

Consolidated Statement of Cash Flows

Years Ended March 31, 2021 and 2020

	2021	2020
Cash Flows from Operating Activities		
Increase in net assets	$ 4,290,380	$ 6,126,117
Adjustments to reconcile increase in net assets to net cash, cash equivalents, nonoperating cash, and restricted cash from operating activities:		
Depreciation and amortization expense	93,245	128,926
Bad debt expense	1,332	1,234,292
Loss reserve expense	7,006	17,766
Imputed interest expense	9,522	27,378
Originations of loans held for sale	(2,733,257)	(13,761,707)
Principal payments and sales proceeds on loans held for sale	4,524,387	14,029,459
Gain on property held for rental and development	(243,517)	-
Gain on sale of property used in operations	(55,974)	-
Gain on forgiveness of debt	(2,298,619)	-
Net gain on sale of the Multifamily Properties	-	(9,365,064)
Changes in operating assets and liabilities that (used) provided cash, cash equivalents, nonoperating cash, and restricted cash:		
Contracts receivable	(205,935)	531,608
Prepaid expenses and other assets	(43,968)	596,855
Receivership and development project advances	541,281	(360,204)
Servicing advances	(152,665)	70,998
Accounts payable and accrued expenses	(447,798)	(197,534)
Loan loss reserve	-	(128,022)
Funds held for agency transactions and deferred revenue	(697,029)	4,363,892
Program receipts payable	(352,419)	129,868
Customer deposits and other liabilities	4,000	9,000
Net cash, cash equivalents, nonoperating cash, and restricted cash provided by operating activities	2,239,972	3,453,628
Cash Flows from Investing Activities		
Collections received on loans held for investment and deferred loans	264,634	88,756
Proceeds from sale of property held for rental and development	594,168	-
Proceeds from sale of property and equipment used in operations	74,999	-
Additions to property held for rental and development	-	(23,524)
Additions to property and equipment used in operations	-	(70,677)
Net proceeds from the sale of the Multifamily Properties	-	5,686,171
Net cash, cash equivalents, nonoperating cash, and restricted cash provided by investing activities	933,801	5,680,726
Cash Flows from Financing Activities		
Borrowings under line of credit	-	3,000,000
Repayments of line of credit	-	(2,000,000)
Repayments of notes payable	-	(4,529,976)
Return of principal payment	18,692	-
Net cash, cash equivalents, nonoperating cash, and restricted cash provided by (used in) financing activities	18,692	(3,529,976)
Net Increase in Cash, Cash Equivalents, Nonoperating Cash, and Restricted Cash	3,192,465	5,604,378
Cash, Cash Equivalents, Nonoperating Cash, and Restricted Cash - Beginning of year	12,341,960	6,737,582
Cash, Cash Equivalents, Nonoperating Cash, and Restricted Cash - End of year	**$ 15,534,425**	**$ 12,341,960**

Consolidated Statement of Cash Flows (Continued)

Years Ended March 31, 2021 and 2020

	2021	2020
Consolidated Statement of Financial Position Classification of Cash, Cash Equivalents, Nonoperating Cash, and Restricted Cash		
Cash and cash equivalents	$ 9,923,060	$ 6,737,601
Nonoperating cash	5,000,000	5,000,000
Restricted cash	611,365	604,359
Total cash, cash equivalents, nonoperating cash, and restricted cash	**$ 15,534,425**	**$ 12,341,960**
Supplemental Cash Flow Information - Cash paid for interest	$ 278,303	$ 323,765
Significant Noncash Transactions - Loans held for sale reclassified as loans receivable	$ 1,226,274	$ 827,903

Note 1 - Description of Operations

Neighborhood Housing Services of Chicago, Inc. (NHS) and Related Entities is driven by the belief that homeownership is essential to strengthening households and communities. Formed in 1975, NHS advocates for working families and revitalizes communities through community building, real estate development, mortgage lending, homeownership education, and housing policy.

NHS' work is directly focused on fostering racial equality and helping to close the racial wealth gap. NHS' goal is two-fold: to ensure individuals are able to attain safe and sustainable housing and to provide families and communities with a foundation for economic stability. Their teams work to stabilize and revitalize low- and moderate-income communities throughout the greater Chicagoland area and suburbs. NHS facilitates such revitalization by helping middle-class and working-class families purchase and maintain their own homes.

NHS recognizes the impact of race, income, and social status on a person's housing security. NHS works to correct the inequities and end the exploitative practices that create housing insecurity.

Unaudited: During the years ended March 31, 2021 and 2020, NHS served 7,760 and 5,930 clients, closed 840 and 802 loans and grants, loaned $2,380,582 and $19,063,570, financed or rehabbed 298 and 925 units, had 2,033 and 1,309 participants in homebuyer education, and created 256 and 615 new homeowners, respectively.

The accompanying consolidated financial statements include the accounts of Neighborhood Housing Services of Chicago, Inc. and Related Entities (collectively referred to as the "Organization"), which are all wholly owned by NHS as of March 31, 2021 and 2020. The following entities are included in the consolidated financial statements for the year ended March 31, 2021 and 2020:

- Neighborhood Housing Services of Chicago, Inc.
- Neighborhood Lending Services, Inc.
- NHS Redevelopment Corporation
- NHSRC Initiatives, Inc.
- NHSRC Finance LLC
- Multifamily Limited Partnerships (sold in April 2019)

Neighborhood Housing Services of Chicago, Inc.

Neighborhood Housing Services of Chicago, Inc. was organized in 1975 to address housing disparities in Chicago. NHS teams work with communities on Chicago's south and west sides to revitalize neighborhoods and increase affordable housing for working-class families throughout the Chicago region. NHS operates with an understanding of the impact of race, income, and social status on a person's housing security. NHS connects individuals to resources and builds community cohesion utilizing grassroots outreach to build relationships and coalitions for meaningful change. NHS continues to work toward equity by providing access, education, and outreach. The goal is two-fold, to ensure everyone has the opportunity for a safe and sustainable home and to provide a foundation for economic stability.

NHS is a recognized leader in homeownership consulting. Our HUD-certified counselors lead group seminars and one-on-one counseling on a variety of topics related to homeownership and financial literacy. We provide tools to help residents identify pitfalls, choose a sustainable loan product, and plan for home renovations and maintenance. For existing homeowners, postpurchase and foreclosure counselors actively negotiate with lenders to achieve loan modifications and other financing solutions and also look to mitigate costs that contribute to housing instability.

NHS offers its services citywide, with four neighborhood-based hub offices and local partnerships that ensure that its neighborhood revitalization impacts are consistently felt in the communities that have the greatest challenges.

Note 1 - Description of Operations (Continued)

The NHS mission is to create opportunities for individuals to live in affordable homes, improve their lives, and strengthen their neighborhoods. This is done by:

- Educating and preparing new homeowners for success
- Lending to help people buy, fix, and keep their homes
- Sustaining homeownership through foreclosure prevention services
- Preserving, rehabbing, and investing in housing

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 organization was established (i) to make loans to low- or moderate-income individuals and families who reside primarily in focus Chicago neighborhoods for acquisition of and improvements to their residences, (ii) to stem or otherwise prevent deterioration of housing stock in targeted inner-city neighborhoods, and (iii) to provide improved housing for those persons and families.

NLS is a State of Illinois residential mortgage licensee and a Community Development Financial Institution (CDFI); the latter was certified by the United States Department of the Treasury on June 30, 1999. NLS operates a range of loan programs using both public and private resources.

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, 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.

NHSRC Finance LLC

NHSRC Finance LLC (NHSRC LLC) was organized in February 2019 to acquire, rehabilitate, and market single-family homes in low- and moderate-income (LMI) communities in metropolitan Chicago.

Note 1 - Description of Operations (Continued)

Multifamily Limited Partnerships

NHSRC wholly owned the general partners (the "NHSRC general partners") of certain limited partnerships (the "Multifamily Limited Partnerships") that owned affordable housing apartment complexes in Chicago (the "Multifamily Properties") prior to the sale transaction discussed below. 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 that 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 respective transfer dates. As a result, the balances and transactions of the Multifamily Limited Partnerships were wholly consolidated in the accompanying consolidated financial statements beginning on the respective transfer dates.

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.

In April 2019, the Organization sold its portfolio of the Multifamily Properties, as well as one property directly owned by NHSRC, to a third-party buyer. The gross sale price was $7.8 million, less negotiated allowances, prorations, and transactions costs of approximately $2.1 million, resulting in net sales proceeds on the sale of the Multifamily Properties of approximately $5.7 million. The majority of these net proceeds were used to settle the debt and accrued interest of the Multifamily Limited Partnerships. The sale transaction was facilitated by the forgiveness of approximately $10.7 million of debt by the City of Chicago, Illinois. A net gain of approximately $9.4 million on the forgiveness of debt and sale of the Multifamily Properties is included in the accompanying consolidated statement of activities for 2020. The Multifamily Limited Partnerships were legally dissolved subsequent to the sale of the Multifamily Properties and the related debt settlements.

The Multifamily Limited Partnerships that were sold are as follows:

- 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 interest to NHSRC in April 2019 prior to the sale of the Multifamily Properties discussed above. Accordingly, the limited partner's ownership interest was transferred from noncontrolling equity to controlling equity on the transfer date. The noncontrolling interests in the other six Multifamily Limited Partnerships were transferred to NHSRC prior to fiscal year 2020. Accordingly, no noncontrolling interests remain as of March 31, 2020.

Note 2 - Significant Accounting Policies

Principles of Consolidation

NHS is the sole member of NLS and NHSRC. NHSRC is the sole member of NHSRCI and NHSRC LLC. Each entity's board of directors is accountable to the board of directors of NHS. Additionally, as discussed in Note 1, NHSRC controlled the Multifamily Limited Partnerships through its ownership of the entire partnership or the general partner of each Multifamily Limited Partnership until April 2019.

Note 2 - Significant Accounting Policies (Continued)

Accordingly, the consolidated financial statements include the accounts of NHS; NLS; NHSRC; NHSRCI; NHSRC LLC; and the Multifamily Limited Partnerships, which were dissolved following the sale of the Multifamily Properties disclosed in Note 1. All material intercompany accounts and transactions have been eliminated in consolidation.

Cash, Cash Equivalents, and Nonoperating Cash

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 that 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.

As of March 31, 2021 and 2020, the Organization is holding $5,000,000 of cash that is presented as nonoperating cash on the consolidated statement of financial position. The $5,000,000 is for future contract services to be completed and recognized as revenue in future fiscal years as the services are provided.

Restricted Cash and Loss Reserve Liability

Under certain loan sale and servicing agreements, the Organization is required to establish and maintain separate restricted cash accounts to reserve for future losses incurred on loans that have been sold to investors. Since these loans are not held by NLS, a corresponding loss reserve liability of the same amount is established. The loss reserve liability is increased by charges to loss reserve expense and decreased at the time the investors incur a loan loss that is required to be recovered through funding from the respective restricted cash accounts.

Classification of Net Assets

Net assets of the Organization are classified based on 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: Contributed net assets received with donor-imposed restrictions that either (a) expire with the passage of time or that can be removed by meeting certain requirements or (b) donor restrictions are perpetual in nature, where 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 restrictions 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 restrictions.

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

Contracts Receivable

Contracts receivable represent revenue from providing services under 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, 2021 and 2020.

Note 2 - Significant Accounting Policies (Continued)

Loans Held for Sale

Loans held for sale represent individual mortgage notes originated and warehoused by NLS that the Organization plans to offer for sale. These mortgage notes are expected to be sold within one to two years 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 loan sale contracts with investors.

Loans are evidenced by promissory notes, which generally are collateralized 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.

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 not likely to become eligible for sale, which is typically when the loan becomes 30 days contractually past due. Loans that have been reclassified 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 held for investment primarily consist of first and subordinate mortgages deemed ineligible for sale. These loans bear interest at annual rates ranging from 0.0 to 5.4 percent, with original terms ranging from 10 to 30 years and maturity dates ranging from April 2023 through December 2049. 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 years ended March 31, 2021 or 2020 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 incurred losses and is estimated 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 90 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.

Note 2 - Significant Accounting Policies (Continued)

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 only 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 were recorded as restricted revenue. Under the NLP contract, borrower repayments can only be used to originate similar loans. As described in the paragraph below, all borrower repayments that have been received and have not been reused to originate additional deferred loans are included in restricted net assets. No deferred loans were originated in fiscal years 2021 and 2020.

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 for loan losses related to deferred loans is released from donor-restricted net assets each year. As of March 31, 2021 and 2020, donor-restricted net assets related to deferred loans include the outstanding principal balance, net of the allowance for loan losses, as well as cumulative borrower repayments that have not yet been reused to originate additional deferred loans, as discussed in the paragraph above.

Servicing Advances

The Organization provides advances of taxes and insurance, as well as certain corporate, foreclosure, and liquidation costs on serviced loans, that are to be repaid by borrowers or investors.

NLS also expenses certain costs and fees incurred to service loans that have been sold to investors. Some amounts of these costs may be recovered in the future when the loans are ultimately repaid, liquidated, or transferred to third parties; however, no receivables are recorded until the amounts 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.

Note 2 - Significant Accounting Policies (Continued)

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 table, 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.

	Years
Buildings and improvements	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 years ended March 31, 2021 and 2020, 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 used to reinvest in the respective program activity.

Contracts Revenue Recognition

The Organization contracts to provide services to certain governmental and private agencies. Certain contracts are subject to audit by the counterparty and may be adjusted based on negotiation. Contract revenue is considered a nonexchange transaction and is recognized as the conditions of the contracts have been met. Amounts that have been awarded but not yet recognized as revenue are treated as conditional contributions and are not reflected in the accompanying consolidated financial statements. At March 31, 2021, contracts totaling approximately $13,900,000 have been awarded to the Organization for contract services to be performed after March 31, 2021 through December 2021, subject to continuing government appropriation and the Organization's ability to deploy the contract amounts. At March 31, 2020, contracts totaling approximately $13,300,000 had been awarded to the Organization for contract services to be performed after March 31, 2020 through December 2021, subject to continuing government appropriation and the Organization's ability to deploy the contract amounts

Note 2 - Significant Accounting Policies (Continued)

Servicing- and Lending-related Income

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

Gains on sales of loans are recognized at the time of sale and are based on the difference between net sales proceeds and the carrying amounts of the loans sold. The sale price is established in loan sale contracts with investors and is typically a percentage of the outstanding principal balance of the loans sold.

The Organization retains servicing rights on the majority of loans that have been sold to investors. Servicing fee income represents monthly fees received from investors to service these loans and typically ranges from 0.25 to 0.30 percent annually of the outstanding principal balance of the serviced loans. NLS outsources its servicing responsibilities to a third-party subservicer.

Rental Income

Rental income from operating leases is recognized when earned. 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 at fair value on the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value on the date the gift becomes unconditional or is received. The gifts are reported as contributions with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. 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 consolidated statements of changes in net assets as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the year in which the contributions are received are reported as net assets without donor restrictions in the accompanying consolidated financial statements.

Paycheck Protection Program Grant

On May 9, 2020, the Organization received federal stimulus funds from a lending institution of $1,112,900. The funds were issued pursuant to the Coronavirus Aid, Relief, and Economic Security (CARES) Act's Paycheck Protection Program (PPP). The PPP requires organization officials to certify certain statements that permitted the Organization to qualify for the loan. The PPP also provides loan forgiveness for a portion, up to all, of the borrowed amount if the Organization uses the loan proceeds for the permitted expenditures, as described in the note agreement.

The Organization received notice from the Small Business Administration for forgiveness of the loan amount on April 20, 2021. The Organization had permitted expenditures of $1,112,900 during fiscal year 2021 and has recognized contribution revenue for this amount on the consolidated statement of activities.

Additionally, on May 13, 2021 the Organization received second round PPP funding in the amount of $1,096,000. Based on the provisions of the PPP, the Organization expects the entire amount to be forgiven once the amounts have been expended for the permitted expenditures. Any request for forgiveness is subject to review and approval by the lender and the SBA, including review of qualifying expenditures and staffing and salary levels. While the Organization believes forgiveness of the loan probable, there can be no assurance that any portion of the PPP loan will be forgiven.

Note 2 - Significant Accounting Policies (Continued)

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, and NHSRC 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, 2021 and 2020. Any tax liabilities as of March 31, 2021 and 2020 are anticipated to be insignificant.

The Multifamily Limited Partnerships and NHSRC Finance LLC are treated as partnerships for federal and state tax purposes. Consequently, federal and state income taxes are not payable by, or provided for, them. Partners are taxed individually on their share of the respective 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 consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Risks and Uncertainties from COVID-19

On March 11, 2020, the World Health Organization declared the outbreak of a respiratory disease caused by a new coronavirus a pandemic. First identified in late 2019 and now known as COVID-19, the outbreak has impacted millions of individuals worldwide. In response, many countries have implemented measures to combat the outbreak that have impacted global business operations.

In response to the pandemic, the Organization closely monitored credit risk and liquidity. The Organization decreased/delayed new lending activity, granted loan payment deferrals to eligible borrowers as a result of the COVID-19 outbreak (as further described in Note 5), received funds from the PPP program, and received forgiveness of debt over some of their outstanding balances (as further described in Note 9).

No impairments were recorded as of the consolidated statement of financial position date; however, due to significant uncertainty surrounding the situation, management's judgment regarding this could change in the future. The ultimate economic outcome from the pandemic and the long-term effects on economy, markets, industries, and individual organizations are not known.

Note 2 - Significant Accounting Policies (Continued)

Upcoming Accounting Pronouncements

The Financial Accounting Standards Board (FASB) issued Accounting Standards Update (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, 2023 and will be applied using a modified retrospective transition method to the beginning of the earliest period presented. The new lease standard may have a significant effect on the Organization’s financial statements if the Organization remains a party of any office facility or equipment leases at the time of adoption. Any operating leases existing at the time of adoption will be reported on the consolidated statement of financial position. 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 consolidated financial statements.

Note 3 - Loan Sales and Servicing

NLS originates first and subordinate residential mortgages and sells loans to investors through various channels, as described below. Under the terms of loan sale agreements, the Organization surrenders control over the loans upon transfer to investors, as the loan sales are without recourse and there are no repurchase obligations related to loan performance. Accordingly, loans transferred to investors have been accounted for as sales in the accompanying consolidated financial statements in accordance with accounting guidance.

Direct Sales

NLS sells loans directly to financial institutions, such as banks and credit unions, which are negotiated as either single bulk-sale transactions or periodic flow-sale transactions. In direct sale transactions, NLS typically retains servicing rights of the loans sold; however, occasionally the servicing rights are released to the buyer in one-time bulk sale transactions. On July 24, 2020, NLS became an approved seller/servicer with Freddie Mac.

PSSAs

NLS also packages pools of loans into mortgage loan ownership certificates and sells the certificates to investor groups in accordance with participation, sale, and servicing agreements (PSSAs). Each PSSA has a three-year purchase period wherein investors commit to purchase certificates up to a specific amount. The PSSAs are agreements between NLS, as the seller and loan servicer, and investors, which are financial institutions.

Note 3 - Loan Sales and Servicing (Continued)

During 2021 and 2020, loans were sold to three parties, including the 2017 PSSA and two direct buyers. The Organization received cash proceeds on loan sales of $3,896,508 and $13,404,037 and recognized gains on sale totaling $83,462 and $225,921 during 2021 and 2020, respectively, which are included in servicing and lending-related income in the accompanying consolidated statement of activities.

NLS outsources its servicing responsibilities to a third-party subservicer for all loans serviced on behalf of investors. The following table presents information regarding serviced loans:

Investors	Effective Date	Original Commitment to Purchase	Outstanding Balance at March 31, 2021	Outstanding Balance at March 31, 2020
2009 PSSA	4/24/2009	$ 110,250,000	$ 21,985,647	$ 25,016,708
2009-X PSSA	7/13/2012	30,000,000	17,115,455	18,931,923
2014 PSSA	3/1/2014	40,000,000	28,269,092	32,868,826
2017 PSSA	6/28/2017	39,000,000	30,056,413	31,935,741
Direct sale - Credit union	11/21/2018	15,000,000	4,400,778	3,373,319

As of March 31, 2020, the purchase periods have expired, and no purchase commitments remain for the 2009, 2009-X, and 2014 PSSA series investors. During fiscal year 2021, the purchase period for the 2017 PSSA series expired, which also terminated the purchase commitment for the 2017 PSSA investors.

The initial purchase period for the credit union investor expired on November 21, 2020, with automatic one-year extensions available until the purchase commitment is fulfilled. As of March 31, 2021 and 2020, the remaining purchase commitment available from the credit union investor was approximately $8.8 million and $11.6 million, respectively.

In 2017, the majority of the 2002 and 2006 PSSA loan pools were sold by the investors to a third-party buyer, which also transferred the servicing of these loans to a different servicer during 2018. Certain loans were not sold, as they did not meet the buyer's eligibility criteria (the "unsold loans"). NLS continues to service the unsold loans on behalf of the investors, which includes incurring foreclosure, maintenance, and other costs to see the unsold loans through to final disposition, using funds retained from reserve accounts that were established under the 2002 and 2006 PSSAs (the "reserve funds"). During 2021 and 2020, NLS used approximately $80,000 of reserve funds to cover or offset costs associated with servicing the unsold loans. As of March 31, 2021 and 2020, the remaining reserve funds balance is approximately $516,000 and $596,000, respectively, which is reported 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 service the unsold loans through final disposition.

Note 4 - Loans Held for Sale - Net

Loans held for sale are carried at the lower of cost or fair value. As of March 31, 2021 and 2020, loans held for sale are carried at cost, with no valuation allowance, as the loans are subsequently sold at or above par pursuant to loan sale contracts with investors.

At March 31, 2021 and 2020, loans held for sale gross commitments of $7,348,637 and $11,016,093, respectively, are reported net of unfunded construction holdbacks of $0 and $650,052, respectively. The unfunded construction holdbacks are advanced to borrowers as rehabilitation progresses on the respective secured properties.

Note 5 - Loans Receivable - Net

Loan program receivables consist of the following as of March 31:

	2021			2020		
	Loans Held for Investment	Deferred Loans	Total Loans Receivable	Loans Held for Investment	Deferred Loans	Total Loans Receivable
Outstanding principal balance	$ 3,274,710	$ 5,117,866	$ 8,392,576	$ 2,160,909	$ 5,208,720	$ 7,369,629
Less allowance for loan losses	(782,161)	(1,830,232)	(2,612,393)	(670,000)	(1,881,086)	(2,551,086)
Loans receivable - Net	$ 2,492,549	$ 3,287,634	$ 5,780,183	$ 1,490,909	$ 3,327,634	$ 4,818,543

Activity in the allowance for loan losses is summarized as follows for the years ended March 31:

	2021			2020		
	Loans Held for Investment	Deferred Loans	Total	Loans Held for Investment	Deferred Loans	Total
Beginning balance	$ 670,000	$ 1,881,086	$ 2,551,086	$ 550,000	$ 1,835,592	$ 2,385,592
Charge-offs	-	(50,854)	(50,854)	-	(9,328)	(9,328)
Recoveries	112,161	-	112,161	-	54,822	54,822
Provision	-	-	-	120,000	-	120,000
Ending balance	$ 782,161	$ 1,830,232	$ 2,612,393	$ 670,000	$ 1,881,086	$ 2,551,086
Ending allowance balance attributable to loans:						
Individually evaluated for impairment	$ 324,000	$ -	$ 324,000	$ 400,000	$ -	$ 400,000
Collectively evaluated for impairment	458,161	1,830,232	2,288,393	270,000	1,881,086	2,151,086
Ending allowance balance	$ 782,161	$ 1,830,232	$ 2,612,393	$ 670,000	$ 1,881,086	$ 2,551,086
Loans:						
Individually evaluated for impairment	$ 1,387,886	$ -	$ 1,387,886	$ 1,127,560	$ -	$ 1,127,560
Collectively evaluated for impairment	1,886,824	5,117,866	7,004,690	1,033,349	5,208,720	6,242,069
Total loans	$ 3,274,710	$ 5,117,866	$ 8,392,576	$ 2,160,909	$ 5,208,720	$ 7,369,629

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 90 days contractually past due are considered performing, whereas loans greater than 90 days contractually past due are considered nonperforming. The following table stratifies loans receivable by class using the credit quality indicator as of March 31:

	2021			2020		
	Loans Held for Investment	Deferred Loans	Total Loans Receivable	Loans Held for Investment	Deferred Loans	Total Loans Receivable
Performing	$ 1,886,824	$ 5,117,866	$ 7,004,690	$ 1,033,349	$ 5,208,720	$ 6,242,069
Nonperforming	1,387,886	-	1,387,886	1,127,560	-	1,127,560
Total	$ 3,274,710	$ 5,117,866	$ 8,392,576	$ 2,160,909	$ 5,208,720	$ 7,369,629

Note 5 - Loans Receivable - Net (Continued)

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 as of March 31:

	2021					
	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days	Total Past Due	Current	Total
Loans held for investment	$ 422,578	$ -	$ 1,387,886	$ 1,810,464	$ 1,464,246	$ 3,274,710
Deferred loans	-	-	-	-	5,117,866	5,117,866
Total	$ 422,578	$ -	$ 1,387,886	$ 1,810,464	$ 6,582,112	$ 8,392,576

	2020					
	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days	Total Past Due	Current	Total
Loans held for investment	$ 301,394	$ -	$ 1,127,560	$ 1,428,954	$ 731,955	$ 2,160,909
Deferred Loans	-	-	-	-	5,208,720	5,208,720
Total	$ 301,394	$ -	$ 1,127,560	$ 1,428,954	$ 5,940,675	$ 7,369,629

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 as of March 31:

	2021				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
Loans held for investment:					
With an allowance recorded	$ 936,136	$ 936,136	$ 324,000	$ 939,238	$ -
With no related allowance	451,750	451,750	-	452,802	-
Total	$ 1,387,886	$ 1,387,886	$ 324,000	$ 1,392,040	$ -

	2020				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
Loans held for investment - With an allowance recorded	$ 1,127,560	$ 1,127,560	$ 400,000	$ 1,129,471	$ -
Total	$ 1,127,560	$ 1,127,560	$ 400,000	$ 1,129,471	$ -

Note 5 - Loans Receivable - Net (Continued)

COVID-19 Loan Forbearance

Beginning in April 2020, NLS granted loan forbearance plans to eligible borrowers in response to COVID-19, which allow for the deferral of full or partial loan payments for up to 18 months. No interest or fees accrue on the outstanding loan balances during the forbearance periods. Any deferred payments are either reamortized over the remaining loan term or due as a final balloon payment at maturity with no forgiveness of any principal. As of March 31, 2021, the total outstanding principal balance of the 14 loans that are under COVID-19 forbearance plans is approximately $1.3 million. The deferral periods on these loans expire between June and November 2021, at which time borrowers will be required to resume regular payments under their mortgage agreements. A modification of a loan is considered a troubled debt restructuring (TDR) when a borrower is experiencing financial difficulty and the modification constitutes a concession. None of the COVID-19 forbearance loans were considered TDRs because they were modified in accordance with the provisions of the CARES Act.

All significant loans that are under COVID-19 forbearance plans as of March 31, 2021 have been evaluated for impairment in accordance with the Organization's methodology described in the *Loans Held for Investment and Allowance for Loan Losses* policies in Note 2. Management continues to closely monitor these loans and the overall economic situation, as a result of the continued uncertainty surrounding regulatory and consumer responses to the pandemic.

Note 6 - Property Held for Rental and Development

	2021	2020
Vacant lots	$ 327,573	$ 328,015
Buildings and improvements	844,867	1,302,320
Total	1,172,440	1,630,335
Less accumulated depreciation and amortization	(205,342)	(277,009)
Total	$ 967,098	$ 1,353,326

Note 7 - Property and Equipment Used in Operations

	2021	2020
Land	$ 3,800	$ 3,800
Buildings and improvements	151,038	577,981
Office furniture and equipment	423,814	423,814
Leasehold improvements	225,278	234,286
Total cost	803,930	1,239,881
Less accumulated depreciation and amortization	753,934	1,113,192
Net property and equipment	$ 49,996	$ 126,689

Note 8 - Funds Held for Agency Transactions and Deferred Revenue

Funds held for agency transactions amounted to $0 and $75,500 as of March 31, 2021 and 2020, respectively. Deferred revenue amounted to $6,382,412 and $7,003,941 as of March 31, 2021 and 2020 respectively. A summary of the changes in funds held for agency transactions and deferred revenue is as follows:

	2021	2020
Beginning balance	$ 7,079,441	$ 2,715,549
Additions - Funds received in advance	588,337	7,404,898
Deductions - Funds expended, revenue recognized, or properties sold	(1,285,366)	(3,041,006)
Ending balance	$ 6,382,412	$ 7,079,441

Note 9 - Debt

Debt payable by NHS, NLS, NHSRC, and NHSRC LLC consists of the following

	2021	2020
NHS		
Note payable to the Northern Trust Bank with annual interest-only payments. The agreement matures on May 1, 2022, at which time the entire outstanding principal plus accrued interest are due and payable in full. Effective May 1, 2020, the annual interest rate on this note was reduced from 1.0 percent to 0.01 percent through the remainder of the loan term	$ 750,000	$ 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. Effective May 1, 2020, the foundation forgave this entire outstanding debt balance of $1,599,065 and all accrued interest in the amount of $35,979. Gain on forgiveness of debt is recognized in the consolidated statement of activities	-	1,599,065
NLS		
Line of credit with NeighborWorks Capital Corporation (NWC) with maximum available borrowings of $5,000,000, which are limited to the borrowing base of 75 percent of the 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 principal plus accrued interest are due and payable in full. 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, which terminated upon the payoff in August 2019 (1)	3,000,000	3,000,000
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. As a condition to entering the NWC line of credit, the Ford Foundation waived the payment; amended the loan agreement; and required an immediate principal payment of $149,533, which was fully paid in fiscal year 2020. Effective May 7, 2020, the Ford Foundation forgave this entire outstanding debt balance of $663,575. Gain on forgiveness of debt is recognized in the consolidated statement of activities	-	644,883

Note 9 - Debt (Continued)

	2021	2020
Note payable to the John D. & Catherine T. MacArthur Foundation with quarterly interest-only payments of 1 percent per annum. The agreement matures on January 1, 2023, at which time the entire outstanding principal plus accrued interest are due and payable in full, including quarterly interest payments that were deferred in connection with the amended agreement	$ 3,763,125	$ 3,763,125
Note payable to the Northern Trust Bank with annual interest-only payments. The agreement matures on May 1, 2022, at which time the entire outstanding principal plus accrued interest are due and payable in full. Effective May 1, 2020, the annual interest rate on this note was reduced from 1.0 to 0.01 percent through the remainder of the loan term	2,500,000	2,500,000
NHSRC		
Note payable to the Northern Trust Bank with annual interest-only payments. The agreement matures on May 1, 2022, at which time the entire outstanding principal plus accrued interest are due and payable in full. Effective May 1, 2020, the annual interest rate on this note was reduced from 1.0 to 0.01 percent through the remainder of the loan term	1,750,000	1,750,000
NHSRC LLC		
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	191,176
Subtotal debt	11,963,125	14,198,249
Less unamortized loan discounts	36,107	45,629
Total debt - Net	$ 11,927,018	$ 14,152,620

(1) The NeighborWorks Capital Corporation loan agreement contains a minimum liquidity financial covenant. As of March 31, 2021 and 2020, NLS is in compliance with the financial covenant.

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
2022	$ -
2023	11,763,125
2024	200,000
Unamortized loan discounts	(36,107)
Total	$ 11,927,018

The Organization in in discussions with each of the lenders listed above to negotiate the payoff, extension, or forgiveness of the debt that matures during fiscal year 2023.

Note 10 - Net Assets with Donor Restrictions

Net assets with donor restrictions consist of the following

		2021		2020
Time and purpose restrictions:				
Public grants - Loan capital	$	3,683,454	$	3,667,845
NeighborWorks America Funds (1)		240,000		2,760,878
Imputed interest		36,107		45,629
Total net assets with donor restrictions	$	3,959,561	$	6,474,352

(1) NeighborWorks America (NWA) 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 NWA. Any earnings from such activities may be used for unrestricted purposes. During 2021, NWA authorized the release of $2,470,878 of restricted net assets.

Note 11 - Related Party Transactions

NHS and its affiliates, including NLS, NHSRC, NHSRCI, and NHSRC LLC, 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 administrative equipment and supplies; and advisory, administrative, financial and accounting, legal, information security, and human resource services. All intercompany balances and transactions have been eliminated in consolidation.

Note 12 - Leases

NHS leases office space in neighborhood offices throughout the Chicagoland area. Rent expense for all offices was $400,117 and $342,722 for the years ended March 31, 2021 and 2020, respectively. Effective June 13, 2012, NHS negotiated an extension to its lease through February 28, 2023 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 $44,945 and $20,487 for the years ended March 31, 2021 and 2020, respectively. 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
2022	$	420,999
2023		396,555
2024		14,726
Total	$	832,280

Note 13 - 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 matching contribution. Participants are immediately 100 percent vested in their account balances, including employer contributions plus actual earnings thereon. For the years ended March 31, 2021 and 2020, the Organization contributed $43,573 and $113,473 to the plan, respectively.

Note 14 - Concentrations and Contingencies

NHS receives a substantial portion of its support and revenue from the City of Chicago, Illinois. This support totaled approximately 80 and 70 percent of total contract revenue for the fiscal years ended March 31, 2021 and 2020, respectively.

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 15 - Liquidity and Availability of Resources

The Organization has $18,626,622 and $18,253,964 of financial assets available within one year of March 31, 2021 and 2020 to meet cash needs for general expenditures consisting of cash and cash equivalents of $9,923,060 and $6,737,601, contracts receivable of $1,354,925 and $1,150,322, and loans held for sale of $7,348,637 and $10,366,041, respectively. None of the financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditures within one year of the consolidated statement of financial position date. The loans held for sale are subject to requirement of the PSSAs but are expected to be sold within one year. Additionally, the Organization is holding $5,000,000 of cash as of March 31, 2021 and 2020 for future contract services to be completed and recognized as revenue in future fiscal years as the services are provided.

The Organization closely monitors its cash balances and has established credit facilities 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 completion of the approved property rehabilitation. The Organization receives cash both in advance of providing the services and after providing the services; therefore, the cash receipts can occur in different fiscal years than the revenue recorded.

The Organization only originates loans that it knows to be salable, based on existing or anticipated loan sale contract relationships with investors. 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, 2021 and 2020, the Organization estimates that it has cash on hand to fund operational expenses for at least 12 months, assuming no revenue is 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.

The Organization further believes that it has sufficient cash and credit facility resources to operate its business during fiscal year 2022 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 16 - Subsequent Events

The financial statements and related disclosures include evaluation of events up through and including October 25, 2021, which is the date the financial statements were available to be issued.