Neighborhood Housing Services of Chicago, Inc. and Related Entities

Consolidated Financial Report

March 31, 2023

Contents

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Independent Auditor's Report

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

Report on the Audits of the Consolidated Financial Statements

Opinion

We have audited the 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, 2023 and 2022 and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Organization as of March 31, 2023 and 2022 and the changes in its 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audits of the Consolidated Financial Statements* section of our report. We are required to be independent of the Organization and to meet our ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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 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.

Responsibilities of Management for the Consolidated Financial Statements

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

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

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

Auditor's Responsibilities for the Audits of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that audits conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing audits in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audits.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audits 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 Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits, significant audit findings, and certain internal control-related matters that we identified during the audits.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 2023 on our consideration of the Organization internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

Plante & Moran, PLLC

September 28, 2023

Consolidated Statement of Financial Position

March 31, 2023 and 2022

	2023	2022
Assets		
Cash and cash equivalents	$ 7,270,783	$ 6,127,721
Nonoperating cash	8,200,000	5,000,000
Restricted cash	493,775	493,775
Contracts receivable	3,464,814	5,937,188
Loans held for sale (Note 4)	3,154,404	9,190,233
Loans receivable: (Note 5)		
Loans held for investment - Net	1,015,157	1,333,078
Deferred loans - Net	3,246,076	3,146,417
Prepaid expenses and other assets	61,146	165,210
Receivership and development project advances - Net	1,059,794	1,090,206
Servicing advances	710,178	701,095
Property held for development and sale: (Note 6)		
Property held for development - Net	317,433	317,433
Property held for sale - Net	159,467	137,341
Property and equipment used in operations - Net (Note 7)	97,052	88,746
Total assets	**$ 29,250,079**	**$ 33,728,443**
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	$ 1,177,370	$ 1,669,079
Loss reserve liability	493,775	493,775
Funds held for agency transactions and deferred revenue (Note 8)	9,208,104	8,694,553
Program receipts payable	2,940,926	2,552,455
Customer deposits and other liabilities	19,344	19,344
Debt - Net (Note 9)	5,755,125	12,148,623
Total liabilities	19,594,644	25,577,829
Net Assets		
Without donor restrictions	1,800,215	4,452,658
With donor restrictions (Note 10)	7,855,220	3,697,956
Total net assets	9,655,435	8,150,614
Total liabilities and net assets	**$ 29,250,079**	**$ 33,728,443**

See notes to consolidated financial statements.

Consolidated Statement of Activities and Changes in Net Assets

Years Ended March 31, 2023 and 2022

	2023			2022		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, Gains, and Other Support						
Contract revenue - Net	$ 4,800,428	$ -	$ 4,800,428	$ 5,682,718	$ -	$ 5,682,718
Servicing and lending-related income	577,165	-	577,165	1,023,199	-	1,023,199
Miscellaneous	363,199	-	363,199	471,944	-	471,944
Contributions and grants	1,894,416	4,386,043	6,280,459	3,079,209	-	3,079,209
Satisfaction of donor restrictions	228,779	(228,779)	-	261,605	(261,605)	-
Gain on sale of property	-	-	-	289,781	-	289,781
Total revenue, gains, and other support	7,863,987	4,157,264	12,021,251	10,808,456	(261,605)	10,546,851
Expenses						
Program services	5,582,807	-	5,582,807	7,043,456	-	7,043,456
Support services:						
Management and general	4,137,430	-	4,137,430	3,306,578	-	3,306,578
Fundraising	796,193	-	796,193	898,635	-	898,635
Total expenses	10,516,430	-	10,516,430	11,248,669	-	11,248,669
Change in Net Assets	(2,652,443)	4,157,264	1,504,821	(440,213)	(261,605)	(701,818)
Net Assets - Beginning of year	4,452,658	3,697,956	8,150,614	4,892,871	3,959,561	8,852,432
Net Assets - End of year	**$ 1,800,215**	**$ 7,855,220**	**$ 9,655,435**	**$ 4,452,658**	**$ 3,697,956**	**$ 8,150,614**

See notes to consolidated financial statements.

Neighborhood Housing Services of Chicago, Inc. and Related Entities

Consolidated Statement of Functional Expenses

Year Ended March 31, 2023

		Support Services			
	Program Services	Management and General	Fundraising	Total	Total
Salaries and related expenses	$ 4,131,944	$ 1,960,335	$ 464,363	$ 2,424,698	$ 6,556,642
Occupancy	515,253	244,453	57,906	302,359	817,612
Professional fees	-	835,915	-	835,915	835,915
Interest	86,720	-	-	-	86,720
Loan origination and servicing	713,537	-	-	-	713,537
Depreciation	-	46,104	-	46,104	46,104
Information technology	-	678,006	-	678,006	678,006
Fundraising	-	-	273,924	273,924	273,924
Insurance	-	285,924	-	285,924	285,924
Single family homes - Operating costs	28,768	-	-	-	28,768
Other	106,585	86,693	-	86,693	193,278
Total functional expenses	**$ 5,582,807**	**$ 4,137,430**	**$ 796,193**	**$ 4,933,623**	**$ 10,516,430**

Consolidated Statement of Functional Expenses

Year Ended March 31, 2022

		Support Services			
	Program Services	Management and General	Fundraising	Total	Total
Salaries and related expenses	$ 3,955,216	$ 1,546,051	$ 548,712	$ 2,094,763	$ 6,049,979
Occupancy	439,318	171,724	60,947	232,671	671,989
Professional fees	-	606,088	-	606,088	606,088
Interest	243,158	-	-	-	243,158
Loan origination and servicing	816,870	-	-	-	816,870
Depreciation	298	56,105	-	56,105	56,403
Information technology	-	585,671	-	585,671	585,671
Fundraising	-	-	288,976	288,976	288,976
Insurance	-	164,989	-	164,989	164,989
Mortgage assistance	1,354,377	-	-	-	1,354,377
Single-family homes - Operating costs	111,943	-	-	-	111,943
Other	122,276	175,950	-	175,950	298,226
Total functional expenses	**$ 7,043,456**	**$ 3,306,578**	**$ 898,635**	**$ 4,205,213**	**$ 11,248,669**

Consolidated Statement of Cash Flows

Years Ended March 31, 2023 and 2022

	2023	2022
Cash Flows from Operating Activities		
Increase (decrease) in net assets	$ 1,504,821	$ (701,818)
Adjustments to reconcile increase (decrease) in net assets to net cash, cash equivalents, nonoperating cash, and restricted cash from operating activities:		
Depreciation expense	46,104	56,403
Provision for loan losses	152,722	-
Imputed interest expense	-	21,605
Origination and funding of loans held for sale	(2,823,253)	(7,483,765)
Principal collections and sales proceeds received on loans held for sale	9,070,386	6,846,451
Loss (gain) on loan sales	67,557	(202,664)
Gain on sale of property held for rental and development	-	(276,197)
Loss (gain) on sale of property used in operations	9,370	(13,584)
Changes in operating assets and liabilities that provided (used) cash, cash equivalents, nonoperating cash, and restricted cash:		
Contracts receivable	2,472,374	(4,582,263)
Prepaid expenses and other assets	104,064	(69,563)
Receivership and development project advances	30,412	(419,132)
Servicing advances	(9,083)	(80,716)
Accounts payable and accrued expenses	(491,709)	(464,926)
Loan loss reserve	-	(117,590)
Deferred revenue	513,551	2,312,141
Program receipts payable	388,471	222,639
Customer deposits and other liabilities	-	(165,972)
Net cash, cash equivalents, nonoperating cash, and restricted cash provided by (used in) operating activities	11,035,787	(5,118,951)
Cash Flows from Investing Activities		
(Additions to) collections received on loans held for investment and deferred loans	(213,321)	299,070
Proceeds from sale of property held for rental and development	-	788,223
Additions to property held for sale	(22,126)	-
Additions to property and equipment used in operations	(63,780)	(81,271)
Net cash, cash equivalents, nonoperating cash, and restricted cash (used in) provided by investing activities	(299,227)	1,006,022
Cash Flows from Financing Activities		
Repayments of debt	(6,393,498)	-
Borrowings of notes payable	-	200,000
Net cash, cash equivalents, nonoperating cash, and restricted cash (used in) provided by financing activities	(6,393,498)	200,000
Net Increase (Decrease) in Cash, Cash Equivalents, Nonoperating Cash, and Restricted Cash	4,343,062	(3,912,929)
Cash, Cash Equivalents, Nonoperating Cash, and Restricted Cash - Beginning of year	11,621,496	15,534,425
Cash, Cash Equivalents, Nonoperating Cash, and Restricted Cash - End of year	**$ 15,964,558**	**$ 11,621,496**
Consolidated Statement of Financial Position Classification of Cash, Cash Equivalents, Nonoperating Cash, and Restricted Cash		
Cash and cash equivalents	$ 7,270,783	$ 6,127,721
Nonoperating cash	8,200,000	5,000,000
Restricted cash	493,775	493,775
Total cash, cash equivalents, nonoperating cash, and restricted cash	**$ 15,964,558**	**$ 11,621,496**
Supplemental Cash Flow Information - Cash paid for interest	$ 111,059	$ 243,158
Significant Noncash Transactions - Loans held for investment transferred to loans held for sale	$ (278,861)	$ (1,001,168)

Note 1 - Description of Operations

Neighborhood Housing Services of Chicago, Inc. (NHS) 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, 2023 and 2022, NHS served 5,616 and 6,640 clients, closed 331 and 1,058 loans and grants, loaned $2,823,253 and $7,483,765, financed or rehabbed 384 and 416 units, had 2,015 and 2,213 participants in homebuyer education, and created 220 and 298 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, 2023 and 2022. The following entities are included in the consolidated financial statements for the years ended March 31, 2023 and 2022:

- Neighborhood Housing Services of Chicago, Inc.
- Neighborhood Lending Services, Inc.
- NHS Redevelopment Corporation
- NHSRC Initiatives, Inc.
- NHSRC Finance LLC

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 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.

Note 2 - Significant Accounting Policies (Continued)

Accordingly, the consolidated financial statements include the accounts of NHS, NLS, NHSRC, NHSRCI, and NHSRC LLC. 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.

Cash that has been received for future contractual services is classified as nonoperating cash on the accompanying consolidated statement of financial position, with a corresponding liability included in deferred revenue. Revenue related to nonoperating cash and deferred revenue liabilities will be recognized in future fiscal years as the contractual services are provided. As of March 31, 2023 and 2022, the Organization has $5,000,000 of nonoperating cash that is related to contractual services to be completed in future years.

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 the Organization, 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 statement 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.

Note 2 - Significant Accounting Policies (Continued)

Contracts Receivable

Contracts receivable represent revenue from providing services under government contracts designated for use in specific activities and are expected to be collected in one year or less. 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, 2023 and 2022.

Transfer of Financial Assets

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Organization, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of the right) to pledge or exchange the transferred assets, and (3) the Organization does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity or the ability to unilaterally cause the holder to return specific assets.

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 August 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, 2023 and 2022 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.

Note 2 - Significant Accounting Policies (Continued)

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.

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 repayments at the inception of the loan. These deferred loans are subordinate loans used to complement private lending products and can be used as interim funding or permanent financing/subsidies for eligible transactions. 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 2023 or 2022.

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, 2023 and 2022, donor-restricted net assets related to deferred loans include the outstanding principal balance, net of the allowance for loan losses, and cumulative borrower repayments that have not yet been reused to originate additional deferred loans, as discussed in the paragraph above.

Note 2 - Significant Accounting Policies (Continued)

Receivership and Development Project Advances

Receivership and development project advances represent costs from providing rehabilitation and development services for homeowners. Costs are repaid by either the homeowner or through the reimbursement grants held with the City of Chicago, Illinois. Balance is stated at cost net of an allowance of doubtful accounts. Allowance is assessed based on historical loss experience. All amounts deemed to be uncollectible are charged against the allowance for doubtful accounts in the period that determination is made. The allowance as of March 31, 2023 and 2022 was $231,925.

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 Development and Sale

Property held for development is stated at cost and represents the land, buildings, and improvements of the properties held by the Organization for the purpose of renovation and improvement.

Property held for sale is stated at the lower of the carrying value and the fair value. Management actively markets the properties held for sale and expects the properties to sell within 12 months of March 31, 2023. Prior to being held for sale, the Organization held the properties for rental use and depreciated the buildings and improvements over the estimated useful life of 40 years using the straight-line method.

No impairments have been recognized on properties held during March 31, 2023 or 2022.

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.

	Depreciable Life - 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 development and sale 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, 2023 and 2022, no impairment losses were recognized on property held for development and sale or property and equipment used in operations.

Note 2 - Significant Accounting Policies (Continued)

Funds Held for Agency Transactions and Deferred Revenue

Funds held for agency transactions consist of cash received related to various government programs that the Organization will use to administer down payment assistance and lending programs.

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 to be used to reinvest in the respective program activity or return to the grantor.

Contract Revenue - Net

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.

Contract revenue for which the Organization acts as an agent and the Organization does not have the discretion to choose the beneficiary of the contribution received is recorded net of the expenses provided to the ultimate beneficiary.

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, 2023, contracts totaling approximately $17,470,000 and $15,650,000 have been awarded to the Organization for contract services to be performed after March 31, 2023 and 2022, respectively, subject to continuing government appropriation and the Organization’s ability to deploy the contract amounts.

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 based on 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.

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 statement of activities and 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.

Note 2 - Significant Accounting Policies (Continued)

Paycheck Protection Program Grant

On May 13, 2021, the Organization received stimulus funding from a lending institution of $1,096,000. 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.

On April 29, 2022, the Organization subsequently received notice from the Small Business Administration for forgiveness of the loan amount. The Organization had permitted expenditures of $1,096,000 during fiscal year 2022 and has recognized contribution revenue for this amount on the consolidated statement of activities and changes in net assets as of March 31, 2022.

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, 2023 and 2022. Any tax liabilities as of March 31, 2023 and 2022 are anticipated to be insignificant.

NHSRC Finance LLC is treated as a partnership for federal and state tax purposes. Consequently, federal and state income taxes are not payable, or provided for, by NHSRC LLC. 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.

Upcoming Accounting Pronouncement

In June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (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 is currently evaluating 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 and Agency 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 and began selling eligible loans to Freddie Mac in fiscal year 2022.

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.

During 2023, loans were sold to two parties, Freddie Mac and Providence Bank. During 2022, loans were sold to one party, Freddie Mac. The Organization received cash proceeds on loan sales of $8,954,812 and $5,373,892 and recognized gains on sale totaling $67,557 and $202,664 during 2023 and 2022, respectively, which are included in servicing and lending-related income in the accompanying consolidated statement of activities and changes in net assets.

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, 2023	Outstanding Balance at March 31, 2022
2009 PSSA	4/24/2009	$ 110,250,000	$ 16,628,524	$ 17,989,570
2009-X PSSA	7/13/2012	30,000,000	12,255,577	13,717,610
2014 PSSA	3/1/2014	40,000,000	22,671,216	24,555,111
2017 PSSA	6/28/2017	39,000,000	24,688,373	25,463,223
Credit union	11/21/2018	15,000,000	3,899,334	3,899,334
Freddie Mac	7/24/2020	-	7,111,236	5,315,677
Providence Bank	4/28/2022	-	5,997,584	-

The purchase periods have expired, and no purchase commitments remain for all PSSA series investors as of March 31, 2023 and 2022.

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, 2023 and 2022, the remaining purchase commitment available from the credit union investor was approximately $8.8 million.

There are no defined purchase periods or purchase commitments under the agreement with Freddie Mac and Providence Bank.

Note 3 - Loan Sales and Servicing (Continued)

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 2023 and 2022, NLS used approximately $113,000 and $80,000, respectively, of reserve funds to cover or offset costs associated with servicing the unsold loans. As of March 31, 2023 and 2022, the remaining reserve funds balance was approximately $322,000 and $435,000, respectively, which is included in accounts payable and accrued expenses on the accompanying consolidated statement of financial position. Management expects that the majority of the remaining reserve funds balance will be used to cover future costs incurred to service the unsold loans through final disposition.

Note 4 - Loans Held for Sale

Loans held for sale are carried at the lower of cost or fair value. As of March 31, 2023 and 2022, 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, 2023 and 2022, loans held for sale totaled $3,154,404 and $9,190,233, respectively. For certain loans held for sale that have a construction component, gross loan commitments are reported net of unfunded construction holdbacks, which are advanced to borrowers as rehabilitation progresses on the respective secured properties. As of March 31, 2023 and 2022, unfunded construction holdbacks totaled $27,500 and $0, respectively.

Note 5 - Loans Receivable - Net

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

	2023			2022		
	Loans Held for Investment	Deferred Loans	Total Loans Receivable	Loans Held for Investment	Deferred Loans	Total Loans Receivable
Outstanding principal balance	$ 1,797,318	$ 4,993,963	$ 6,791,281	$ 2,115,239	$ 5,047,026	$ 7,162,265
Less allowance for loan losses	(782,161)	(1,747,887)	(2,530,048)	(782,161)	(1,900,609)	(2,682,770)
Loans receivable - Net	$ 1,015,157	$ 3,246,076	$ 4,261,233	$ 1,333,078	$ 3,146,417	$ 4,479,495

Note 5 - Loans Receivable - Net (Continued)

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

	2023			2022		
	Loans Held for Investment	Deferred Loans	Total	Loans Held for Investment	Deferred Loans	Total
Beginning balance	$ 782,161	$ 1,900,609	$ 2,682,770	$ 782,161	$ 1,830,232	$ 2,612,393
Charge-offs	-	-	-	-	-	-
Recoveries	-	-	-	-	70,377	70,377
Provision	-	(152,722)	(152,722)	-	-	-
Ending balance	$ 782,161	$ 1,747,887	$ 2,530,048	$ 782,161	$ 1,900,609	$ 2,682,770
Ending allowance balance attributable to loans:						
Individually evaluated for impairment	$ 206,827	$ -	$ 206,827	$ 215,690	$ -	$ 215,690
Collectively evaluated for impairment	575,334	1,747,887	2,323,221	566,471	1,900,609	2,467,080
Ending allowance balance	$ 782,161	$ 1,747,887	$ 2,530,048	$ 782,161	$ 1,900,609	$ 2,682,770
Loans:						
Individually evaluated for impairment	$ 539,157	$ -	$ 539,157	$ 633,360	$ -	$ 633,360
Collectively evaluated for impairment	1,258,161	4,993,963	6,252,124	1,481,879	5,047,026	6,528,905
Total loans	$ 1,797,318	$ 4,993,963	$ 6,791,281	$ 2,115,239	$ 5,047,026	$ 7,162,265

Credit Risk Rating and Age Analysis of Past-due Loans

The Organization uses one credit quality indicator, days contractually past due, for its systematic methodology of evaluating its estimated incurred loan losses.

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:

	2023					
	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total
Loans held for investment	$ 218,879	$ -	$ 539,157	$ 758,036	$ 1,039,282	$ 1,797,318
Deferred loans	-	-	-	-	4,993,963	4,993,963
Total	$ 218,879	$ -	$ 539,157	$ 758,036	$ 6,033,245	$ 6,791,281

	2022					
	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total
Loans held for investment	$ 257,616	$ 119,995	$ 255,749	$ 633,360	$ 1,481,879	$ 2,115,239
Deferred loans	-	-	-	-	5,047,026	5,047,026
Total	$ 257,616	$ 119,995	$ 255,749	$ 633,360	$ 6,528,905	$ 7,162,265

Note 5 - Loans Receivable - Net (Continued)

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:

	2023				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
Loans held for investment:					
With an allowance recorded	$ 427,867	$ 427,867	$ 206,827	$ 429,362	$ -
With no related allowance	111,290	111,290	-	111,716	-
Total	$ 539,157	$ 539,157	$ 206,827	$ 541,078	$ -

	2022				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
Loans held for investment:					
With an allowance recorded	$ 337,610	$ 377,610	$ 215,690	$ 376,659	$ -
With no related allowance	255,750	255,750	-	252,994	-
Total	$ 593,360	$ 633,360	$ 215,690	$ 629,653	$ -

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, 2023 and 2022, the total outstanding principal balance of loans that are under COVID-19 forbearance plans is approximately $0 and $355,000, respectively. The deferral periods on the outstanding loans expire between June and August 2022, 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.

Note 5 - Loans Receivable - Net (Continued)

All significant loans that were under COVID-19 forbearance plans as of March 31, 2022 were evaluated for impairment in accordance with the Organization's methodology described in the *Loans Held for Investment and Allowance for Loan Losses* section of Note 2.

Note 6 - Property Held for Development and Sale

	2023	2022
Vacant lots held for development	$ 317,433	$ 317,433
Buildings and improvements held for sale	206,981	184,855
Total	524,414	502,288
Less accumulated depreciation and amortization	(47,514)	(47,514)
Total	$ 476,900	$ 454,774

Note 7 - Property and Equipment Used in Operations

	2023	2022
Land	$ 3,800	$ 3,800
Buildings and improvements	151,038	151,038
Office furniture and equipment	169,168	131,450
Leasehold improvements	215,048	215,048
Total cost	539,054	501,336
Less accumulated depreciation and amortization	442,002	412,590
Net property and equipment	$ 97,052	$ 88,746

Note 8 - Deferred Revenue

A summary of the changes in deferred revenue is as follows:

	2023	2022
Beginning balance	$ 8,694,553	$ 6,382,412
Additions - Funds received in advance	2,545,003	3,204,637
Deductions - Funds expended or revenue recognized	(2,031,452)	(892,496)
Ending balance	$ 9,208,104	$ 8,694,553

Note 9 - Debt

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

	2023	2022
NHS		
Note payable to Northern Trust Bank with annual interest-only payments. Upon the amended agreement effective July 2022, interest is payable at 1.00 percent per annum and principal balance is due in full on July 21, 2027	$ 750,000	$ 750,000

Note 9 - Debt (Continued)

	2023	2022
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 matured on September 1, 2022, at which time the entire outstanding principal plus accrued interest was paid in full	$ -	$ 3,000,000
Note payable to John D. & Catherine T. MacArthur Foundation with quarterly interest-only payments of 1 percent per annum. The agreement matures on December 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	363,125	3,763,125
Note payable to Northern Trust Bank with annual interest-only payments. Upon the amended agreement effective July 2022, interest is payable at 1.00 percent per annum and principal balance is due in full on July 21, 2027	2,500,000	2,500,000
Note payable to the Jewish Council on Urban Affairs with no interest or principal payments. The agreement matures on the earlier to occur of: the date of the final reimbursement from the City of Chicago, Illinois to NLS through NHS for all of the work completed under the terms of the Home Repair Program contract or June 1, 2023, at which time the entire outstanding principal balance becomes due and payable in full. In June 2023, the outstanding balance was fully repaid	200,000	200,000
NHSRC		
Note payable to Northern Trust Bank with annual interest-only payments. Upon the amended agreement effective July 2022, interest is payable at 1.00 percent per annum and principal balance is due in full on July 21, 2027	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	192,000	200,000
Subtotal debt	5,755,125	12,163,125
Less unamortized loan discounts	-	14,502
Total debt - Net	$ 5,755,125	$ 12,148,623

The NeighborWorks Capital Corporation loan agreement contained a minimum liquidity financial covenant. As of March 31, 2022, NLS was in compliance with the financial covenant.

Note 9 - Debt (Continued)

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
2024	$ 755,125
2025	-
2028	5,000,000
Total	$ 5,755,125

Note 10 - Net Assets with Donor Restrictions

Net assets with donor restrictions consist of the following

	2023	2022
Time and purpose restrictions:		
Public grants - Loan capital	$ 3,839,177	$ 3,683,454
Public grants - Electric utility bill assistance	4,016,043	-
Imputed interest	-	14,502
Total net assets with donor restrictions	$ 7,855,220	$ 3,697,956

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

The Organization has operating leases for office space and equipment, with a lease term of one year or less that the Organization elected to account for as short-term leases. As these leases are short-term leases, they are not recorded as a right-of-use asset or lease liability in the consolidated statement of financial position. Total expense related to short-term leases was $464,386 and $461,048 for 2023 and 2022, respectively.

Note 13 - Retirement Plan

The Organization sponsors a defined contribution retirement plan for all full-time employees. Employees 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. No contributions were made for the years ended March 31, 2023 and 2022.

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 79 and 86 percent of total contract revenue for the fiscal years ended March 31, 2023 and 2022, respectively.

Note 14 - Concentrations and Contingencies (Continued)

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 $17,090,001 and $21,255,142 of financial assets available within one year of March 31, 2023 and 2022 to meet cash needs for general expenditures consisting of cash and cash equivalents of $10,470,183 and $6,127,721, contracts receivable of $3,464,814 and $5,937,188, and loans held for sale of $3,154,404 and $9,190,233, 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 requirements of various loan sale agreements but are expected to be sold within one year. Additionally, the Organization is holding $5,000,000 of cash as of March 31, 2023 and 2022 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, 2023 and 2022, 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 2024 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

On June 30, 2023, a subsidiary of NHSRC received cash proceeds in the amount of $864,000 from its share of the sale of a property in which it had a noncontrolling interest. The investment in the partnership interest had been carried at a $0 cost basis on the books of NHSRC's subsidiary, and, thus, the entire $864,000 will be recognized as a gain in fiscal year 2024. As of the date of this report, the parties to the sale are continuing to reconcile prorations in order to make final computations for the final proceed amounts to be released to the various owners, including NHSRC, but cannot estimate the additional proceed amounts at this time.

The financial statements and related disclosures include evaluation of events up through and including September 28, 2023, which is the date the financial statements were available to be issued.