Neighborhood Lending Services, Inc.

Financial Report

March 31, 2023

Contents

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Independent Auditor's Report

To the Board of Directors
Neighborhood Lending Services, Inc.

Opinion

We have audited the financial statements of Neighborhood Lending Services, Inc. (the "Organization"), which comprise the statement of financial position as of March 31, 2023 and 2022 and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying 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). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audits of the 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 Financial Statements

Management is responsible for the preparation and fair presentation of the 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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the 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 financial statements are issued or available to be issued.

To the Board of Directors
Neighborhood Lending Services, Inc.

Auditor's Responsibilities for the Audits of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 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 financial statements.

In performing audits in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audits.
- Identify and assess the risks of material misstatement of the 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 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 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.

Plante & Moran, PLLC

June 27, 2023

Statement of Financial Position

March 31, 2023 and 2022

	2023	2022
Assets		
Cash and cash equivalents	$ 2,654,449	$ 4,160,095
Nonoperating cash	5,000,000	5,000,000
Restricted cash	493,775	493,775
Contracts receivable	1,272,101	4,957,799
Loans held for sale	3,154,404	9,190,233
Loans receivable:		
Loans held for investment - Net	1,015,157	1,333,078
Deferred loans - Net	3,246,076	3,146,417
Servicing advances	710,178	701,095
Advances to affiliates	6,543,091	1,835,749
Prepaid expenses and other assets	-	780
Total assets	**$ 24,089,231**	**$ 30,819,021**
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	$ 1,057,980	$ 1,199,028
Loss reserve liability	493,775	493,775
Funds held for agency transactions and deferred revenue	7,678,301	7,157,516
Debt - Net	3,063,125	9,448,623
Total liabilities	12,293,181	18,298,942
Net Assets		
Without donor restrictions	7,956,873	8,822,123
With donor restrictions	3,839,177	3,697,956
Total net assets	11,796,050	12,520,079
Total liabilities and net assets	**$ 24,089,231**	**$ 30,819,021**

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	$ 1,760,094	$ -	$ 1,760,094	$ 3,526,226	$ -	$ 3,526,226
Servicing and lending-related income	585,767	-	585,767	1,012,979	-	1,012,979
Miscellaneous	74,601	-	74,601	266,935	-	266,935
Contributions and private grants	50,000	370,000	420,000	106,684	-	106,684
Satisfaction of donor restrictions	228,779	(228,779)	-	261,605	(261,605)	-
Total revenue, gains, and other support	2,699,241	141,221	2,840,462	5,174,429	(261,605)	4,912,824
Expenses						
Program services - Community lending and mortgage assistance	2,625,886	-	2,625,886	4,190,728	-	4,190,728
Support services - Management and general	938,605	-	938,605	700,383	-	700,383
Total expenses	3,564,491	-	3,564,491	4,891,111	-	4,891,111
Change in Net Assets	(865,250)	141,221	(724,029)	283,318	(261,605)	21,713
Net Assets - Beginning of year	8,822,123	3,697,956	12,520,079	8,538,805	3,959,561	12,498,366
Net Assets - End of year	**$ 7,956,873**	**$ 3,839,177**	**$ 11,796,050**	**$ 8,822,123**	**$ 3,697,956**	**$ 12,520,079**

See notes to financial statements.

Statement of Functional Expenses

Year Ended March 31, 2023

	Program Services - Community Lending and Mortgage Assistance	Support Services - Management and General	Total
Compensation and benefits	$ 1,898,096	$ 27,629	$ 1,925,725
Occupancy	6,042	90	6,132
Professional fees	-	128,572	128,572
Interest	43,635	-	43,635
Management and general expense	-	737,863	737,863
Marketing	-	16,500	16,500
Loan origination and servicing	697,081	-	697,081
Mortgage assistance	(18,968)	-	(18,968)
Other	-	27,951	27,951
Total functional expenses	**$ 2,625,886**	**$ 938,605**	**$ 3,564,491**

See notes to financial statements.

Statement of Functional Expenses

Year Ended March 31, 2022

	Program Services - Community Lending and Mortgage Assistance	Support Services - Management and General	Total
Compensation and benefits	$ 1,781,412	$ 26,855	$ 1,808,267
Occupancy	5,668	82	5,750
Professional fees	-	117,208	117,208
Interest	234,633	-	234,633
Management and general expense	-	529,400	529,400
Marketing	-	17,268	17,268
Loan origination and servicing	816,870	-	816,870
Mortgage assistance	1,352,145	-	1,352,145
Other	-	9,570	9,570
Total functional expenses	**$ 4,190,728**	**$ 700,383**	**$ 4,891,111**

Statement of Cash Flows

Years Ended March 31, 2023 and 2022

	2023	2022
Cash Flows from Operating Activities		
(Decrease) increase in net assets	$ (724,029)	$ 21,713
Adjustments to reconcile (decrease) increase in net assets to net cash, cash equivalents, nonoperating cash, and restricted cash from operating activities:		
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)
Changes in operating assets and liabilities that provided (used) cash, cash equivalents, nonoperating cash, and restricted cash:		
Contracts receivable	3,685,698	(4,396,597)
Servicing advances	(9,083)	(80,716)
Advances to affiliates	(4,707,342)	1,186,361
Prepaid expenses and other assets	780	35,987
Accounts payable and accrued expenses	(141,048)	(401,934)
Deferred revenue	520,785	1,178,854
Loan loss reserve	-	(117,590)
Net cash, cash equivalents, nonoperating cash, and restricted cash provided by (used in) operating activities	5,093,173	(3,392,295)
Cash Flows (Used in) Provided by Investing Activities - Collections received on loans held for investment and deferred loans	(213,321)	299,070
Cash Flows from Financing Activities		
Repayments of line of credit	(6,385,498)	-
Borrowings of notes payable	-	200,000
Net cash, cash equivalents, nonoperating cash, and restricted cash (used in) provided by financing activities	(6,385,498)	200,000
Net Decrease in Cash, Cash Equivalents, Nonoperating Cash, and Restricted Cash	(1,505,646)	(2,893,225)
Cash, Cash Equivalents, Nonoperating Cash, and Restricted Cash - Beginning of year	9,653,870	12,547,095
Cash, Cash Equivalents, Nonoperating Cash, and Restricted Cash - End of year	**$ 8,148,224**	**$ 9,653,870**
Supplemental Cash Flow Information - Cash paid for interest	$ 19,296	$ 234,633
Significant Noncash Transactions - Loans held for investment transferred to loans held for sale	$ (278,861)	$ (1,001,618)

See notes to financial statements.

Note 1 - Nature 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 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 the 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 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.

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

Note 2 - Significant Accounting Policies

Cash and Cash Equivalents and Nonoperating Cash

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

Cash that has been received for future contractual services is classified as nonoperating cash on the accompanying 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 NLS, a corresponding loss reserve liability of the same amount is established. The loss reserve liability is increased by charges to loss reserve expense and decreased at the time the investors incur a loan loss that is required to be recovered through funding from the respective restricted cash accounts.

The following table provides a reconciliation of cash, cash equivalents, nonoperating cash, and restricted cash reported on the statement of financial position to the amounts reported in the statement of cash flows:

	2023	2022
Cash and cash equivalents	$ 2,654,449	$ 4,160,095
Nonoperating cash	5,000,000	5,000,000
Restricted cash	493,775	493,775
Total cash, cash equivalents, nonoperating cash, and restricted cash presented in the statement of cash flows	$ 8,148,224	$ 9,653,870

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.

Note 2 - Significant Accounting Policies (Continued)

Net assets with donor restrictions: Contributed net assets received with donor-imposed restrictions that expire with the passage of time or that can be removed by meeting certain requirements or donor restrictions that 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 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.

Contracts Receivable

Contracts receivable represent revenue from providing services under government contracts designated for use in specific activities. Contracts receivable are carried at the original granted amount. Receivables are written off when deemed uncollectible. The Organization determined 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 loan sale contracts with investors.

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.

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.

Note 2 - Significant Accounting Policies (Continued)

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.

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 loans. 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.

Note 2 - Significant Accounting Policies (Continued)

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

Servicing Advances

The Organization provides advances of taxes and insurance, as well as certain corporate, foreclosure, and liquidation costs on serviced loans, which 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 amount of these costs may be recoverable 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.

Funds Held for Agency Transactions and Deferred Revenue

Funds held for agency transactions consist of cash received related to various government programs, which 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.

Contracts Revenue Recognition

The Organization contracts to provide services to certain governmental and private agencies. Certain contracts are subject to audit by the counterparty and may be adjusted based on negotiation. Contract revenue is considered a nonexchange transaction and is recognized as the conditions of the contracts have been met.

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 and is measured at fair value. Contributions without donor-imposed restrictions are reported as net assets with donor restrictions. Conditional promises are recorded when donor stipulations are substantially met. Contributions are reported as donor-restricted support if they are received with donor stipulations that limit the use of the donated assets. When a stipulated time restriction ends or a purpose restriction is accomplished, donor-restricted net assets are reclassified to net assets without donor restrictions and reported in the statement of activities and changes in net assets as net assets released from restrictions. This includes donor-restricted contributions whose restrictions are met within the year in which the contributions were received.

Servicing and Lending-related Income

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

Note 2 - Significant Accounting Policies (Continued)

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.

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. Although the methods of allocation used are considered appropriate, other methods could be used that would produce different amounts.

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.

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 year of adoption. 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.

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 financial statements in accordance with accounting guidance.

Note 3 - Loan Sales and Servicing (Continued)

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 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 the sales totaling $67,557 and $202,664 during 2023 and 2022, respectively, which are included in servicing and lending-related income in the accompanying 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 March 31, 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 agreements 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 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 amortized cost, with no valuation allowance, as the loans are typically 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

Loans receivable 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 age analysis of the recorded investment in loans receivable as of March 31:

	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

	March 31, 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 for the Year	Interest Income Recognized for the Year
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 for the Year	Interest Income Recognized for the Year
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 expired between June and August 2022, at which time borrowers were required to resume regular payments under their mortgage agreements. A modification of a loan is considered a troubled debt restructuring (TDR) when a borrower is experiencing financial difficulty and the modification constitutes a concession. None of the COVID-19 forbearance loans were considered TDRs because they were modified in accordance with the provisions of the CARES Act.

All significant loans that 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* paragraphs in Note 2.

Note 6 - Debt

Debt consists of the following as of March 31, 2023 and 2022:

	2023	2022
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 the 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 the Northern Trust Bank with annual interest-only payments of 0.01 percent per annum. The agreement matures on July 21, 2027, at which time the entire outstanding principal plus accrued interest are due and payable in full	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 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
Subtotal outstanding debt	3,063,125	9,463,125
Less unamortized discount	-	14,502
Total debt - Net	$ 3,063,125	$ 9,448,623

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

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

Years Ending March 31	Amount
2024	$ 563,125
2025	-
2026	-
2027	-
2028	2,500,000
Total	$ 3,063,125

Note 7 - Net Assets with Donor Restrictions

Net assets with donor restrictions consist of the following as of March 31, 2023 and 2022:

	2023	2022
Time and purpose restrictions:		
Public grants - Loan capital	$ 3,839,177	$ 3,683,454
Imputed interest	-	14,502
Total net assets with donor restrictions	$ 3,839,177	$ 3,697,956

Note 8 - Related Party Transactions

NHS and its affiliates, including the Organization, have entered into an interagency agreement (the "Agreement") where 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. The Organization has receivables from affiliates totaling $6,543,091 and $1,835,749 as of March 31, 2023 and 2022, respectively.

Under the Agreement, NHS makes available office space; allows the use of office administrative equipment and supplies; and provides advisory, administrative, financial and accounting, legal, information security, and human resource services. For the years ended March 31, 2023 and 2022, shared services expenses of $737,863 and $529,400, respectively, were charged to NLS.

During 2022, NHS contributed approximately $462,000 to the Organization as an allocated portion of the forgiveness of the Paycheck Protection Program (PPP) loan. The contribution is recorded as a reduction of management and general expenses in the statement of functional expenses for the year ended March 31, 2022.

Note 9 - Concentrations and Contingencies

During fiscal years 2023 and 2022, approximately 68 and 79 percent, respectively, of total contract revenue was related to contracts with the City of Chicago, Illinois. 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 10 - Liquidity and Availability of Resources

The Organization had $7,112,395 and $18,308,127 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 $2,654,449 and $4,160,095, contracts receivable of $1,303,542 and $4,957,799, and loans held for sale of $3,154,404 and $9,190,233, respectively. None of these financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditures within one year of the statement of financial position date. The loans held for sale are subject to requirements of various loan sale agreements with investors 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.

Note 10 - Liquidity and Availability of Resources (Continued)

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 originates only loans that it expects 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 was collected and further assuming that operational expenses were not reduced in the face of such absence of revenue. This estimate is for disclosure purposes only and does not reflect the strategy that management would adopt in such circumstances.

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 11 - Subsequent Events

The financial statements and related disclosures include evaluation of events up through and including June 27, 2023, which is the date the financial statements were available to be issued.