NEIGHBORHOOD HOUSING SERVICES OF SOUTH FLORIDA, INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

MBAF
MORRISON BROWN ARGIZ & FARRA, LLC
CERTIFIED PUBLIC ACCOUNTANTS AND ADVISORS

NEIGHBORHOOD HOUSING SERVICES
OF SOUTH FLORIDA, INC.
AND SUBSIDIARIES

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Neighborhood Housing Services of South Florida, Inc. and Subsidiaries

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Neighborhood Housing Services of South Florida, Inc. and Subsidiaries (the "Organization"), which comprise the consolidated statements of financial position as of June 30, 2018 and 2017, and the related consolidated statements of activities, changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Neighborhood Housing Services of South Florida, Inc. and Subsidiaries as of June 30, 2018 and 2017, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis-of-Matter regarding Liquidity and Decrease in Net Assets

As discussed in Note 1 to the consolidated financial statements, the Organization's consolidated statement of activities reflects a decrease in net assets of approximately $1,221,000 for the year ended June 30, 2018. Additionally, the Organization has a bond payable of $1 million maturing in July 2019 which management expects to extend. In the event that the bond is not renewed, management will have to generate cash from the sale of its notes receivable or the building. Management has provided us with their plan to return to profitability and meet its cash flow obligations for at least a year and a day from February 22, 2019. Our opinion has not been modified with respect to this matter.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary schedules on pages 23 - 28 are presented for purposes of additional analysis and are 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 information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Morrison, Brown, Argiz & Farra

Miami, Florida
February 22, 2019

NEIGHBORHOOD HOUSING SERVICES
OF SOUTH FLORIDA, INC.
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
JUNE 30,

ASSETS	**2018**	**2017**
CURRENT ASSETS		
Cash and cash equivalents	$ 423,862	$ 50,857
Pledge receivables	-	8,000
Other receivables	144,184	380,747
Notes receivable, current portion	56,125	65,901
Housing units held for sale	1,280,661	534,719
Prepaid expenses and other	16,285	5,859
TOTAL CURRENT ASSETS	1,921,117	1,046,083
RESTRICTED CASH	93,745	1,087,235
NOTES RECEIVABLE, NET OF CURRENT PORTION	1,703,654	2,265,977
CONSTRUCTION IN PROGRESS AND LAND HELD FOR DEVELOPMENT	352,566	125,500
PROPERTY AND EQUIPMENT, NET	1,167,727	1,152,446
TOTAL ASSETS	**$ 5,238,809**	**$ 5,677,241**

LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$ 285,630	$ 232,386
Line of credit	244,961	-
Debt, current portion	631,452	252,906
TOTAL CURRENT LIABILITIES	1,162,043	485,292
BOND PAYABLE	1,000,000	1,000,000
DEBT, NET OF CURRENT PORTION	1,241,895	1,135,798
TOTAL LIABILITIES	3,403,938	2,621,090
COMMITMENTS AND CONTINGENCIES (NOTE 10)		
NET ASSETS		
Unrestricted:		
Controlling interest	486,459	674,874
Non-controlling interest	34,048	11,160
Total unrestricted	520,507	686,034
Temporarily restricted	134,719	1,190,472
Permanently restricted	1,179,645	1,179,645
TOTAL NET ASSETS	1,834,871	3,056,151
TOTAL LIABILITIES AND NET ASSETS	**$ 5,238,809**	**$ 5,677,241**

The accompanying notes are an integral part of these consolidated financial statements.

NEIGHBORHOOD HOUSING SERVICES OF SOUTH FLORIDA, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30,

	2018				2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES								
NeighborWorks America grants	$ 349,055	$ -	$ -	$ 349,055	$ 286,401	$ 125,000	$ -	$ 411,401
Contributions	310,362	13,000	-	323,362	379,399	1,914,006	-	2,293,405
Gain on sale of rental property	-	-	-	-	361,216	-	-	361,216
Rental and other income	42,476	-	-	42,476	124,412	-	-	124,412
Interest income	106,206	-	-	106,206	64,583	-	-	64,583
In-kind donations	-	-	-	-	47,300	-	-	47,300
Program services	579,348	-	-	579,348	397,252	-	-	397,252
Net assets released from restriction	1,068,753	(1,068,753)	-	-	1,773,778	(1,478,867)	(294,911)	-
TOTAL REVENUES	2,456,200	(1,055,753)	-	1,400,447	3,434,341	560,139	(294,911)	3,699,569
EXPENSES								
Program services	2,172,697	-	-	2,172,697	2,077,282	-	-	2,077,282
Management and general	449,030	-	-	449,030	475,839	-	-	475,839
TOTAL EXPENSES	2,621,727	-	-	2,621,727	2,553,121	-	-	2,553,121
CHANGE IN NET ASSETS	(165,527)	(1,055,753)	-	(1,221,280)	881,220	560,139	(294,911)	1,146,448
NET ASSETS AT BEGINNING OF YEAR	686,034	1,190,472	1,179,645	3,056,151	(195,186)	630,333	1,474,556	1,909,703
NET ASSETS AT END OF YEAR	**$ 520,507**	**$ 134,719**	**$ 1,179,645**	**$ 1,834,871**	**$ 686,034**	**$ 1,190,472**	**$ 1,179,645**	**$ 3,056,151**

The accompanying notes are an integral part of these consolidated financial statements.

NEIGHBORHOOD HOUSING SERVICES
OF SOUTH FLORIDA, INC.
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30,

2018

	Unrestricted					
	Controlling Interest	Non-Controlling Interest	Total Unrestricted	Temporarily Restricted	Permanently Restricted	Total
NET ASSETS AT BEGINNING OF YEAR	$ 674,874	$ 11,160	$ 686,034	$ 1,190,472	$ 1,179,645	$ 3,056,151
Change in net assets	(188,415)	22,888	(165,527)	(1,055,753)	-	(1,221,280)
NET ASSETS AT END OF YEAR	**$ 486,459**	**$ 34,048**	**$ 520,507**	**$ 134,719**	**$ 1,179,645**	**$ 1,834,871**

2017

	Unrestricted					
	Controlling Interest	Non-Controlling Interest	Total Unrestricted	Temporarily Restricted	Permanently Restricted	Total
NET ASSETS AT BEGINNING OF YEAR	$ (219,188)	$ 24,002	$ (195,186)	$ 630,333	$ 1,474,556	$ 1,909,703
Change in net assets	894,062	(12,842)	881,220	560,139	(294,911)	1,146,448
NET ASSETS AT END OF YEAR	**$ 674,874**	**$ 11,160**	**$ 686,034**	**$ 1,190,472**	**$ 1,179,645**	**$ 3,056,151**

The accompanying notes are an integral part of these consolidated financial statements.

NEIGHBORHOOD HOUSING SERVICES
OF SOUTH FLORIDA, INC.
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CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED JUNE 30,

	2018			2017		
	Program Services	Management and General	Total Expenses	Program Services	Management and General	Total Expenses
Salaries and related expenses	$ 1,024,027	$ 304,065	$ 1,328,092	$ 1,164,799	$ 304,966	$ 1,469,765
Professional fees	154,879	38,165	193,044	214,310	59,289	273,599
Rent expense and utilities	47,921	13,694	61,615	41,898	18,564	60,462
Technology services	45,619	13,077	58,696	39,921	11,580	51,501
Advertising and marketing	12,398	3,554	15,952	12,204	3,499	15,703
Interest	73,728	20,200	93,928	76,370	23,244	99,614
Rental property expenses	-	-	-	97,516	-	97,516
Office supplies/equipment rental and maintenance	52,983	12,599	65,582	47,195	13,880	61,075
Loan processing and servicing	16,112	-	16,112	5,613	-	5,613
Travel and meetings	24,728	7,089	31,817	24,907	7,166	32,073
Bank fees	8,484	2,432	10,916	5,690	1,688	7,378
Insurance	32,013	9,141	41,154	41,148	13,551	54,699
Program services	10,612	-	10,612	23,754	-	23,754
Write-Down of current year forgivable loans	474,586	-	474,586	357,771	-	357,771
Provision (reversal) loan losses	108,207	-	108,207	(144,325)	-	(144,325)
Depreciation	52,695	15,106	67,801	50,172	14,383	64,555
Other	33,705	9,908	43,613	18,339	4,029	22,368
Total Expenses	**$ 2,172,697**	**$ 449,030**	**$ 2,621,727**	**$ 2,077,282**	**$ 475,839**	**$ 2,553,121**

The accompanying notes are an integral part of these consolidated financial statements.

NEIGHBORHOOD HOUSING SERVICES
OF SOUTH FLORIDA, INC.
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30,

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ (1,221,280)	$ 1,146,448
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	67,801	64,555
Write-down of current year forgivable loans	474,586	357,771
Provision (reversal) of loan losses	108,207	(144,325)
Loss on sale of properties held for sale	21,000	65,665
Gain on sale of rental property	(8,040)	(361,216)
Loan cost amortization	6,310	3,617
Donated properties	-	(47,300)
Decrease (increase) in operating assets:		
Pledge receivables	8,000	286,000
Other receivables	236,563	(197,749)
Prepaid expenses and other	(10,426)	36,204
Increase (decrease) in operating liabilities:		
Accounts payable and accrued liabilities	53,244	(60,737)
TOTAL ADJUSTMENTS	957,245	2,485
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	(264,035)	1,148,933
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(75,042)	-
Payments received on notes receivable	67,773	60,199
Payments received from sale of notes receivable	3,716,872	336,879
Notes receivable issued	(3,320,753)	(1,882,799)
Down payment assistance forgivable loans issued	(474,586)	(332,200)
Proceeds from sale of housing units held for sale	376,536	1,018,682
Proceeds from sale of rental property	-	1,623,672
Purchase of and improvement costs for properties	(1,376,854)	(435,122)
Change in cash held in escrow and restricted cash	993,490	(454,118)
NET CASH USED IN INVESTING ACTIVITIES	(92,564)	(64,807)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayments on lines of credit	(2,821,103)	(290,346)
Borrowings on lines of credit	3,066,064	290,346
Repayment on debt	(321,436)	(2,188,974)
Borrowings on debt	806,079	530,321
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	729,604	(1,658,653)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	373,005	(574,527)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	50,857	625,384
CASH AND CASH EQUIVALENTS AT END OF YEAR	**$ 423,862**	**$ 50,857**
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the year for interest	**$ 117,671**	**$ 101,950**
SUPPLEMENTAL DISCLOSURE OF NON-CASH FINANCING AND INVESTING ACTIVITIES:		
Equipment acquired under capital leases	**$ 33,166**	**$ -**

The accompanying notes are an integral part of these consolidated financial statements.

1. GENERAL

Nature of Operations

Neighborhood Housing Services of South Florida, Inc. ("NHSSF") was incorporated on April 21, 1978. The general purpose of NHSSF is to assist the low to moderate income residents of Miami-Dade and Broward counties in Florida, by providing programs and products that address their housing and economic needs. NHSSF provides education and training of homebuyers and engages in residential lending for persons who may not meet conventional lending standards. In 2007, NHSSF began home ownership preservation counseling. The consolidated financial statements include the accounts of Neighborhood Housing Services of South Florida, Inc. and Subsidiaries (collectively the "Organization"). The subsidiaries are as follows:

- Homeownership Realty, LLC ("HOLT") is a wholly-owned subsidiary of NHSSF and a licensed real estate brokerage whose primary focus is to assist low-to-moderate income families as well as those clients who receive homebuyer counseling provided by NHSSF to become a homeowner, as well as list properties for sale.

- 300 NW 12 Ave, LLC is a wholly-owned single purpose entity of NHSSF with legal title to the NHSSF headquarters in Miami, Florida.

- NHSSF Real Estate Holdings, Inc. ("NHSSF REH") is a not-for-profit wholly-owned subsidiary of NHSSF whose purpose is to acquire, hold, develop, construct, refurbish and/or sell affordable housing for the benefit of low income persons. Additionally, NHSSF REH has the following subsidiaries:

    - 1228 NW 4th Street, LLC ("Rio Palma"), a wholly-owned subsidiary of NHSSF REH, comprised of an 18 unit multi-family rental property occupied by low to moderate income residents of Miami-Dade County. In April 2017, Rio Palma sold the rental property and management liquidated the entity before June 30, 2017.

    - On March 26, 2013, NHSSF REH entered into an agreement with Collaborative Development Corporation to create Village West Homes, LLC ("VILLAGE WEST"). NHSSF owns 50% of Village West Homes, LLC and is the managing member; accordingly, NHSSF REH is deemed to be the controlling member. As such, the activity of VILLAGE WEST is included within these consolidated financial statements. VILLAGE WEST is a not-for-profit entity whose purpose is to acquire property for construction and resale in the Village West neighborhood of the City of Miami.

    - NHSSF Development, LLC is a single member LLC which serves as one of two general partners of Willow Lake Associates, LTD. Willow Lake Associates, LTD is a limited partnership whose focus is to acquire, develop, construct, and manage affordable multi-family residential rental housing projects in South Florida. The two general partners own a combined .01% in Willow Lake Associates, LTD, of which NHSSF Development, LLC owns 51% of the general partnership interest. Due to certain provisions in the operating agreement, NHSSF Development, LLC is not deemed to be the controlling partner. Development of these projects began in October 2015 and were in process during the years ended and at June 30, 2018 and 2017.

As limited liability companies ("LLC"), each member's liability is limited to amounts reflected in their respective member account. The LLCs have a perpetual existence until they are dissolved and its affairs are wound up in accordance with the respective operating agreements.

Economic Dependency

During the years ended June 30, 2018 and 2017, the Organization received approximately 25% and 11%, respectively, of its funding from NeighborWorks America ("NWA"). Loss of this revenue in the future could have a material effect on the programs offered by the Organization.

1. GENERAL (CONTINUED)

Management's Plans regarding Liquidity and the Decrease in Net Assets

The Organization incurred a decrease in net assets of $1,221,280 for the year ended June 30, 2018, compared to an increase in net assets of $1,146,448 during the year ended June 30, 2017. Additionally, the Organization has a bond payable of $1 million maturing in July 2019 which management believes will be extended. The Organization has developed a plan which includes decreasing its operating expenses by approximately $300,000 on an annual basis and has engaged a professional fundraiser to assist in grant writing in order to increase its annual revenues. The Organization believes they will generate additional net revenues from the sale of twelve newly built or refurbished single family homes within one year of issuance of these consolidated financial statements. In addition, the Organization believes they can sell their existing mortgage portfolio in order to generate cash flow if needed. Management is also determining a plan for its headquarters and believes they have the ability to generate up to $1 million in net cash proceeds after the repayment of the mortgage based on current market conditions and recent offers. In the event that the bond is not renewed, the cash generated from the sale of the building would satisfy the bond. Based on the foregoing, management believes the Organization will have sufficient resources to meet its obligations through February 22, 2020.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of NHSSF and its subsidiaries and have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). All significant intercompany accounts and transactions have been eliminated in the consolidation of the accounts of NHSSF and its subsidiaries.

The Organization accounts for its non-controlling interest in two entities in accordance with Accounting Standards Codification 810, "Consolidation." The accompanying consolidated statements of financial position includes the financial assets and liabilities of these entities. Non-controlling interest represents the equity ownership of the entities not held by the Organization. The accompanying consolidated statements of activities and changes in net assets and cash flows include the revenues, expenses and cash flows of the entities.

Basis of Presentation

In accordance with U.S. GAAP, the Organization is required to report its three types of net assets as follows:

<u>Unrestricted</u> - Net assets which are free of donor-imposed restrictions. This category includes all revenues, expenses, gains and losses that are not changes in temporarily restricted or permanently restricted net assets.

<u>Temporarily Restricted</u> - Net assets whose use by the Organization is limited by donor-imposed stipulations that either expire with the passage of time or can be fulfilled or removed by actions of the Organization pursuant to those stipulations. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, restricted net assets are reclassified to unrestricted net assets and are reported in the consolidated statements of activities as "Net assets released from restriction."

<u>Permanently Restricted</u> - Net assets where the use by the Organization is limited by donor-imposed stipulations that neither expire with the passage of time nor can be fulfilled or otherwise removed by actions of the Organization.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Management Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates, including those regarding fair value, and assumptions that affect reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of changes in net assets during the reporting period.

The most significant estimates include the collectability of the notes receivable and fair value of long-lived assets. These estimates may be adjusted as more current information becomes available. Accordingly, actual results could differ from those estimates.

Concentration of Credit Risk

Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of cash deposits in excess of the Federal Deposit Insurance Corporation ("FDIC") insured limits. The Organization limits its exposure by placing its deposits with quality financial institutions. At times, such balances may be in excess of the insurance limits of the FDIC. The Organization has not experienced losses in such accounts.

The Organization extends loans to low and moderate income residents. Additionally, many of the loans are second mortgages. Although the loans are collateralized by the borrower's property, there is the risk that property values may fall below loan values creating a concentration of credit risk.

Cash and Cash Equivalents

Cash and cash equivalents include all unrestricted monies in banks and highly liquid investments with maturities of less than three months when purchased.

Restricted Cash

Restricted cash represents amounts restricted to be used for the purchase and rehabilitation of housing units held for sale, forgivable loans and other programs such as first and second mortgages and down payment assistance for low to moderate income families.

Notes Receivable and the Allowance for Loan Losses

The Organization extends loans to residents of Miami-Dade, Broward and Palm Beach counties to purchase homes and finance required home improvements. Notes receivable that the Organization has the intent and ability to hold for the foreseeable future are stated at unpaid principal balances, less an allowance for uncollectible loans. Interest on amortizing loans is recognized over the term of the loan. The Organization considers the credit quality of its notes receivable primarily by assessing the sufficiency of collateral for the receivables on an ongoing basis, while assessing the collection experience of existing receivables and the credit worthiness of new receivables.

The Organization extends two types of loans to residents: amortizing loans and forgivable residential loans. Amortizing loans comprise of restricted residential loans and other residential loans dependent upon the source of funds used to fund these loans. Forgivable residential loans are fully reserved for as of June 30, 2018 and 2017.

Management's periodic evaluation of the adequacy of the allowance is based on the Organization's past loan loss experience, known and other risk elements inherent in the portfolio, specified impaired loans, adverse situations that may affect the borrower's ability to repay and the estimated value of the underlying collateral and current economic conditions.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Notes Receivable and the Allowance for Loan Losses (Continued)

The Organization considers a loan impaired when, based on current information or factors, it is probable that the Organization will not collect the principal and interest payments according to the loan agreement. Management considers many factors in determining whether a loan is impaired, such as payment history, value of collateral and other factors. Loans that are contractually past due less than three months are generally not considered impaired. An allowance for the total principal balance is recorded for all loans past due for more than 90 days or in foreclosure.

An allowance for loans not considered past due is recorded based on the funding source of the loan. For first-lien mortgages that are past due between 30 - 60 days, an allowance of 10% - 15% of the principal balance is recorded. For second-lien mortgages that are past due between 30 - 60 days, an allowance of 25% - 75% of the principal balance is recorded. Management continually monitors past due loans to ensure collection and to determine impairment, if necessary.

Impaired loans are classified as nonperforming and, consequently, interest income is only recognized on these loans when actually received from the borrower. Partial payments of contractual amounts due on impaired loans are treated as interest income on a cash basis until such time as the loan is restored to performing status.

Management believes that the allowance for losses on loans is adequate. The Organization maintains and adheres to policies for credit analysis and underwriting that comply with industry standards for lending practices. The Organization reviews its lending standards periodically to stay current with economic conditions. Changes in the allowance for loan loss and the related expense can have a material effect on the consolidated statements of activities.

Housing Units Held for Sale

Housing units are classified as held for sale when management intends to sell such properties within 12 months and other criteria under authoritative guidance are met. Housing units held for sale are initially recorded at cost when acquired or constructed, or at fair market value if donated to the Organization, and are no longer depreciated as of the date they are considered held for sale. Such housing units are subsequently measured at the lower of its carrying amount or fair value less costs to sell. These housing units include land under development, developed lots, and direct and indirect costs of housing construction incurred during the development period. Cost is determined by the specific identification method.

Prepaid Expenses and Other

Prepaid expenses and other consists primarily of prepaid insurance and deposits.

Property and Equipment, Net

Property and equipment are stated at cost, if purchased, or at estimated market value at date of receipt if acquired by donation. Property and equipment purchased with a value in excess of $1,000 and with a useful life in excess of five years are capitalized. Depreciation is calculated using the straight-line method over the estimated useful life of the respective assets. Repairs and maintenance are expensed as incurred.

Impairment of Long-Lived Assets

The Organization reviews the carrying values of its long-lived assets for possible impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. Recoverability of assets to be held and used is measured by comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. Impairment is recorded for the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. There was no impairment loss recognized during the years ended June 30, 2018 and 2017.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Debt Issuance Costs

Debt issuance costs are amortized over the term of the loan using the effective interest rate method. Amortization of debt issuance costs included within "Interest" in the accompanying consolidated statements of functional expenses for the years ended June 30, 2018 and 2017 were $6,310 and $3,617, respectively. Accumulated amortization at June 30, 2018 and 2017 was $14,850 and $34,535, respectively.

Amortization expense for the next five years and thereafter is as follows:

2019	$	2,736
2020		2,736
2021		2,736
2022		2,736
2023		2,736
Thereafter		3,041
Total	**$**	**16,721**

The Organization has adopted an accounting standards update that requires debt issuance costs to be presented on the consolidated statements of financial position as a reduction from the carrying amount of the related liability. The standard was adopted effective July 1, 2016, and all debt issuance costs are presented as a reduction from the carrying amount of the related liability at June 30, 2018 and 2017.

Revenue Recognition

Sources of revenue for the Organization consist of grants which, absent a specific restriction by the grantor, are considered to be available for unrestricted use. Grant revenue includes only that portion of the grant that was earned.

Contributions received and unconditional promises to give are measured at their fair values and are reported as an increase in net assets when earned. The Organization reports gifts of cash and other assets as restricted support or deferred support dependent on whether they are received with donor stipulations that limit the use of the donated assets, or if they are designated as support for a future period. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities as net assets released from restriction.

The Organization recognizes program service income for fees generated by its primary business functions of home buyer education, foreclosure mitigation, loan origination, loan processing and servicing. Program services are recognized as services are provided.

Rental income is recognized for apartment rentals as they accrue. Advance receipts of rental income are deferred and classified as liabilities until earned. All leases between the Organization and tenants of the property are one year leases and are considered operating leases.

In-kind Donated Property and Services

Donated property and services are recorded at the approximate fair value at the date of the gift to the Organization. Volunteers donating time to the Organization are not reflected in the consolidated financial statements since the services do not require specialized skills. In-kind donations of approximately $47,000 were made during the year end June 30, 2017. There was no donated property during the year ended June 30, 2018.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Functional Expenses

The cost of providing the various services and other activities has been summarized on a functional basis in the consolidated statements of functional expenses. Accordingly, certain costs have been charged to program services or supporting services based on a combination of specific identification and allocation by management.

Advertising Costs

Advertising costs are charged to operations as incurred. Advertising expenses for the years ended June 30, 2018 and 2017 were approximately $16,000.

Income Taxes

NHSSF and its wholly-owned subsidiaries qualify as tax-exempt organizations under Section 501(c)(3) of the Internal Revenue Code of 1986, as amended. The wholly-owned subsidiaries are considered disregarded entities. Village West Homes, LLC and NHS HD are treated as partnerships and their earnings and losses are included in the tax returns of the members and taxed depending on their tax situation. Accordingly, no provision for income taxes has been recorded. Management has determined that there was no unrelated business income for the years ended June 30, 2018 and 2017.

The Organization recognizes and measures tax positions based on their technical merit and assesses the likelihood that the positions will be sustained upon examination based on the facts, circumstances and information available at the end of each period. Interest and penalties on tax liabilities, if any, would be recorded in interest expense and other non-interest expense, respectively.

The U.S. Federal jurisdiction and Florida are the major tax jurisdictions where the Organization files informational tax returns and partnership returns. The Organization is generally no longer subject to U.S. Federal examinations by tax authorities for years before 2015.

Recent Accounting Pronouncements

<u>Restricted Cash</u>

In November 2016, the Financial Accounting Standards Board ("FASB") issued an accounting standards update which amends cash flow statement presentation of restricted cash. The update requires amounts generally described as restricted cash and restricted cash equivalents be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the consolidated statements of cash flows. The update is effective retrospectively for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019, with early adoption permitted. The Organization is currently evaluating the effect the update will have on its consolidated financial statements.

<u>Presentation of Financial Statements of Not-for-Profit Entities</u>

In August 2016, the FASB issued an accounting standards update which revises financial reporting by not-for profits. The update reduces the number of net asset classes from the currently required three to two. In addition, the update requires enhanced disclosures about such matters as donor restrictions, management of liquid resources and underwater endowment funds. The update is effective retrospectively for financial statements issued for fiscal years beginning after December 15, 2017, and interim periods within fiscal years beginning after December 15, 2018, with earlier application permitted. The Organization is currently evaluating the effect the update will have on its consolidated financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Accounting Pronouncements (Continued)

Measurement of Credit Losses on Financial Instruments

In June 2016, the FASB issued an accounting standards update which will replace the current incurred loss impairment methodology in U.S. GAAP with a methodology that reflects the expected credit losses. The update is intended to provide financial statement users with more decision-useful information about expected credit losses. This update is effective on a modified retrospective basis for financial statements issued for fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021. Early adoption is permitted for fiscal years beginning after December 15, 2018 including interim periods in those fiscal years. The Organization is currently evaluating the effect the update will have on its consolidated financial statements.

Accounting Guidance for Contributions Received and Contributions Made

In June 2018, the FASB issued an accounting standards update in an effort to clarify and improve the scope and the accounting guidance for contributions received and contributions made. The FASB believes the update should assist entities in (1) evaluating whether transactions should be accounted for as contributions (non-reciprocal transactions) within the scope of not-for-profit guidance, or as an exchange (reciprocal) transaction subject to other guidance and (2) determining whether a contribution is conditional or not. The update is effective on a modified prospective basis for fiscal years beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019, with early adoption permitted. The Organization is currently evaluating the effect the update will have on its consolidated financial statements.

Lease Accounting

In February 2016, the FASB issued an accounting standards update which amends existing lease guidance. The update requires lessees to recognize a right-of-use asset and related lease liability for many operating leases now currently off-balance sheet under current US GAAP. Also, the FASB has issued amendments to the update with practical expedients related to land easements and lessor accounting. The update is effective using a modified retrospective approach for fiscal years beginning after December 15, 2019, and for interim periods within fiscal years beginning after December 15 2020, with early application permitted. The Organization is currently evaluating the effect the update will have on its consolidated financial statements.

Revenue From Contracts With Customers

In May 2014, the FASB issued an accounting standards update which affects the revenue recognition of entities that enter into either (1) certain contracts to transfer goods or services to customers or (2) certain contracts for the transfer of nonfinancial assets. The update indicates an entity should recognize revenue in an amount that reflects the consideration the entity expects to be entitled to in exchange for the goods or services transferred by the entity. The update is to be applied to the beginning of the year of implementation or retrospectively and is effective for annual periods beginning after December 15, 2018 and in interim periods in annual periods beginning after December 15, 2019. Early application is permitted, but no earlier than annual reporting periods beginning after December 15, 2016. The Organization is currently evaluating the effect the update will have on its consolidated financial statements.

Subsequent Events

The Organization has evaluated subsequent events through February 22, 2019, which is the date the consolidated financial statements were available to be issued.

3. NOTES RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES

The following table includes an aging analysis of the notes receivable at June 30, 2018:

	Restricted Residential Loans	Other Residential Loans	Forgivable Residential Loans	Total
Number of loans	29	10	281	320
Current	$ 586,312	$ 1,168,163	$ 2,910,628	$ 4,665,103
30-60 days	23,516	-	-	23,516
61-90 days	13,565	-	-	13,565
Over 90 days	195,367	-	-	195,367
Sub-total	818,760	1,168,163	2,910,628	4,897,551
Allowance for loan losses	(227,144)	-	(2,910,628)	(3,137,772)
	$ 591,616	**$ 1,168,163**	**$ -**	**$ 1,759,779**

The following table includes an aging analysis of the notes receivable at June 30, 2017:

	Restricted Residential Loans	Other Residential Loans	Forgivable Residential Loans	Total
Number of loans	33	18	296	347
Current	$ 581,246	$ 1,667,890	$ 3,805,550	$ 6,054,686
30-60 days	114,483	-	-	114,483
61-90 days	-	-	-	-
Over 90 days	87,196	-	-	87,196
Sub-total	782,925	1,667,890	3,805,550	6,256,365
Allowance for loan losses	(118,937)	-	(3,805,550)	(3,924,487)
	$ 663,988	**$ 1,667,890**	**$ -**	**$ 2,331,878**

The Organization extends loans to residents of Miami-Dade, Broward and Palm Beach counties to finance required home improvements and to purchase homes. These loans range in terms from 5 to 30 years, at interest rates from 2% to 6.25%. Interest income related to loans receivable amounted to approximately $106,000 and $65,000 for the years ended June 30, 2018 and 2017, respectively. The weighted average of the interest rate for amortizing loans was 3.82% and 3.67% for the years ended June 30, 2018 and 2017, respectively.

Forgivable residential loans are non-interest bearing. Forgivable loans are generally provided for down payment assistance. Forgivable loans for the Neighborhood Stabilization Program ("NSP") of approximately $1,717,000 were given out in 2014 and are forgivable between 20-30 years. Forgivable loans for the Neighborhood LIFT program of approximately $6,170,000 were given out in 2014 and are forgiven over five years (20% each year); however, if the mortgagor decides to sell the home in the first five years, then the amount not written off becomes fully repayable. During the years ended June 30, 2018 and 2017, management estimated that the possibility of collection subsequent to a borrower's sale of the home was uncertain; therefore all forgivable loans were fully reserved.

Amortizing loans are generally secured by a mortgage on the property. Mortgage loans are carried at net realizable value, and management believes that the amount of the allowance for uncollectible mortgage loans is adequate given the nature of the loans and the value of the related collateral. The allowance is maintained at a level that, in management's judgment, is adequate to absorb credit losses inherent in the portfolio. The amount of the allowance is based on management's evaluation of collectability of the loan portfolio, including the nature of the portfolio, credit concentrations, trends in historical loss experience, specific impaired loans, economic conditions and other risks inherent in the portfolio.

3. NOTES RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES (CONTINUED)

The following table presents the changes in allowance for loan losses as of June 30, 2018:

As of June 30, 2018:	Restricted Residential Loans	Other Residential Loans	Forgivable Residential Loans	Total
Allowance for Loan Losses:				
Balance at beginning of year	$ 118,937	$ -	$ 3,805,550	$ 3,924,487
Write-Down (forgivable loans)	-	-	(1,356,508)	(1,356,508)
Recoveries	-	-	(13,000)	(13,000)
Write-Down of current year forgivable loans	-	-	474,586	474,586
Provision of loan losses	108,207	-	-	108,207
Ending Balance	**$ 227,144**	**$ -**	**$ 2,910,628**	**$ 3,137,772**
Ending balance: individually evaluated for impairment	$ -	$ -	$ -	$ -
Ending balance: collectively evaluated for impairment	$ 227,144	$ -	$ 2,910,628	$ 3,137,772
Loans:				
Ending balance	$ 818,760	$ 1,168,163	$ 2,910,628	$ 4,897,551
Ending balance: individually evaluated for impairment	$ 232,448	$ -	$ -	$ 232,448
Ending balance: collectively				

The following table presents the changes in allowance for loan losses as of June 30, 2017:

As of June 30, 2017:	Restricted Residential Loans	Other Residential Loans	Forgivable Residential Loans	Total
Allowance for Loan Losses:				
Balance at beginning of year	$ 245,762	$ 17,500	$ 4,787,896	$ 5,051,158
Write-Down (forgivable loans)	-	-	(1,291,867)	(1,291,867)
Recoveries	-	-	(48,250)	(48,250)
Write-Down of current year forgivable loans	-	-	357,771	357,771
Reversal of loan losses	(126,825)	(17,500)	-	(144,325)
Ending Balance	**$ 118,937**	**$ -**	**$ 3,805,550**	**$ 3,924,487**
Ending balance: individually evaluated for impairment	$ 118,937	$ -	$ -	$ 118,937
Ending balance: collectively evaluated for impairment	$ -	$ -	$ 3,805,550	$ 3,805,550
Loans:				
Ending balance	$ 782,925	$ 1,667,890	$ 3,805,550	$ 6,256,365
Ending balance: individually evaluated for impairment	$ 201,679	$ -	$ -	$ 201,679
Ending balance: collectively				

When determining an appropriate allowance for uncollectible mortgage loans, the Organization evaluates each loan balance that is considered to be impaired individually. Impaired loans are fully reserved. The remaining loan balances are evaluated collectively.

A loan is considered impaired when past due for more than 90 days and when in foreclosure. Impaired loans are fully allowed for at June 30, 2018. There were no loans that have been modified in a troubled debt restructuring during the years ended June 30, 2018 and 2017.

3. NOTES RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES (CONTINUED)

Amortizing loans are expected to be collected as follows for the next five years and thereafter:

Years Ending June 30,		
2019	$	56,125
2020		56,250
2021		57,879
2022		58,949
2023		61,116
Thereafter		1,469,460
Total	**$**	**1,759,779**

4. PROPERTIES HELD FOR SALE AND CONSTRUCTION IN PROGRESS AND LAND HELD FOR DEVELOPMENT

At June 30, 2018 and 2017, the value of housing units held for sale were approximately $1,281,000 and $535,000, respectively. During the year ended June 30, 2018, the Organization sold two single family properties previously held for sale. The properties were sold for approximately $410,000 and the net loss after selling expenses was approximately $21,000 and is reflected within “Program services” in the accompanying consolidated statement of activities for the year ended June 30, 2018. During the year ended June 30, 2017, the Organization sold six single family properties previously held for sale. The properties were sold for approximately $1,058,000 and the net loss after selling expenses was approximately $82,000 and is reflected within “Program services” in the accompanying consolidated statement of activities for the year ended June 30, 2017. Subsequent to year end the organization sold seven single family properties previously held for sale. The properties were sold for approximately $1,596,000 and the net gain after selling expenses were approximately $14,071.

Construction in progress and land held for development are carried at cost and no depreciation is recorded. At June 30, 2018 and 2017, the value of construction in progress and land held for development was approximately $353,000 and $126,000, respectively. Properties undergoing significant renovations and improvements are considered under development. All direct and indirect costs related to development activities are capitalized into construction in progress and land held for development. The capitalization of such expenses into “Construction in progress and land held for development,” in the accompanying consolidated statements of financial position, ceases when the property is ready for its intended use.

5. PROPERTY AND EQUIPMENT, NET

Property and equipment, net and their estimated useful lives consist of the following at June 30,:

	2018	**2017**	**Estimated Lives**
Land	$ 260,293	$ 260,293	-
Building	1,041,176	1,041,176	40 years
Building improvements	193,652	193,652	10 years
Office furniture and equipment	157,221	115,345	5 years
	1,652,342	1,610,466	
Less: accumulated depreciation	484,615	458,020	
	$ 1,167,727	**$ 1,152,446**	

Depreciation expense for property and equipment, net was approximately $68,000 and $65,000 for the years ended June 30, 2018 and 2017, respectively.

5. PROPERTY AND EQUIPMENT, NET (CONTINUED)

In April 2017, the Organization sold the rental property held by Rio Palma and liquidated the consolidated entity before the year ended June 30, 2017. Gross proceeds from the sale were approximately $1,750,000 and the Organization recognized a net gain of approximately $361,000 as a result of the sale.

6. DEBT

The Organization's debt consists of the following at June 30,:

	2018	2017
First mortgage loan obtained from a non-profit lender in March 2014 for 300 NW 12th Avenue, LLC. Equal monthly payments of $7,583 are based on a 25-year amortization at an interest rate of 5.375% until maturity on March 31, 2024. The mortgage contained certain restrictive covenants. During the year ended June 30, 2015, the Organization entered into a loan modification agreement with the non-profit lender which included, among other things, new restrictive covenants, which require the Organization to maintain net assets less temporarily restricted net assets of $750,000 and a debt service coverage of 1.10 effective December 31, 2015, until the mortgage is fully repaid. During the year ended June 30, 2018, the Organization was out of compliance with these covenants and management obtained a waiver through March 15, 2020. Management believes that the Organization was in compliance with these covenants at and during the year ended June 30, 2017. The note payable is collateralized by the first lien on the property, which is carried at approximately $1,115,000 as of June 30, 2018 and 2017.	$ 1,140,025	$ 1,166,540
Note payable entered into in June 2013 with a municipality funded by the City of Miami for a $900,000 commitment of HUD HOME funds to be used as part of the funding to build the six houses in Village West. The loan is secured by second mortgages on the lots, which are carried at approximately $118,000 and $600,000 within "Housing units held for sale" as of June 30, 2018 and 2017, respectively. The loan bore no interest if the properties are sold to qualified buyers within 24 months. Under the terms of the agreement, proceeds from the sale of the Village West homes to qualified households is to be used to repay a portion of the loan with the balance being forgiven if certain conditions were met. During the year ended June 30, 2018 the balance was forgiven upon the sale of the properties in accordance with the agreement. All principal payments on notes payable outstanding associated with properties owned by the Organization that are held for sale as of June 30, 2017, are reflected within the caption "Debt, current portion" on the accompanying consolidated statements of financial position.	-	18,715
Revolving loan of $1,500,000, evidenced by two notes with a non-profit lender, to be used for the acquisition, rehabilitation and construction of single-family houses. Under the most recent modification to the agreement, the term of the loan was extended from September 30, 2017 to July 1, 2019 at a fixed interest rate of 6.75%. The revolving loan is secured by a first mortgage on all units to be acquired and constructed and repaid from the sale of the houses to a qualified buyer, and which have a carrying value of approximately $459,000 and $546,000 as of June 30, 2018 and 2017, respectively. All principal payments on notes payable outstanding associated with properties owned by the Organization that are held for sale as of June 30, 2018 and 2017, are reflected within the caption "Debt, current portion" on the accompanying consolidated statements of financial position.	750,043	222,906
Total debt	1,890,068	1,408,161
Current portion of debt	631,452	252,906
Less: unamortized debt issuance costs	16,721	19,457
Total debt, net of current portion	**$ 1,241,895**	**$ 1,135,798**

6. DEBT (CONTINUED)

Minimum principal payments due on notes payable outstanding as of June 30, 2018 for the next five years are as follows:

June 30,	
2019	$ 631,452
2020	181,198
2021	33,913
2022	35,782
2023	37,753
Thereafter	969,970
	1,890,068
Less: unamortized debt issuance costs	16,721
	$ 1,873,347

Interest expense related to debt for the years ended June 30, 2018 and 2017 amounted to approximately $62,000 and $66,000, respectively.

7. LINE OF CREDIT

Revolving line of credit of $1,000,000 started in November 2012 amended on August 8, 2016 and is secured by first mortgages receivables originated by NHSSF and funded by this line of credit. Under the most recent modification to this agreement, the interest rate is variable and is accrued starting at the origination date of each first mortgage receivable. The interest rate as of June 30, 2018 was 5%. The interest and line of credit are paid off as the underlying first mortgages receivables are sold to BankUnited. At June 30, 2018 and 2017, there was an outstanding balance of approximately $245,000 and $0, respectively. Interest expense related to the line of credit during the years ended June 30, 2018 and 2017, was approximately $25,000 and $0, respectively.

8. BOND PAYABLE

The bond payable is comprised of a long-term unsecured investment bond of $1,000,000 to be used by the Organization to fund its lending program. Under the most recent modification to the agreement, the maturity date was extended to July 31, 2019 at an interest rate of 0.05% per annum compounded annually. The Organization pays interest on a quarterly basis. The Organization has the right to redeem the bond at any time with 30 days' notice. Any partial redemption must cover par value of at least $1,000. Interest expense on the bond for the years ended June 30, 2018 and 2017 was approximately $5,000.

9. TEMPORARILY RESTRICTED NET ASSETS

At June 30, 2018 and 2017, temporarily restricted net assets were approximately $135,000 and $1,190,000, respectively, and are used for providing down payment assistance and first mortgages in Miami-Dade, Broward and Palm Beach counties.

10. PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets represent grants received for lending to qualified borrowers and for real estate development in Miami-Dade and Broward Counties. Per the agreement, the Organization has established a permanently restricted fund. The fund is replenished with principal payments received on loans and with funds generated from home sales. In addition, the fund is also comprised of permanent investment in real property. Should the Organization become defunct, all remaining grant funds, interest earnings, capital project proceeds, and the loan and capital projects portfolios representing the use of these funds will revert to NWA. During 2017, the Organization obtained notice from NWA granting unrestricted use of approximately $295,000 of the permanently restricted funds as reflected within the caption "Net assets released from restriction" on the accompanying statements of activities for the year ended June 30, 2017. At June 30, 2018 and 2017, permanently restricted net assets were approximately $1,180,000.

11. COMMITMENTS, CONTINGENCIES AND OTHER MATTERS

The costs and unexpended funds reflected in the accompanying consolidated financial statements relating to government funded programs are subject to audit by the respective governmental agencies (funding sources). The possible disallowance by the related governmental agencies of any item charged to the program or request for the return of any unexpended funds cannot be determined at this time. No provision for any liability that may result has been made in the consolidated financial statements.

The Organization participates in numerous program grants and contracts. These grants and contracts are subject to financial and compliance audits by other parties. The purpose of these audits is to ensure compliance with the terms of the grant and contract. Grantor agencies may, at their discretion, request reimbursement for expenses or return of funds, or both, as a result of noncompliance by the Organization with terms of the grants or contracts.

In addition, the Organization finances the construction of its housing units held for sale from revolving loans from two non-profit lenders. Future commitments related to the financing of these construction costs subsequent to year end are approximately $1,037,411.

12. RETIREMENT PLAN

The Organization established a Savings Incentive Match Plan (“SIMPLE”) IRA effective August 1, 2003 that covers all eligible employees. Eligible employees are those employed in the previous year and had compensation of $5,000 or above in the previous year. Employees may contribute up to $12,500 and those employees 50 years old and older may contribute up to $15,500. The Organization will match an employee’s contribution dollar for dollar up to 3% of the employee’s compensation, which is determined annually by the board of directors. Employees are immediately 100% vested in the matching contributions. During the years ended June 30, 2018 and 2017, the Organization made matching contributions totaling approximately $27,000 and $25,000, respectively.

13. ENDOWMENT

The Organization’s endowment consists of funds permanently restricted by NWA. Per the terms of these agreements, the Organization has established a permanently restricted fund. The fund is used for neighborhood revitalization expenditures, including acquisition and construction costs of homes and for making home loans. The fund is replenished with principal payments received on the loans and with funds generated from sales of homes. As required by U.S. GAAP, net assets associated with endowment funds, including funds designated by the Organization to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The State of Florida adopted the Florida Uniform Prudent Management of Institutional Funds Act (“FUPMIFA”). The Organization has interpreted the FUPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by the FUPMIFA.

13. ENDOWMENT (CONTINUED)

The Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

(1) The duration and preservation of the fund
(2) The purposes of the Organization and the donor-restricted endowment fund
(3) General economic conditions
(4) The possible effect of inflation and deflation
(5) The expected total return from income and the appreciation of investments
(6) Other resources of the Organization
(7) The investment policy of the Organization.

The Organization has elected not to add appreciation for cost of living or other spending policies to its permanently restricted endowment for inflation and other economic conditions.

Summary of Endowment Net Assets at June 30, 2018:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	**$ -**	**$ -**	**$ 1,179,645**	**$ 1,179,645**

There were no changes in endowment net assets for the year ended June 30, 2018.

Summary of Endowment Net Assets at June 30, 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	**$ -**	**$ -**	**$ 1,179,645**	**$ 1,179,645**

Change in endowment net assets for the year ended June 30, 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning	$ -	$ -	$ 1,474,556	$ 1,474,556
Released from restriction, expenditures and other	-	-	(294,911)	(294,911)
Endowment net assets, ending	**$ -**	**$ -**	**$ 1,179,645**	**$ 1,179,645**

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor requires the Organization to retain as a fund of perpetual duration. During both of the years ended June 30, 2018 and 2017, the fair market value of permanently restricted investments was approximately $1,179,000, respectively. In accordance with U.S. GAAP, there were no deficiencies of this nature that were reported in unrestricted net assets for the years ended June 30, 2018 and 2017.

13. ENDOWMENT (CONTINUED)

Spending Policy and How the Investment Objectives Relate to Spending Policy

In accordance with the NWA's fund agreements, the Organization is required to invest and use the endowment to purchase housing opportunities for qualifying low-income individuals. In addition, the Organization may fund mortgage loans to low-income qualifying individuals to purchase these properties or other qualifying properties.

All resources granted to this fund must be maintained permanently. The funds invested in notes receivable earn interest at rates ranging from 2.00% to 6.25%. The Organization is permitted to transfer or expend only the income (or other economic benefits) derived from capital assets in excess of the investment and corpus.

SUPPLEMENTARY SCHEDULES

NEIGHBORHOOD HOUSING SERVICES
OF SOUTH FLORIDA, INC.
AND SUBSIDIARIES

CONSOLIDATING STATEMENT OF FINANCIAL POSITION
JUNE 30, 2018

ASSETS	NHSSF	HOLT	NHSSF REH	VILLAGE WEST	ELIMINATIONS	TOTAL
CURRENT ASSETS						
Cash and cash equivalents	$ 93,298	$ 22,519	$ 179,514	$ 128,531	$ -	$ 423,862
Other receivables	71,851	-	52,757	19,576	-	144,184
Notes receivable, current portion	56,125	-	-	-	-	56,125
Housing units held for sale	-	-	703,000	577,661	-	1,280,661
Prepaid expenses and other	11,964	648	3,673	-	-	16,285
TOTAL CURRENT ASSETS	233,238	23,167	938,944	725,768	-	1,921,117
RESTRICTED CASH	93,745	-	-	-	-	93,745
NOTES RECEIVABLE, NET OF CURRENT PORTION	1,703,654	-	-	-	-	1,703,654
CONSTRUCTION IN PROGRESS AND LAND HELD FOR DEVELOPMENT	-	-	352,566	-	-	352,566
PROPERTY AND EQUIPMENT, NET	1,167,727	-	-	-	-	1,167,727
INTERCOMPANY RECEIVABLES	266,150	50,355	218,420	(255,987)	(278,938)	-
TOTAL ASSETS	**$ 3,464,514**	**$ 73,522**	**$ 1,509,930**	**$ 469,781**	**$ (278,938)**	**$ 5,238,809**
LIABILITIES AND NET ASSETS						
CURRENT LIABILITIES						
Accounts payable and accrued liabilities	$ 267,172	$ 2,582	$ 15,876	$ -	$ -	$ 285,630
Line of credit	184,500	-	60,461	-	-	244,961
Debt, current portion	30,465	-	485,807	115,180	-	631,452
TOTAL CURRENT LIABILITIES	482,137	2,582	562,144	115,180	-	1,162,043
BOND PAYABLE	1,000,000	-	-	-	-	1,000,000
DEBT, NET OF CURRENT PORTION	1,092,839	-	149,056	-	-	1,241,895
INTERCOMPANY PAYABLES	-	-	-	278,938	(278,938)	-
TOTAL LIABILITIES	2,574,976	2,582	711,200	394,118	(278,938)	3,403,938
COMMITMENTS AND CONTINGENCIES						
NET ASSETS						
Unrestricted:						
Controlling interest	(424,826)	70,940	798,730	41,615	-	486,459
Non-controlling interest	-	-	-	34,048	-	34,048
Total unrestricted	(424,826)	70,940	798,730	75,663	-	520,507
Temporarily restricted	134,719	-	-	-	-	134,719
Permanently restricted	1,179,645	-	-	-	-	1,179,645
TOTAL NET ASSETS	889,538	70,940	798,730	75,663	-	1,834,871
TOTAL LIABILITIES AND NET ASSETS	**$ 3,464,514**	**$ 73,522**	**$ 1,509,930**	**$ 469,781**	**$ (278,938)**	**$ 5,238,809**

NEIGHBORHOOD HOUSING SERVICES OF SOUTH FLORIDA, INC. AND SUBSIDIARIES

CONSOLIDATING STATEMENT OF FINANCIAL POSITION
JUNE 30, 2017

ASSETS	NHSSF	HOLT	NHSSF REH	VILLAGE WEST	ELIMINATIONS	TOTAL
CURRENT ASSETS						
Cash and cash equivalents	$ 4,548	$ 43,394	$ -	$ 2,915	$ -	$ 50,857
Pledge receivables	8,000	-	-	-	-	8,000
Other receivables	47,770	-	288,356	44,621	-	380,747
Notes receivable, current portion	163,903	-	-	-	(98,002)	65,901
Housing units held for sale	-	-	416,652	118,067	-	534,719
Prepaid expenses and other	2,118	-	3,741	-	-	5,859
TOTAL CURRENT ASSETS	226,339	43,394	708,749	165,603	(98,002)	1,046,083
RESTRICTED CASH	682,570	-	228,824	175,841	-	1,087,235
NOTES RECEIVABLE, NET OF CURRENT PORTION	2,265,977	-	-	-	-	2,265,977
CONSTRUCTION IN PROGRESS AND LAND HELD FOR DEVELOPMENT	-	-	125,500	-	-	125,500
PROPERTY AND EQUIPMENT, NET	1,152,446	-	-	-	-	1,152,446
INTERCOMPANY RECEIVABLES	188,794	75,607	-	-	(264,401)	-
TOTAL ASSETS	**$ 4,516,126**	**$ 119,001**	**$ 1,063,073**	**$ 341,444**	**$ (362,403)**	**$ 5,677,241**

LIABILITIES AND NET ASSETS	NHSSF	HOLT	NHSSF REH	VILLAGE WEST	ELIMINATIONS	TOTAL
CURRENT LIABILITIES						
Accounts payable and accrued liabilities	$ 222,768	$ 4,895	$ 3,373	$ 1,350	$ -	$ 232,386
Debt, current portion	27,523	-	205,318	118,067	(98,002)	252,906
TOTAL CURRENT LIABILITIES	250,291	4,895	208,691	119,417	(98,002)	485,292
BOND PAYABLE	1,000,000	-	-	-	-	1,000,000
DEBT, NET OF CURRENT PORTION	1,118,210	-	17,588	-	-	1,135,798
INTERCOMPANY PAYABLES	-	-	17,573	246,828	(264,401)	-
TOTAL LIABILITIES	2,368,501	4,895	243,852	366,245	(362,403)	2,621,090
COMMITMENTS AND CONTINGENCIES						
NET ASSETS						
Unrestricted:						
Controlling interest	(222,492)	114,106	819,221	(35,961)	-	674,874
Non-controlling interest	-	-	-	11,160	-	11,160
Total unrestricted	(222,492)	114,106	819,221	(24,801)	-	686,034
Temporarily restricted	1,190,472	-	-	-	-	1,190,472
Permanently restricted	1,179,645	-	-	-	-	1,179,645
TOTAL NET ASSETS	2,147,625	114,106	819,221	(24,801)	-	3,056,151
TOTAL LIABILITIES AND NET ASSETS	**$ 4,516,126**	**$ 119,001**	**$ 1,063,073**	**$ 341,444**	**$ (362,403)**	**$ 5,677,241**

NEIGHBORHOOD HOUSING SERVICES
OF SOUTH FLORIDA, INC.
AND SUBSIDIARIES

CONSOLIDATING STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018

	NHSSF	HOLT	NHSSF REH	VILLAGE WEST	ELIMINATIONS	TOTAL
REVENUES						
NeighborWorks America grants	$ 349,055	$ -	$ -	$ -	$ -	$ 349,055
Contributions	323,362	-	-	-	-	323,362
Rental income	41,622	-	854	-	-	42,476
Interest income	106,206	-	-	-	-	106,206
Program services	256,336	157,021	65,527	100,464	-	579,348
TOTAL REVENUES	1,076,581	157,021	66,381	100,464	-	1,400,447
EXPENSES						
Program services	1,885,638	200,187	86,872	-	-	2,172,697
Support services	449,030	-	-	-	-	449,030
TOTAL EXPENSES	2,334,668	200,187	86,872	-	-	2,621,727
CHANGE IN NET ASSETS	(1,258,087)	(43,166)	(20,491)	100,464	-	(1,221,280)
NET ASSETS AT BEGINNING OF YEAR	2,147,625	114,106	819,221	(24,801)	-	3,056,151
NET ASSETS AT END OF YEAR	**$ 889,538**	**$ 70,940**	**$ 798,730**	**$ 75,663**	**$ -**	**$ 1,834,871**

NEIGHBORHOOD HOUSING SERVICES
OF SOUTH FLORIDA, INC.
AND SUBSIDIARIES

CONSOLIDATING STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017

	NHSSF	HOLT	NHSSF REH	RIO PALMA	VILLAGE WEST	ELIMINATIONS	TOTAL
REVENUES							
NeighborWorks America grants	$ 411,401	$ -	$ -	$ -	$ -	$ -	$ 411,401
Contributions	2,293,405	-	-	-	-	-	2,293,405
Gain on sale of rental property	-	-	-	361,216	-		361,216
Rental income	10,914	-	1,000	112,498	-	-	124,412
Interest income	64,583	-	-	-	-	-	64,583
In-kind donations	3,600	-	43,700	-	-	-	47,300
Program services	195,177	110,250	168,147	-	(59,425)	(16,897)	397,252
Net assets released from restriction	192,667	120,575	50,028	(367,519)	4,249	-	-
TOTAL REVENUES	3,171,747	230,825	262,875	106,195	(55,176)	(16,897)	3,699,569
EXPENSES							
Program services	1,796,380	88,128	130,840	61,202	17,629	(16,897)	2,077,282
Support services	402,659	23,019	34,175	15,986	-	-	475,839
TOTAL EXPENSES	2,199,039	111,147	165,015	77,188	17,629	(16,897)	2,553,121
CHANGE IN NET ASSETS	972,708	119,678	97,860	29,007	(72,805)	-	1,146,448
NET ASSETS AT BEGINNING OF YEAR	1,174,917	(5,572)	721,361	(29,007)	48,004	-	1,909,703
NET ASSETS (DEFICIT) AT END OF YEAR	**$ 2,147,625**	**$ 114,106**	**$ 819,221**	**$ -**	**$ (24,801)**	**$ -**	**$ 3,056,151**

NEIGHBORHOOD HOUSING SERVICES
OF SOUTH FLORIDA, INC.
AND SUBSIDIARIES

NEIGHBORWORKS AMERICA SUPPLEMENTARY SCHEDULE
JUNE 30, 2018 AND 2017

STATEMENTS OF FINANCIAL POSITION - NEIGHBORWORKS AMERICA CAPITAL FUND

ASSETS	**June 30, 2018**	**June 30, 2017**
Restricted cash	$ 40,594	$ -
Notes receivable (A)	857,189	806,932
Properties held for re-sale	166,415	210,852
Construction in progress and land held for development	1,815	48,229
NHSSF office building	113,632	113,632
Total Assets	**$ 1,179,645**	**$ 1,179,645**
LIABILITIES AND NET ASSETS		
Permanently restricted net assets	**$ 1,179,645**	**$ 1,179,645**

(A) Notes receivable – At June 30, 2018 and 2017, notes receivable are reflected gross of the reserve of approximately $585,000 and $783,000, respectively. If these loans are not collected, the Organization will have to replace the asset with unrestricted assets.

	June 30, 2018	**June 30, 2017**
Change in net assets	$ -	$ (294,911)
Net assets, beginning of year	1,179,645	1,474,556
Net assets, end of year	**$ 1,179,645**	**$ 1,179,645**