Neighborhood Lending Services, Inc.

Financial Report
March 31, 2019

Contents

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Independent Auditor's Report

To the Board of Directors
Neighborhood Lending Services, Inc.

We have audited the accompanying financial statements of Neighborhood Lending Services, Inc. (the "Organization"), which comprise the statement of financial position as of March 31, 2019 and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of Neighborhood Lending Services, Inc. as of March 31, 2019 and the changes in its 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.

Emphasis of Matter

As more completely disclosed in Note 2, 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 loan losses and discounted to their present value. The Organization believes its estimates 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 reasonable possibility of a change in these estimates in the near term as the Organization continues to accumulate and analyze historical data.

To the Board of Directors
Neighborhood Lending Services, Inc.

As described in Note 2 to the financial statements, the Organization adopted the provisions of the Financial Accounting Standards Board's 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 this matter.

Plante & Moran, PLLC

October 3, 2019

Statement of Financial Position

	March 31, 2019
Assets	
Cash and cash equivalents	$ 2,803,633
Restricted cash	714,615
Contracts receivable	1,544,409
Loans held for sale, net	11,461,696
Loans receivable:	
Loans held for investment, net	808,127
Deferred loans, net	3,391,269
Advances to sponsored PSSAs	771,189
Advances to affiliates	3,361,224
Prepaid expenses and other assets	7,160
Total assets	**$ 24,863,322**
Liabilities and Net Assets	
Liabilities	
Accounts payable and accrued expenses	$ 1,318,119
Loss reserve liability	714,615
Funds held for agency transactions and deferred revenue	1,354,658
Debt, net	9,096,684
Total liabilities	12,484,076
Net Assets	
Without donor restrictions	6,750,247
With donor restrictions	5,628,999
Total net assets	12,379,246
Total liabilities and net assets	**$ 24,863,322**

Statement of Activities and Changes in Net Assets

Year Ended March 31, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, Gains, and Other Support			
Contract revenues, net	$ 2,962,650	$ -	$ 2,962,650
Servicing and lending-related income	1,856,061	-	1,856,061
Miscellaneous	354,450	-	354,450
Contributions and private grants	-	423,942	423,942
Satisfaction of donor restrictions	64,385	(64,385)	-
Release of donor support	1,748,911	(1,748,911)	-
Total revenue, gains, and other support	6,986,457	(1,389,354)	5,597,103
Expenses			
Program expenses- Community lending	2,932,450	-	2,932,450
Support services - Management and general	1,849,836	-	1,849,836
Total expenses	4,782,286	-	4,782,286
Change in Net Assets	2,204,171	(1,389,354)	814,817
Net Assets - Beginning of year	4,546,076	7,018,353	11,564,429
Net Assets - End of year	**$ 6,750,247**	**$ 5,628,999**	**$ 12,379,246**

See notes to financial statements.

Statement of Functional Expenses

Year Ended March 31, 2019

	Program Services - Community Lending	Support services - Management and general	Total
Compensation and benefits	$ 1,526,577	$ 187,788	$ 1,714,365
Occupancy	168,853	23,684	192,537
Professional fees	-	114,735	114,735
Interest	115,262	-	115,262
Bad debt expense	446,197	-	446,197
Shared services	187,305	1,433,440	1,620,745
Marketing	-	60,715	60,715
Loan origination and servicing	307,604	-	307,604
Other	180,652	29,474	210,126
Total functional expenses	**$ 2,932,450**	**$ 1,849,836**	**$ 4,782,286**

Statement of Cash Flows

	Year Ended March 31, 2019
Cash Flows from Operating Activities	
Increase in net assets	$ 814,817
Adjustments to reconcile increase in net assets to net cash and cash equivalents from operating activities:	
Accretion of interest income	(228,952)
Imputed interest expense	27,302
Bad debt expense	446,197
Loss reserve expense	38,091
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 used cash and cash equivalents:	
Contracts receivable	1,355
Advances to sponsored PSSAs	298,036
Prepaid expenses and other assets	49,255
Accounts payable and accrued expenses	14,982
Funds held for agency transactions and deferred revenue	(551,820)
Net cash and cash equivalents used in operating activities	(2,852,418)
Cash Flows from Investing Activities	
Origination of loans held for investment	(44,589)
Principal collections on loans held for investment and deferred loans	42,127
Advances to affiliates	(1,752,526)
Net cash and cash equivalents used in investing activities	(1,754,988)
Cash Flows from Financing Activities	
Borrowings under line of credit	2,000,000
Payments on notes payable	(56,074)
Net cash and cash equivalents provided by financing activities	1,943,926
Net Decrease in Cash and Cash Equivalents	(2,663,480)
Cash and Cash Equivalents - Beginning of year	6,181,728
Cash and Cash Equivalents - End of year	**$ 3,518,248**
Statement of Financial Position Classification of Cash and Cash Equivalents	
Cash and cash equivalents	$ 2,803,633
Restricted cash	714,615
Total cash and cash equivalents	**$ 3,518,248**
Supplemental Cash Flow Information - Cash paid for interest	$ 74,094

Note 1 - Description of Operations

Neighborhood Lending Services, Inc. ("NLS" or the "Organization") 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.

Neighborhood Housing Services of Chicago, Inc. (NHS) is the sole member of NLS, and thus, the NLS board of directors is accountable to the board of directors of NHS.

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 chart 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 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.

Note 2 - Significant Accounting Policies

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 to certificate holders. Since these loans are not held by the 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 accounts.

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 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 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.

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.

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 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.

The loans held for investment balance primarily consists of first and subordinate mortgages deemed ineligible for sale under the PSSA program after origination and also includes 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.

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 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.

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 temporarily restricted net assets.

Advances to Sponsored PSSAs

Advances to sponsored PSSAs consists 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 is 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.

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.

Contracts 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.

At March 31, 2019, contracts totaling approximately $6.9 million have been awarded to NLS, but not yet recorded, for future contract activities through December 2020, subject to continuing government appropriation and the Organization’s ability to deploy the contract amounts.

Note 2 - Significant Accounting Policies (Continued)

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.

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.

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

The Organization is a not-for-profit corporation and is exempt from tax under the provisions of Internal Revenue Code Section 501(c)(3).

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 Pronouncements

As of April 1, 2018, the Organization adopted 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 to be applied using one of two retrospective application methods. NLS 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.

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, 2023. 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 Financial Accounting Standards Board (FASB) issued Accounting Standards Update 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
Loans 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

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 less 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

Note 4 - 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:

	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 - Debt

Debt consists of the following as of March 31, 2019:

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, an entity affiliated through common control. As discussed in Note 10, 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 is due 30 days after the sale of certain multifamily properties owned by an affiliate of NLS. As discussed in Note 10, the multifamily properties were sold and the agreement was amended subsequent to year end. This loan is guaranteed by NHS and NHSRC, entities affiliated through common control. (1)		906,566
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
Subtotal debt		9,169,691
Less: Unamortized loan discount		73,007
Total debt	$	9,096,684

(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	$	2,691,590
2021		74,768
2022		3,903,333
2023		2,500,000
Imputed interest		(73,007)
Total	$	9,096,684

Note 6 - 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	$ 4,551,102
NeighborWorks America Funds (1)	1,004,890
Imputed interest	73,007
Total net assets with donor restrictions	$ 5,628,999

(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 7 - Related Party Transactions

NHS and its affiliates, including the Organization, have entered into 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. For the year ended March 31, 2019, shared services expenses of $1,620,745 were charged to NLS. 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. The Organization has receivables from affiliates totaling $2,870,224 as of March 31, 2019.

In addition, NLS has two outstanding notes receivable totaling $491,000 from affiliated limited partnerships. These notes bear interest at an annual rate of 8.0 percent, with maturity dates in February 2020. No principal or interest payments are required until maturity. As discussed in Note 10, the notes were repaid in full in April 2019.

Note 8 - Concentrations and Contingencies

During fiscal 2019, approximately 60 percent of total contract revenue was related to contracts with the city of Chicago.

All operations are conducted in the Chicago metropolitan area, and the Organization’s overall activity is subject to market conditions in that area.

In the ordinary course of business, the Organization may become 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 9 - Liquidity and Availability of Resources

The Organization has $15,809,738 of financial assets available within one year of the balance sheet date to meet cash needs for general expenditure consisting of cash of $2,803,633, contracts receivable of $1,544,409, and loans held for sale of $11,461,696 at March 31, 2019. None of the financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the balance sheet date. The loans held for sale are subject to requirements of the PSSAs but are expected to be sold within one year.

Note 9 - Liquidity and Availability of Resources (Continued)

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 6 months, assuming no revenue were 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 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 10 - Subsequent Events

The financial statements and related disclosures include evaluation of events up through and including October 3, 2019, which is the date the financial statements were available to be issued.

In August 2019, NLS entered a line of credit agreement with NeighborWorks Capital Corporation (NWC), an affiliate of NWA, 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 were used to payoff the entire $2,000,000 outstanding balance of the Fifth Third Bank line of credit (see Note 5). The Fifth Third Bank line of credit agreement was terminated upon the payoff in August 2019.

In April 2019, certain multifamily properties owned by an affiliate of NLS were sold. At the time of the sale, NLS commenced negotiations with the Ford Foundation regarding a $598,130 principal payment on the note payable that was triggered by the multifamily sale (see Note 5). In August 2019, 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 duly paid.

In April 2019, as a result of the sale of the multifamily properties discussed in the paragraph above, NLS received funds of $492,000 from affiliated limited partnerships as repayment of the entire outstanding principal balances on notes receivable from those partnerships, which were included in advances to affiliates on the accompanying statement of financial position as of March 31, 2019 (see Note 7). In addition, NLS received $524,000 in accumulated interest payments from the affiliated limited partnerships in April 2019.

Note 11 – Additional CDFI Information (Unaudited)

Selected CDFI ratios at March 31, 2019:

Net asset ratios			
Total net assets	12,379,246	Net assets without donor restrictions	6,750,247
Total assets	24,863,322	Total assets	24,863,322
Ratio	***49.8%***	Ratio	***27.1%***
Loan loss ratios			
Loan loss reserve for Held for sale loans	0	Loan loss reserve for Retained loans	550,000
Held for sale loans	13,533,004	Retained loans	1,358,127
Loan loss ratios	***0.0%***	Loan loss ratios	***40.5%***
Past due ratios			
Loans greater than 30 days past due	145,714	Loans greater than 30 days past due	902,383
Held for sale loans	13,533,004	Retained loans	1,358,127
Past due ratio	***1.1%***		***66.4%***
Net chargeoff ratio			
Chargeoffs	0	Chargeoffs	21,240
Held for sale loans	13,533,004	Retained loans	1,358,127
Past due ratio	***0.0%***		***1.6%***
2019 Self sufficiency ratio		***Deployment ratio***	
Earned Revenue	4,818,711	Held for sale loans	13,533,004
		Retained loans	1,358,127
Expenses	4,782,286		
			14,891,131
Self sufficiency ratio	***100.8%***		
		Loan capital	14,798,690
		Less loan capital attributed to deferred loans	-3,391,269
		Unrestricted net assets	6,750,247
			18,157,668
		Deployment ratio	***82.0%***

Note 11 – Additional CDFI Information (Unaudited)

Loan capital

The term “loan capital” is also used by the CDFI industry as a measure of CDFI relative capital sourcing for its principal lending activity. In general loan capital represents the portion of the CDFI’s total capitalization that is meant to be used for its principal lending activity. There is no specific requirement that all loan capital be continuously deployed, but the amount of loan capital is indicative of the general target amount of loan activity.

At March 31, 2019, the Organization’s loan capital aggregated $14,798,690, including $9,169,691 of debt, $1,159,833 of CDFI deferred revenue and $4,469,166 of net assets with donor restriction. The scheduled releases of deferred revenue and net assets with donor restriction are as follows.

	Amount	2020	2021	2022	Not fixed
Loan capital	1,004,890	190,000			814,890
City of Chicago, CDBG deferred loans	3,391,269				3,391,269
Unamortized loan discount	73,007	37,512	35,495		
Total	***4,469,166***				
CDFI (deferred revenue)	***1,159,833***	642,166	258,834	258,833	