

**COMMUNITY NEIGHBORHOOD HOUSING
SERVICES, INC.**

dba NEIGHBORWORKS HOME PARTNERS

CONSOLIDATED FINANCIAL STATEMENTS

**FOR THE YEAR ENDED
SEPTEMBER 30, 2018**

**COMMUNITY NEIGHBORHOOD HOUSING SERVICES, INC.
dba NEIGHBORWORKS HOME PARTNERS**

CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended September 30, 2018
(With Comparative Totals for 2017)

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Community Neighborhood Housing Services, Inc.
Saint Paul, Minnesota

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Community Neighborhood Housing Services, Inc. (a nonprofit organization) and its subsidiary, which comprise the consolidated statement of financial position as of September 30, 2018, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

(Continued)

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Community Neighborhood Housing Services, Inc. and its subsidiary as of September 30, 2018, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

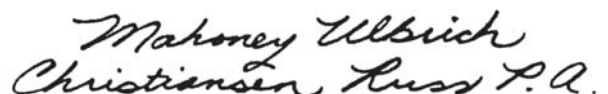
We have previously audited Community Neighborhood Housing Services, Inc.'s 2017 consolidated financial statements and we expressed an unmodified audit opinion on those audited financial statements in our report dated March 22, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Report on Consolidating and Other Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information shown on pages 23 and 24 is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, activities, and changes in net assets of the individual entities, and it is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating and other information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating and other information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 27, 2019, on our consideration of Community Neighborhood Housing Services, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and 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 Community Neighborhood Housing Services, Inc.'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 Community Neighborhood Housing Services, Inc.'s internal control over financial reporting and compliance.



March 27, 2019

COMMUNITY NEIGHBORHOOD HOUSING SERVICES, INC.
dba NEIGHBORWORKS HOME PARTNERS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

September 30, 2018
(With Comparative Totals for 2017)

	2018	2017
ASSETS		
Cash	\$ 4,721,997	\$ 4,161,900
Cash - restricted for programs	1,480,907	2,118,016
Accounts and government grants receivable	151,575	107,440
Pledges receivable	-	30,000
CDFI grant receivable	-	400,000
Prepaid expenses	23,971	19,134
Properties held for sale, net	543,686	422,740
Loans receivable, net	7,752,310	6,396,883
Office buildings and equipment, net	273,265	281,845
Total assets	\$ 14,947,711	\$ 13,937,958
LIABILITIES AND NET ASSETS		
Accounts payable and accrued expenses	\$ 47,640	\$ 26,851
Payroll liabilities	111,706	84,047
Undisbursed loan commitments	725,263	322,697
Security deposits and escrow liabilities, net	888	5,493
Fiscal agency payable	8,750	-
Deferred NeighborhoodLIFT grant	4,100	296,300
Notes payable	237,666	304,682
Long-term debt	2,108,902	2,130,845
Total liabilities	3,244,915	3,170,915
Net assets:		
Unrestricted	5,385,703	3,346,067
Temporarily restricted	5,453,697	6,207,580
Permanently restricted	863,396	1,213,396
Total net assets	11,702,796	10,767,043
Total liabilities and net assets	\$ 14,947,711	\$ 13,937,958

See accompanying notes to consolidated financial statements.

COMMUNITY NEIGHBORHOOD HOUSING SERVICES, INC.
dba NEIGHBORWORKS HOME PARTNERS

CONSOLIDATED STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2018
(With Comparative Totals for 2017)

	2018			Total	2017
	Unrestricted	Temporarily restricted	Permanently restricted		
Support and revenue:					
Contributions:					
NeighborWorks® America	\$ 408,638	\$ 60,000	\$ -	\$ 468,638	\$ 1,098,394
CDFI grant	34,325	68,650	-	102,975	-
Government grants	419,651	-	-	419,651	342,005
Other contributions	67,312	-	-	67,312	55,971
Revenue:					
The NeighborhoodLIFT	292,200	-	-	292,200	2,738,200
Loan interest	187,515	-	-	187,515	157,498
Loan servicing and origination fees	112,182	-	-	112,182	116,780
Home improvement loan repayments	22,550	-	-	22,550	-
Other earned fees	41,607	-	-	41,607	33,534
Sale of property	325,000	-	-	325,000	-
Rental revenue	7,950	-	-	7,950	57,179
Interest income	5,908	-	-	5,908	5,042
Net assets released from time and usage restrictions	707,094	(357,094)	(350,000)	-	-
Total revenue and support	<u>2,631,932</u>	<u>(228,444)</u>	<u>(350,000)</u>	<u>2,053,488</u>	<u>4,604,603</u>
Expenses:					
Program services:					
Loan and grant program	1,007,265	-	-	1,007,265	3,307,242
Homebuyer education	218,727	-	-	218,727	202,811
Real estate development	322,682	-	-	322,682	82,166
Total program services	1,548,674	-	-	1,548,674	3,592,219
Management and general	696,037	-	-	696,037	469,036
Fundraising	29,524	-	-	29,524	28,757
Total expenses	<u>2,274,235</u>	<u>-</u>	<u>-</u>	<u>2,274,235</u>	<u>4,090,012</u>
Change in net assets before nonoperating activity	357,697	(228,444)	(350,000)	(220,747)	514,591
CDFI and other government grants for loans	18,936	1,137,564	-	1,156,500	902,967
Net assets released from usage restrictions	1,663,003	(1,663,003)	-	-	-
Gain on sale of 35 Water Street	-	-	-	-	241,765
LIFT fiscal agency funds released	-	-	-	-	296,783
Loss from investment in other entities	-	-	-	-	(48,794)
Change in net assets	<u>2,039,636</u>	<u>(753,883)</u>	<u>(350,000)</u>	<u>935,753</u>	<u>1,907,312</u>
Net assets:					
Beginning of year	<u>3,346,067</u>	<u>6,207,580</u>	<u>1,213,396</u>	<u>10,767,043</u>	<u>8,859,731</u>
End of year	<u>\$ 5,385,703</u>	<u>\$ 5,453,697</u>	<u>\$ 863,396</u>	<u>\$ 11,702,796</u>	<u>\$ 10,767,043</u>

See accompanying notes to consolidated financial statements.

COMMUNITY NEIGHBORHOOD HOUSING SERVICES, INC.
dba NEIGHBORWORKS HOME PARTNERS

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended September 30, 2018
(With Comparative Totals for 2017)

	2018					2017	
	Loan and grant program	Homebuyer education	Real estate development	Total program services	Management and general		Fundraising
Salaries	\$ 269,351	\$ 149,732	\$ 48,259	\$ 467,342	\$ 417,449	\$ 21,757	\$ 906,548
Payroll taxes	19,936	11,083	3,572	34,591	30,898	1,610	67,099
Employee benefits	43,123	18,391	2,673	64,187	40,167	2,566	106,589
	<u>332,410</u>	<u>179,206</u>	<u>54,504</u>	<u>566,120</u>	<u>488,514</u>	<u>25,933</u>	<u>1,080,567</u>
Insurance	3,394	1,886	608	5,888	5,259	274	11,421
Occupancy	11,431	6,354	2,048	19,833	17,716	923	38,472
Equipment	1,989	1,106	356	3,451	3,083	161	6,695
Consulting and contracts	8,659	-	-	8,659	58,965	-	67,624
Professional fees	9,791	-	-	9,791	34,808	-	44,599
Board and publicity	-	-	-	-	1,882	-	1,882
Other operating costs (consumables)	7,369	10,046	1,746	19,161	29,041	322	48,524
Depreciation	4,619	2,567	828	8,014	7,158	373	15,545
Home improvement grants	472,627	-	-	472,627	-	-	472,627
Marketing expenses	909	759	-	1,668	4,713	-	6,381
Travel	1,667	6,538	160	8,365	3,663	-	12,028
Information technology	5,878	2,007	469	8,354	22,011	127	30,492
Loan/client processing expenses	24,702	5,513	25	30,240	-	-	30,240
HOME program funds returned	13,259	-	-	13,259	-	-	13,259
Provision for loan losses	74,048	-	-	74,048	-	-	74,048
Cost of houses sold	-	-	261,053	261,053	-	-	261,053
Interest expense	29,576	-	-	29,576	11,572	1,012	42,160
Property taxes	4,937	2,745	885	8,567	7,652	399	16,618
	<u>\$ 1,007,265</u>	<u>\$ 218,727</u>	<u>\$ 322,682</u>	<u>\$ 1,548,674</u>	<u>\$ 696,037</u>	<u>\$ 29,524</u>	<u>\$ 2,274,235</u>
							<u>\$ 4,090,012</u>

See accompanying notes to consolidated financial statements.

COMMUNITY NEIGHBORHOOD HOUSING SERVICES, INC.
dba NEIGHBORWORKS HOME PARTNERS

CONSOLIDATED STATEMENT OF CASH FLOWS

For the Year Ended September 30, 2018
(With Comparative Totals for 2017)

	2018	2017
Increase (Decrease) in Cash		
Cash flows from operating activities:		
Change in net assets	\$ 935,753	\$ 1,907,312
Adjustments to reconcile the change in net assets to net cash from operating activities:		
Depreciation	15,545	25,332
Loss from investment in other entities	-	48,794
Provisions for loan losses	74,048	70,307
Accretion of discount on loans	(72,065)	(36,409)
Less grants for loans	(1,156,500)	(902,967)
Gain on note forgiveness	(57,265)	-
Gain on sale of building	-	(241,765)
LIFT fiscal agency funds released	-	(296,783)
Changes in operating assets and liabilities:		
Accounts receivable	(44,135)	119,141
Pledges receivable	82,138	80,000
Prepaid expenses	(4,837)	5,889
Properties held for sale, net	(120,946)	(270,712)
Accounts payable and accrued expenses	48,448	27,706
Change in security deposits and escrow liabilities, net	(4,605)	(3)
Fiscal agency payable	8,750	88,500
Deferred NeighborhoodLIFT	(292,200)	(1,138,200)
Deferred revenue	-	(2,477)
Net cash from operating activities	(587,871)	(516,335)
Cash flows from investing activities:		
New loans provided	(1,311,154)	(966,351)
Collections of loans receivable	356,310	471,214
Proceeds from sale of building	-	462,662
Purchase of building improvements and equipment	(6,965)	(55,513)
Net cash from investing activities	(961,809)	(87,988)
Cash flows from financing activities:		
Proceeds from notes payable	-	197,417
Payments of notes payable	(9,751)	-
Principal payments on long-term debt	(21,943)	(20,641)
Grants received for loans	1,504,362	902,967
Net cash from financing activities	1,472,668	1,079,743
Net increase (decrease) in cash	(77,012)	475,420
Cash at beginning of year	6,279,916	5,804,496
Cash at end of year	\$ 6,202,904	\$ 6,279,916
Reconciliation to the statement of financial position:		
Cash	\$ 4,721,997	\$ 4,161,900
Cash - restricted for programs	1,480,907	2,118,016
	\$ 6,202,904	\$ 6,279,916
Supplemental cash flow information:		
Cash paid for interest	\$ 42,160	\$ 44,356

See accompanying notes to consolidated financial statements.

COMMUNITY NEIGHBORHOOD HOUSING SERVICES, INC.
dba NEIGHBORWORKS HOME PARTNERS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended September 30, 2018
(With Comparative Information for 2017)

1. ORGANIZATION

Community Neighborhood Housing Services, Inc. (CNHS) is a community based nonprofit organization located in Saint Paul, Minnesota. CNHS was incorporated in 1980. CNHS serves the seven-county Saint Paul / Minneapolis metropolitan area with special program emphasis in Saint Paul.

On October 1, 2014, CNHS merged with Greater Frogtown Community Development Corporation (GFCDC). The merged organization began doing business as NeighborWorks Home Partners (NWHP).

NWHP's mission is to promote community development through education and affordable housing lending programs in the neighborhoods it serves. The target clients are households with incomes below the metropolitan median income and households whose credit histories may not afford them the opportunity to receive loans through conventional lenders.

Other activities include home improvement loans, forgivable loans (grants), and homebuyer education including foreclosure prevention services.

NWHP is an affiliate of NeighborWorks America (NWA) and a member of the NeighborWorks Network. NWA is a national nonprofit organization created by the U. S. Congress to provide financial and other support for community based revitalization. NWHP is also certified as a Community Development Financial Institution.

The activities are supported primarily by contributions, government grants, interest income and fees for services. Should NWHP terminate operations, certain government funded assets would be returned to the respective government agency.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation - The consolidated financial statements include Community Neighborhood Housing Services, Inc. (parent organization) and Greater Frogtown Community Development Corporation (subsidiary organization). CNHS controls GFCDC with the authority to appoint its board of directors. All significant intercompany accounts and transactions have been eliminated.

(Continued)

COMMUNITY NEIGHBORHOOD HOUSING SERVICES, INC.
dba NEIGHBORWORKS HOME PARTNERS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended September 30, 2018
(With Comparative Information for 2017)

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Financial Statement Presentation - The accompanying financial statements have been prepared using the accrual basis of accounting. Net assets, revenues and support are classified based on the presence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

- **Unrestricted Net Assets** - Net assets that are not subject to donor-imposed stipulations.
- **Temporarily Restricted Net Assets** - Temporarily restricted resources are those restricted by the donor, grantor, or other outside parties whose restrictions either expire by the passage of time or fulfillment of the purpose. Temporarily restricted net assets are primarily for a revolving loan fund. Community Development Block Grants from the City of Saint Paul (CDBG funds) and Community Development Financial Institutions (CDFI) Fund monies from the Department of the Treasury funded a substantial portion of the revolving loan fund. A significant portion of these assets would be returned to the City and Department of Treasury if NWHP were to terminate operations. NWHP also received significant funds from NWA for housing counseling and foreclosure prevention.
- **Permanently Restricted Net Assets** - Permanently restricted resources consist of Revolving Loan Funds, which includes support and revenues designated to provide loans and grants. Permanently restricted net assets are from NWA. A significant portion of these assets would be returned to NWA if NWHP were to terminate operations.

NWHP has presented CDFI and other government grants for loans, release of fiscal agency funds, gain on sale of an operations building, and losses from noncontrolling interests in LLC's separate from operating results because management believes the presentation better assists users of the financial statements in analyzing operating results.

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 revenues and expense during the reporting period. Actual results could differ from those estimates.

The significant estimates used in preparation of the financial statements are the determination of the allowances for losses on loans receivable, the allowance for losses on properties held for sale, and the allocation of functional expenses.

(Continued)

COMMUNITY NEIGHBORHOOD HOUSING SERVICES, INC.
dba NEIGHBORWORKS HOME PARTNERS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended September 30, 2018
(With Comparative Information for 2017)

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Cash and Cash Equivalents - NWHP considers all highly liquid investments purchased with original maturities of three months or less and any certificates of deposit that do not contain material early withdrawal penalties to be cash equivalents.

Accounts, Government Grants, and Pledges Receivable - Accounts, government grants, and pledges receivable are stated at the amount management expects to collect.

Management reviews receivable balances at year end and establishes an allowance for doubtful accounts based on expected collections. Receivables are written off against the allowance when management determines the receivable will not be collected. Management determined that no allowance was necessary at September 30, 2018 or 2017.

Properties Held for Sale - NWHP acquires properties either by foreclosure of delinquent loans or direct purchase. The properties are then rehabilitated and sold to buyers who meet NWHP's criteria. Properties held for sale are recorded at cost, capitalized interest, plus certain holding costs like insurance, and reduced by an allowance for estimated losses.

At times, NWHP operates property acquired through foreclosure as rental property to minimize holding costs until the property can be sold.

Land Held in Trust - NWHP owns two lots in its land trust program. The lots are recorded at \$0. NWHP maintains title to the land underlying the land trust homes. The homeowner mortgages the physical housing structure. The homeowner leases the land for 99 years and pays a monthly land lease fee of \$30. When the owner sells the house, the seller receives 40% of appreciation, making the price to the next homeowner more affordable.

Loans Receivable and Allowance for Loan Losses - Loans are stated at the amount of unpaid principal, reduced by an allowance for loan losses. The loan receivable and undisbursed loan commitments (payables) are recognized at the time the loan is approved. As NWHP makes loan disbursements, undisbursed loan commitments are reduced.

Interest on loans is calculated using the simple interest method on the unpaid principal amount. Interest rates range from 0% to 9%. Interest is recorded when received.

(Continued)

COMMUNITY NEIGHBORHOOD HOUSING SERVICES, INC.
dba NEIGHBORWORKS HOME PARTNERS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended September 30, 2018
(With Comparative Information for 2017)

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Due on sale loans are noninterest bearing and due upon sale of the property. The due on sale loans acquired from GFCDC have been recorded net of a discount to reflect the fair value using an interest rate of 7% and a 30 year term. The loans are adjusted during the term for accretion of the discount.

The allowance for loan losses is established through a provision charged to expense. Loans are charged against the allowance for loan losses when management believes that the collectability of the principal is unlikely. Foreclosed loan balances are transferred to properties held for sale net of the related allowance.

The allowance is an amount that management believes will be adequate to absorb possible losses on existing loans that may become uncollectible, based on evaluations of the collectability of loans, value of collateral and prior loan loss experience. The evaluations take into consideration such factors as overall portfolio quality, review of specific problem loans, and current economic conditions that may affect the borrowers' ability to pay. Past due status is determined based on contractual terms.

Investments in LLC's - NWHP has noncontrolling interests in LLC's. These investments are recorded using the equity method of accounting and are not recorded below \$0 because NWHP has no other investments in the LLC's and no obligation to provide further funding.

Office Buildings and Equipment - Office buildings and equipment are stated at cost or fair value at date of donation in the case of donated property. Equipment costing greater than \$1,000 with an estimated useful life of two years or longer is capitalized. Depreciation is computed on the straight-line basis over the estimated useful life of each asset. The cost of maintenance and repairs is charged to income as incurred; significant renewals or betterments are capitalized. Absent explicit donor restrictions regarding how long contributed assets must be used, NWHP reports expiration of donor restrictions when the donated or acquired assets are placed into service.

Fiscal Agency Payable - NWHP periodically acts as an agent for grantors. It accepts assets from grantors and agrees to use those amounts to benefit specified beneficiaries. These transactions are not included in the statement of activities since NWHP has no discretion in determining how the funds are used. Such agency amounts collected are recorded as liabilities until released to the beneficiaries. NWHP is acting as an agent on behalf of NWA for funds originally awarded to another organization.

(Continued)

COMMUNITY NEIGHBORHOOD HOUSING SERVICES, INC.
dba NEIGHBORWORKS HOME PARTNERS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended September 30, 2018
(With Comparative Information for 2017)

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Contributions - Contributions are recognized when the donor makes an unconditional promise to give. Contributions are recorded as unrestricted, temporarily restricted or permanently restricted support depending on the existence and/or nature of any donor restrictions. Contributions reported as temporarily restricted net assets are reclassified to unrestricted net assets upon expiration of the time or usage restriction. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized.

Donated Services and Materials - Donated services are recorded as contributions at their estimated fair value only if the services create or enhance a nonfinancial asset or if the services require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

NWHP regularly receives donated services from many volunteers. Amounts for these services that do not meet the criteria described above have not been recognized. No donated services were recorded in 2018 or 2017.

Donated materials are recorded as contributions at their estimated fair value in the period received. No donated materials were recorded in 2018 or 2017.

Government Grants and Contracts - Except for revolving loan funds discussed below, government grants and contract funds are generally considered exchange transactions and are recorded as revenue when earned. Revenue is earned when eligible expenditures, as defined in each grant or contract, are incurred. Funds received but not yet earned are recorded as deferred revenue.

CDFI grants are accounted for as contributions because they are nonreciprocal. Accordingly, they are recognized as restricted revenue when the Department of the Treasury makes an unconditional commitment. The restriction is released when a qualifying loan is approved and committed. A portion of CDFI grants is used for loans while the remainder covers administrative costs and funds a loan loss reserve.

When other government grants are for a revolving loan fund, a grant receivable and temporarily restricted revenue are recorded when a qualifying loan is approved and committed. Revenue does not necessarily match with a related expense because grant revenue is used to create loans receivable. CDBG and CDFI revolving loan funds are considered temporarily restricted net assets while NWA revolving loan funds are considered permanently restricted net assets.

(Continued)

COMMUNITY NEIGHBORHOOD HOUSING SERVICES, INC.
dba NEIGHBORWORKS HOME PARTNERS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended September 30, 2018
(With Comparative Information for 2017)

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Interest income and loan fees related to CDBG funds are reported as temporarily restricted net assets; all other loan interest and loan fees are reported as unrestricted net assets. A percentage of principal and interest received on loan repayments and on loan sales (none in 2018 or 2017) represents program income to NWHP which is released from temporary restricted to unrestricted. This program income is used to defray program expenses and to generate additional loans.

Sales of Properties - Sales of properties are recorded at the time of closing of the sale, when title to and possession of the property are transferred to the buyer. Cost of sales is based on direct costs.

Loan Fees - Loan fees are recorded as revenue upon closing of the loan.

Rental Revenue - Revenue from rents is recognized in the period earned.

Home Improvement Grants - Home improvement grants are made to homeowners to assist in acquisition or home improvements. The grants will be forgiven in five or ten years if the homeowner remains the owner throughout the term of the contract. Grants to homeowners are recorded in the period of award, except for grants that are subject to conditions which are recorded when the conditions have been substantially met. Grants are expensed when awarded since repayment is unlikely. Recoveries of grants are recorded as revenue when received.

Functional Expense Allocation - The majority of expenses can be directly identified with the program or supporting services to which they relate and are charged accordingly. Other expenses have been allocated among program and supporting services on the basis of employee work efforts.

Advertising - NWHP follows the policy of charging the costs of advertising to expense as incurred.

Income Taxes - CNHS and GFCDC are classified as tax-exempt organizations under Minnesota Statute 290.05 and Section 501(c)(3) of the Internal Revenue Code, are exempt from private foundation status under Section 509(a)(1) of the Internal Revenue Code, and are subject to income taxes only on net unrelated business income. Each files its own information return.

Rental income on one of the office buildings is subject to unrelated business income taxes because the office building is debt financed. No income taxes were paid in 2018 or 2017. Management believes neither CNHS or GFCDC have any uncertain tax positions. See Note 12.

(Continued)

COMMUNITY NEIGHBORHOOD HOUSING SERVICES, INC.
dba NEIGHBORWORKS HOME PARTNERS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended September 30, 2018
(With Comparative Information for 2017)

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Fair Value Measurements - NWHP determines fair value, when necessary, based on the assumptions that market participants would use when pricing the asset or liability. Valuation inputs are categorized using the following fair value hierarchy:

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - inputs that are observable, directly or indirectly, other than the quoted prices included in Level 1; and
- Level 3 - unobservable inputs.

Properties held for sale are valued using Level 2 inputs based on expected sale prices or values from the county real estate tax assessor, less estimated costs to sell.

Comparative Totals - The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with NWHP's financial statements for the year ended September 30, 2017, from which the summarized information was derived.

Reclassifications - Reclassifications were made to the 2017 financial statements to be consistent with the current year financial statements. These reclassifications did not affect net assets or the change in net assets.

3. **CASH – RESTRICTED FOR PROGRAMS**

Cash – restricted for programs consist of:

	<u>2018</u>	<u>2017</u>
Home ownership and development	\$ 65,195	\$ 165,195
Down payment assistance	156,000	720,000
Loans and grants	<u>1,259,712</u>	<u>1,232,821</u>
	<u>\$1,480,907</u>	<u>\$2,118,016</u>

(Continued)

COMMUNITY NEIGHBORHOOD HOUSING SERVICES, INC.
dba NEIGHBORWORKS HOME PARTNERS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended September 30, 2018
(With Comparative Information for 2017)

4. PROPERTIES HELD FOR SALE

Properties held for sale consist of the following:

	2018	2017
Properties held for sale	\$ 594,169	\$ 473,223
Less allowance for estimated losses	(50,483)	(50,483)
	\$ 543,686	\$ 422,740
 Number of properties	 6	 5

NWHP capitalizes interest incurred on rehabilitation and construction projects. Interest of \$10,674 and \$3,666 was capitalized on the properties held for sale in 2018 and 2017.

5. LOANS RECEIVABLE

The following table presents loans by portfolio segment:

	2018	2017
First mortgage loans	\$ 546,764	\$ 557,958
Second mortgage loans	99,505	105,970
Home improvement loans	2,990,165	2,719,998
Due on sale loans	5,004,482	3,973,628
 Total loans receivable	8,640,916	7,357,554
Less discount on GFDC due on sale/MURL loans	(791,040)	(863,105)
Less allowance for loan losses	(97,566)	(97,566)
 Loans receivable, net	 \$ 7,752,310	 \$ 6,396,883

All loans are individually reviewed for impairment. As of September 30, 2018 and 2017, management has not identified any impaired loans.

(Continued)

COMMUNITY NEIGHBORHOOD HOUSING SERVICES, INC.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended September 30, 2018
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5. LOANS RECEIVABLE (Continued)

The following table presents the aging of loans by portfolio segment:

	2018				Total	2017
	First Mortgage Loans	Second Mortgage Loans	Home Improvement Loans	Due on Sale Loans		
Current	\$ 546,764	\$ 75,142	\$ 2,802,346	\$ -	\$ 3,424,252	\$ 3,218,639
30 – 59 days	-	-	64,434	-	64,434	8,264
60 – 89 days	-	-	23,887	-	23,887	37,014
90 + days	-	24,363	99,498	-	123,861	120,009
Due on sale	-	-	-	5,004,482	5,004,482	3,973,628
Total	<u>\$ 546,764</u>	<u>\$ 99,505</u>	<u>\$ 2,990,165</u>	<u>\$ 5,004,482</u>	<u>\$ 8,640,916</u>	<u>\$ 7,357,554</u>

The following table presents the allowance for loan losses by portfolio segment:

	2018				Total	2017
	First Mortgage Loans	Second Mortgage Loans	Home Improvement Loans	Due on Sale Loans		
Beginning balance	\$ -	\$ 5,324	\$ 58,698	\$ 33,544	\$ 97,566	\$ 97,566
Provision	-	(2,675)	-	76,723	74,048	70,289
Recoveries	-	2,675	-	3,000	5,675	14,080
Loans charged off	-	-	-	(79,723)	(79,723)	(84,369)
Ending balance	<u>\$ -</u>	<u>\$ 5,324</u>	<u>\$ 58,698</u>	<u>\$ 33,544</u>	<u>\$ 97,566</u>	<u>\$ 97,566</u>

NWHP has two loans under the Minnesota Urban and Rural Homesteading Program (MURL). NWHP used the MURL funds to acquire homes. The homes were sold to a qualified low income individual on a contract for deed basis. Principal payments collected by NWHP are used to acquire additional properties, pay program related administrative expenses, bring a property back into code compliance, or refunded to the grantor if requested. The contracts for deed are included in first mortgage loans receivable and temporarily restricted net assets on the accompanying financial statements.

(Continued)

COMMUNITY NEIGHBORHOOD HOUSING SERVICES, INC.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended September 30, 2018
(With Comparative Information for 2017)

6. INVESTMENTS IN OTHER ENTITIES

NWHP owns a 50% investment in Frogtown Development, LLC. Frogtown Development, LLC provides affordable rental housing in Saint Paul, Minnesota. This investment is accounted for using the equity method.

NWHP has a 30% ownership in NEDU, LLC. NEDU, LLC owns and operates a commercial building in Saint Paul, Minnesota.

NWHP does not have a controlling interest in these entities and, accordingly, NWHP has not consolidated these entities.

7. OFFICE BUILDINGS AND EQUIPMENT

Office buildings and equipment consist of the following:

	2018	2017	Estimated useful life in years
Land	\$115,300	\$115,300	-
Office buildings	122,500	122,500	5 - 39
Building and land improvements	31,279	31,279	5 - 39
Equipment	51,576	45,675	3 - 5
	320,655	314,754	
Less accumulated depreciation	(47,390)	(32,909)	
	\$273,265	\$281,845	

NWHP sold the land and office building located at 35 Water Street during 2017.

(Continued)

**COMMUNITY NEIGHBORHOOD HOUSING SERVICES, INC.
dba NEIGHBORWORKS HOME PARTNERS**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended September 30, 2018
(With Comparative Information for 2017)

8. NOTES PAYABLE

Notes payable consists of the following:

	2018	2017
Saint Paul Housing and Redevelopment Authority (HRA)	\$ -	\$ 57,265
Coulee Bank	187,666	197,417
Local Initiatives Support Corporation (LISC)	50,000	50,000
	\$ 237,666	\$ 304,682

Saint Paul HRA - NWHP has mortgage loans from the City of Saint Paul Housing and Redevelopment Authority (HRA) to finance the acquisition, construction, or rehabilitation of houses. Loans are non-interest bearing. Upon the sale of the houses to a qualified homebuyer, the loans are forgiven. This loan was forgiven in 2018.

Coulee Bank - NWHP has a line of credit with Coulee Bank that enables them to borrow up to \$500,000 at an interest rate of 5.50%. Advances are used for the acquisition, construction or rehabilitation of houses. As of September 30, 2018, NWHP has two advances which are due October 19, 2018 and March 10, 2019. Each advance of the line of credit has an original 12-month term with interest-only payments due monthly and is secured by the property.

LISC - NWHP issued a \$20,000 non-interest bearing note to Local Initiatives Support Corporation (LISC) to be used for housing rehabilitation. The principal is due on the receipt of proceeds from the sale of the homes if requested by LISC.

NWHP issued a \$30,000 non-interest bearing note to be used for predevelopment costs associated with the GFCDC/PPL Frogtown Stabilization Partnership. GFCDC and PPL are 50% members of Frogtown Development, LLC which purchases, rehabilitates, and sells homes located in the Frogtown neighborhood of Saint Paul. The principal is due upon closing of permanent funding for the project if requested by LISC.

Greater Metropolitan Housing Corporation - NWHP has a financing agreement with Greater Metropolitan Housing Corporation (GMHC) under the Inspiring Communities Program. GMHC will provide acquisition and construction financing and will be repaid at the time the home is sold. GMHC will jointly own the properties with GFCDC. The interest rate is at GMHC's normal borrowing rate. No funds are outstanding as of September 30, 2018 and 2017.

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COMMUNITY NEIGHBORHOOD HOUSING SERVICES, INC.
dba NEIGHBORWORKS HOME PARTNERS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended September 30, 2018
(With Comparative Information for 2017)

9. LONG-TERM DEBT

Long-term debt consists of the following:

	2018	2017
Note payable to the U.S. Department of the Treasury with interest at 2.0%. Interest only is payable quarterly and the note matures June 17, 2023. Unsecured.	\$ 350,000	\$ 350,000
Equity equivalent note payable to Wells Fargo with interest at 2.0%. Interest is payable quarterly. The note matures October 4, 2022. The maturity date will automatically extend for two years unless NWHP delivers a written request not to extend. Upon extension, eight quarterly principal payments of \$43,750 will be due beginning January 15, 2023. Unsecured.	350,000	350,000
Note payable to Midwest Minnesota Community Development Corporation with interest at 2.5%. Interest is payable monthly beginning May 1, 2015. Principal and interest payments of \$2,001 are payable quarterly beginning September 1, 2016. The note matures April 1, 2030. Secured by the loans that NWHP has funded with the proceeds of the loan.	88,287	93,964
Note payable to the Otto Bremer Trust (a nonprofit organization) with interest at 1.5%. Interest payments of \$3,750 are payable quarterly beginning March 21, 2016. The note matures December 21, 2022. Unsecured.	1,000,000	1,000,000
Mortgage payable to Sunrise Banks. The mortgage is payable in monthly installments, including interest at an initial rate of 4.5% (adjusted on May 5 in the years 2013, 2018, 2023 and 2028 to a rate equal to 67% of the sum of 411 basis points plus the then current rate of the Treasury Constant Maturities Index for five year obligations as reported by the Federal Reserve for the preceding month, not to exceed 7.02% (effective rate of 3.223% at September 30, 2018)), maturing May 2033. The mortgage is secured by the Dale Street building.	320,615	336,881
	\$2,108,902	\$2,130,845

(Continued)

COMMUNITY NEIGHBORHOOD HOUSING SERVICES, INC.
dba NEIGHBORWORKS HOME PARTNERS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended September 30, 2018
(With Comparative Information for 2017)

9. LONG-TERM DEBT (Continued)

The following is a schedule of maturities of long-term debt as of September 30:

2019	\$	23,351
2020		24,071
2021		24,814
2022		25,579
2023		1,726,369
Thereafter		<u>284,718</u>
		<u><u>\$ 2,108,902</u></u>

10. NET ASSETS

Temporarily restricted - Temporarily restricted net assets are primarily restricted for programs and deferred loans to assist homeowners/buyers in acquisition or home improvements. Funding comes from the City of Saint Paul, NWA, and the Department of the Treasury. A significant portion of these assets would be returned to the respective agencies if NWHP were to terminate operations.

Temporarily restricted net assets consisted of the following:

	<u>2018</u>	<u>2017</u>
LISC Vacant Lot Reclamation Project	\$ 30,000	\$ 30,000
Down payment assistance – Project Reinvest	156,000	720,000
Affordable Home Ownership Expansion Project	15,195	15,195
Loan and grant program:		
MURL revolving loan fund	260,284	260,284
CDFI	633,238	881,768
City of Saint Paul lending program	<u>4,358,980</u>	<u>4,300,333</u>
	<u><u>\$ 5,453,697</u></u>	<u><u>\$ 6,207,580</u></u>

(Continued)

COMMUNITY NEIGHBORHOOD HOUSING SERVICES, INC.
dba NEIGHBORWORKS HOME PARTNERS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended September 30, 2018
(With Comparative Information for 2017)

10. NET ASSETS (Continued)

Permanently restricted - Net assets are permanently restricted for revolving loan funds. Permanently restricted net assets are from NWA. During 2018 and 2017, NWA approved the release of \$350,000 and \$520,000 from permanently restricted net assets. A significant portion of these assets would be returned to NWA if NWHP were to terminate operations.

11. NEIGHBORHOODLIFTSM

NWHP participates in the NeighborhoodLIFTSM program. The program is a collaboration between Wells Fargo Bank, N.A.; Wells Fargo Foundation; NeighborWorks America; and local non-profit organizations including NWHP.

NWHP received repayments from loans originated by another NeighborWorks America affiliate under this program. These funds were recorded as a fiscal agency payable at September 30, 2016. During 2017, NWHP collected \$88,500 in LIFT payoffs prior to NeighborWorks America releasing the funds to NWHP without any restrictions.

In 2016, NWHP entered into a \$4,000,000 grant agreement with NeighborWorks America to assist low-to-moderate income persons with down payment assistance grants through the NeighborhoodLIFTSM program. For each grant provided, NWHP receives a \$1,400 administrative fee. NeighborWorks America advanced \$4,000,000 (\$2,400,000 in 2016 and \$1,600,000 in 2017) from which \$2,300,000 in grants were provided and NWHP earned \$438,200 in administrative fees during 2017 and \$246,000 in grants were provided and NWHP earned \$46,200 in administrative fees during 2018. The remaining balance of \$4,100 and \$296,300 is recorded as deferred revenue as of September 30, 2018 and 2017.

12. LEASES RECEIVABLE

NWHP rented portions of its buildings to tenants. All but one of these leases were month-to-month. Rental revenue from the office buildings was \$- in 2018 and \$47,639 in 2017.

During 2017, NWHP sold the property at 35 Water Street for \$500,000. Prior to selling 35 Water Street, NWHP terminated the leases at 533 Dale Street and consolidated its office staff into one location.

NWHP operates foreclosed properties as rental property to minimize holding costs until the property can be sold. Lease terms do not exceed one year. Rental revenue from foreclosed properties was \$7,950 in 2018 and \$9,540 in 2017. See Note 18.

(Continued)

COMMUNITY NEIGHBORHOOD HOUSING SERVICES, INC.
dba NEIGHBORWORKS HOME PARTNERS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended September 30, 2018
(With Comparative Information for 2017)

13. CONCENTRATIONS

NWHP maintains its cash in accounts at seven financial institutions. At times balances may exceed federally insured limits. NWHP has not experienced any losses as a result of these deposits. At September 30, 2018 and 2017, deposits exceeded the insured limit by \$971,417 and \$566,563.

Loans receivable are primarily secured by properties located in Saint Paul, Minnesota. This geographic concentration subjects NWHP to a credit risk.

NWHP has entered into "Master Repurchase Agreements" (sweep accounts) with two banks, whereby amounts on deposit in the accounts are, at the close of each business day, used to purchase securities/bonds. These securities/bonds are not insured by the Federal Deposit Insurance Corporation; however, the banks agreed to repurchase these securities/bonds at cost and credit the general operating bank accounts the following business day. Sweep account balances were \$4,019,040 at September 30, 2018, and \$4,313,059 at September 30, 2017.

NWHP received 28% of total support and revenue from NWA and 22% from the CDFI in 2018.

NWHP received 50% of total support and revenue from the NeighborhoodLIFTSM program and 20% from NWA in 2017.

14. RELATED PARTY TRANSACTIONS

Three board members are employees of banks that NWHP uses for deposits or borrowing. Two board members work for major funders of NWHP

15. EMPLOYEE BENEFIT PLAN

The Board of Directors has authorized an employer contribution of 4% of employee gross salary to each eligible employee's simplified employee pension plan. The plan covers permanent employees employed over six months who work over 30 hours per week. The contribution charged to expense was \$30,250 in 2018 and \$23,449 in 2017.

(Continued)

COMMUNITY NEIGHBORHOOD HOUSING SERVICES, INC.
dba NEIGHBORWORKS HOME PARTNERS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended September 30, 2018
(With Comparative Information for 2017)

16. CONTINGENCIES AND COMMITMENTS

Compliance Regulations - Governmental program activities are subject to financial and other compliance regulations. To the extent that any expenditures are disallowed or other compliance features are not met, a liability to the grantor agency could result.

Fidelity Bond - NWHP has \$1,000,000 of directors and officer liability insurance, plus \$1,000,000 of employment practices liability insurance coverage.

NWHP has contracts with the Minnesota Home Ownership Center and local governmental agencies to provide lending program services. These contracts expire at various dates through December 31, 2020. In addition, NWHP has ongoing contracts with Minnesota Housing Finance Agency to provide services for its Rehabilitation, Emergency and Accessibility, and Fix Up Loan Programs.

17. SUBSEQUENT EVENTS

In October 2018, NWHP sold a property held for sale for \$325,000. The note payable to Coulee Bank was paid off with the proceeds.

In November 2018, NWHP sold a property held for sale for \$131,275. A portion of the property was funded with CDFI funds which will be revolved into the lending program.

Management has evaluated subsequent events through March 27, 2019, the date on which the financial statements were available for issue, and identified no further significant events or transactions to disclose.

SUPPLEMENTARY INFORMATION

COMMUNITY NEIGHBORHOOD HOUSING SERVICES, INC.
dba NEIGHBORWORKS HOME PARTNERS

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

September 30, 2018

	<u>CNHS</u>	<u>GFCDC</u>	<u>Eliminations</u>	<u>Total</u>
ASSETS				
Cash	\$ 4,623,208	\$ 98,789	\$ -	\$ 4,721,997
Cash - restricted for programs	1,465,712	15,195	-	1,480,907
Accounts and government grants receivable	251,575	-	(100,000)	151,575
Prepaid expenses	23,971	-	-	23,971
Properties held for sale, net	45,800	497,886	-	543,686
Loans receivable, net	7,752,310	-	-	7,752,310
Office buildings and equipment, net	25,055	248,210	-	273,265
	<u>\$ 14,187,631</u>	<u>\$ 860,080</u>	<u>\$ (100,000)</u>	<u>\$ 14,947,711</u>
LIABILITIES AND NET ASSETS				
Accounts payable and accrued expenses	\$ 47,640	\$ -	\$ -	\$ 47,640
Payroll liabilities	111,706	-	-	111,706
Undisbursed loan commitments	725,263	-	-	725,263
Security deposits and escrow liabilities, net	888	-	-	888
Fiscal agency payable	8,750	-	-	8,750
Deferred NeighborhoodLIFT grant	4,100	-	-	4,100
Notes payable	-	337,666	(100,000)	237,666
Long-term debt	1,788,287	320,615	-	2,108,902
Total liabilities	<u>2,686,634</u>	<u>658,281</u>	<u>(100,000)</u>	<u>3,244,915</u>
Net assets:				
Unrestricted	5,199,099	186,604	-	5,385,703
Temporarily restricted	5,438,502	15,195	-	5,453,697
Permanently restricted	863,396	-	-	863,396
Total net assets	<u>11,500,997</u>	<u>201,799</u>	<u>-</u>	<u>11,702,796</u>
Total liabilities and net assets	<u>\$ 14,187,631</u>	<u>\$ 860,080</u>	<u>\$ (100,000)</u>	<u>\$ 14,947,711</u>

See independent auditor's report.

COMMUNITY NEIGHBORHOOD HOUSING SERVICES, INC.
dba NEIGHBORWORKS HOME PARTNERS

CONSOLIDATING STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2018

	CNHS	GFCDC	Eliminations	Total
Support and revenue:				
Contributions:				
NeighborWorks® America	\$ 468,638	\$ -	\$ -	\$ 468,638
CDFI operations grant	102,975	-	-	102,975
Government grants	419,651	-	-	419,651
Other contributions	67,312	-	-	67,312
Revenue:				
The NeighborhoodLIFT	292,200	-	-	292,200
Loan interest	187,515	-	-	187,515
Loan servicing and origination fees	112,182	-	-	112,182
Home improvement loan repayments	22,550	-	-	22,550
Other revenue	41,607	-	-	41,607
Sale of property	-	325,000	-	325,000
Developer fees	61,024	-	(61,024)	-
Rental revenue	7,950	-	-	7,950
Interest income	5,908	-	-	5,908
	<u>1,789,512</u>	<u>325,000</u>	<u>(61,024)</u>	<u>2,053,488</u>
Total revenue and support				
Expenses:				
Program services:				
Loan and grant program	1,007,265	-	-	1,007,265
Homebuyer education	218,727	-	-	218,727
Real estate development	-	383,706	(61,024)	322,682
Total program services	<u>1,225,992</u>	<u>383,706</u>	<u>(61,024)</u>	<u>1,548,674</u>
Management and general	696,037	-	-	696,037
Fundraising	29,524	-	-	29,524
	<u>1,951,553</u>	<u>383,706</u>	<u>(61,024)</u>	<u>2,274,235</u>
Total expenses				
Change in net assets before nonoperating activity	(162,041)	(58,706)	-	(220,747)
CDFI and government grants for loans	1,156,500	-	-	1,156,500
Transfer of assets between entities	(118,721)	118,721	-	-
	<u>875,738</u>	<u>60,015</u>	<u>-</u>	<u>935,753</u>
Change in net assets				
Net assets:				
Beginning of year	<u>10,625,260</u>	<u>141,783</u>	<u>-</u>	<u>10,767,043</u>
End of year	<u>\$ 11,500,998</u>	<u>\$ 201,798</u>	<u>\$ -</u>	<u>\$ 11,702,796</u>

See independent auditor's report.