



**NEIGHBORHOOD HOUSING SERVICES
OF PHOENIX, INC. AND SUBSIDIARIES**

PHOENIX, ARIZONA

**CONSOLIDATED FINANCIAL STATEMENTS
AND OMB CIRCULAR A-133
SUPPLEMENTARY REPORTS**

Year Ended December 31, 2010



**NEIGHBORHOOD HOUSING SERVICES
OF PHOENIX, INC. AND SUBSIDIARIES**

**Consolidated Financial Statements and
OMB Circular A-133 Supplementary Reports**

Year Ended December 31, 2010

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Neighborhood Housing Services of Phoenix, Inc.
Phoenix, Arizona

We have audited the accompanying consolidated statement of financial position of Neighborhood Housing Services of Phoenix, Inc. and Subsidiaries at December 31, 2010 and the related consolidated statements of activities, functional expenses and cash flows for the year then ended. These consolidated financial statements are the responsibility of Neighborhood Housing Services of Phoenix, Inc. and Subsidiaries' management. Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Neighborhood Housing Services of Phoenix, Inc. and Subsidiaries at December 31, 2010, and the changes in their net assets and their cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 16, 2011 on our consideration of Neighborhood Housing Services of Phoenix, Inc. and Subsidiaries' internal control over financial reporting and on our tests of their compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Tempe
2055 E. Warner Road
Suite 101
Tempe, AZ 85284-3487
(480) 839-4900
Fax (480) 839-1749

Scottsdale
7098 E. Cochise Road
Suite 100
Scottsdale, AZ 85253-4517
(480) 483-1170
Fax (480) 483-7126

Casa Grande
1115 E. Cottonwood Lane
Suite 100
Casa Grande, AZ 85122-2950
(520) 836-8201
Fax (520) 426-9432

Our audit was conducted for the purpose of forming an opinion on the basic consolidated financial statements of Neighborhood Housing Services of Phoenix, Inc. and Subsidiaries taken as a whole. The consolidating statement of financial position and consolidating statement of activities are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. The accompanying schedule of expenditures of federal awards is presented for additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations* and is also 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 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 information is fairly stated in all material respects in relation to the financial statements as a whole.

Henry + Horne, LLP

Scottsdale, Arizona
March 16, 2011



NEIGHBORHOOD HOUSING SERVICES OF PHOENIX, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
December 31, 2010

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 3,722,070
Restricted cash	589,389
Governmental receivables	123,192
Promises to give	99,350
Other receivables	67,540
Property held for re-sale	3,060,257
Prepaid expenses and deposits	27,340
Mortgage loans receivable, current	<u>62,687</u>

TOTAL CURRENT ASSETS 7,751,825

PROPERTY AND EQUIPMENT, net

2,537,324

OTHER ASSETS

Mortgage loans receivable, net of current portion	4,089,674
Escrow reserve deposit	<u>54,387</u>

TOTAL OTHER ASSETS 4,144,061

TOTAL ASSETS \$ 14,433,210

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable and accrued expenses	\$	646,214
Accrued compensated absences		45,684
Advances on contracts		6,971
Loan impounds and client deposits		866,572
Deferred revenue		1,361,088
Notes payable, current		<u>2,120,599</u>

TOTAL CURRENT LIABILITIES 5,047,128

NOTES PAYABLE, net of current portion 1,826,681

TOTAL LIABILITIES 6,873,809

NET ASSETS

Unrestricted		2,603,709
Temporarily restricted		3,567,669
Permanently restricted		<u>1,388,023</u>

TOTAL NET ASSETS 7,559,401

TOTAL LIABILITIES AND NET ASSETS \$ 14,433,210

NEIGHBORHOOD HOUSING SERVICES OF PHOENIX, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF ACTIVITIES
Year Ended December 31, 2010

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>
SUPPORT AND REVENUE		
Public Support		
Governmental grants	\$ 4,233,086	\$ 388,722
Nongovernmental grants and contributions	976,450	-
Contributions in-kind	2,808	-
	<u>5,212,344</u>	<u>388,722</u>
TOTAL SUPPORT		
Revenue		
Fees	905,856	-
Interest income on mortgages	268,071	-
Investment income	4,882	-
	<u>1,178,809</u>	<u>-</u>
TOTAL REVENUE		
Net assets released from restrictions	671,642	(360,306)
	<u>7,062,795</u>	<u>28,416</u>
TOTAL SUPPORT AND REVENUE		
EXPENSES		
Program Services		
Homebuyer education	980,735	-
Loan services	4,302,482	-
Affordable housing development	761,824	-
Agency funds	107,072	-
La Ciudad, LLC	185,752	-
	<u>6,337,865</u>	<u>-</u>
TOTAL PROGRAM SERVICES		
Supporting Services		
Management and general	508,523	-
Community outreach	45,654	-
Resource development	83,352	-
	<u>637,529</u>	<u>-</u>
TOTAL SUPPORTING SERVICES		
TOTAL EXPENSES	<u>6,975,394</u>	<u>-</u>
Changes in net assets	87,401	28,416
NET ASSETS, BEGINNING OF YEAR	<u>2,516,308</u>	<u>3,539,253</u>
NET ASSETS, END OF YEAR	<u>\$ 2,603,709</u>	<u>\$ 3,567,669</u>

See accompanying notes.

<u>Permanently Restricted</u>	<u>Total</u>
\$ 110,750	\$ 4,732,558
-	976,450
-	2,808
<u>110,750</u>	<u>5,711,816</u>
-	905,856
-	268,071
-	4,882
<u>-</u>	<u>1,178,809</u>
(311,336)	-
<u>(200,586)</u>	<u>6,890,625</u>
-	980,735
-	4,302,482
-	761,824
-	107,072
-	185,752
<u>-</u>	<u>6,337,865</u>
-	508,523
-	45,654
-	83,352
<u>-</u>	<u>637,529</u>
<u>-</u>	<u>6,975,394</u>
(200,586)	(84,769)
<u>1,588,609</u>	<u>7,644,170</u>
<u>\$ 1,388,023</u>	<u>\$ 7,559,401</u>

NEIGHBORHOOD HOUSING SERVICES OF PHOENIX, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
Year Ended December 31, 2010

	PROGRAM SERVICES				
	Homebuyer Education	Loan Services	Affordable Housing Development	Agency Funds	La Ciudad, LLC
Salaries and wages	\$ 643,709	\$ 178,579	\$ 103,821	\$ -	\$ -
Employee benefits/payroll taxes	115,829	25,691	13,690	-	-
TOTAL SALARIES, WAGES AND RELATED EXPENSES	759,538	204,270	117,511	-	-
Professional fees	30,945	62,223	225,012	59,097	-
Rent	100,854	17,774	10,205	-	-
Operating supplies	31,310	4,613	2,305	30,131	130
Property taxes	-	-	7,807	-	18,701
Telephone and utilities	6,179	2,308	1,221	2,205	18,161
Postage and printing	1,784	4,892	32	1,991	-
Equipment rental and maintenance	20,211	7,543	4,149	469	-
Advertising and marketing	75,210	259	1,323	7,646	-
Travel and training	12,944	2,039	7,388	4,413	-
Repairs and maintenance	12,255	4,654	21,702	2,500	12,025
Insurance	10,024	3,647	5,977	1,293	4,432
Dues and subscriptions	1,183	226	1,670	371	-
Other expenses	240	120,178	6,622	-	-
Interest	-	95,700	6,000	-	76,213
Subsidies to clients	-	3,333,202	41,781	-	-
Property loss reserve	-	-	312,302	-	-
Bad debt expense	-	451,866	-	-	-
Hospitality	2,053	-	-	762	-
TOTAL EXPENSE BEFORE DEPRECIATION	1,064,730	4,315,394	773,007	110,878	129,662
Depreciation	16,461	4,726	2,349	-	56,090
TOTAL EXPENSES BEFORE ELIMINATIONS	1,081,191	4,320,120	775,356	110,878	185,752
Eliminations	(100,456)	(17,638)	(13,532)	(3,806)	-
TOTAL EXPENSES	\$ 980,735	\$ 4,302,482	\$ 761,824	\$ 107,072	\$ 185,752

See accompanying notes.

SUPPORTING SERVICES

Subtotal	Management and General	Resource Development	Community Outreach	Subtotal	Total
\$ 926,109	\$ 243,342	\$ 57,603	\$ 31,540	\$ 332,485	\$ 1,258,594
155,210	33,669	7,080	5,413	46,162	201,372
1,081,319	277,011	64,683	36,953	378,647	1,459,966
377,277	67,915	287	312	68,514	445,791
128,833	36,715	2,610	2,094	41,419	170,252
68,489	5,504	3,528	808	9,840	78,329
26,508	185	-	-	185	26,693
30,074	3,848	1,088	346	5,282	35,356
8,699	1,015	178	155	1,348	10,047
32,372	6,683	1,361	1,031	9,075	41,447
84,438	65	7,828	3,582	11,475	95,913
26,784	1,232	152	844	2,228	29,012
53,136	5,589	426	320	6,335	59,471
25,373	2,421	478	406	3,305	28,678
3,450	1,953	764	20	2,737	6,187
127,040	2,047	200	-	2,247	129,287
177,913	124,122	-	-	124,122	302,035
3,374,983	-	-	-	-	3,374,983
312,302	-	-	-	-	312,302
451,866	800	-	-	800	452,666
2,815	-	1,374	-	1,374	4,189
6,393,671	537,105	84,957	46,871	668,933	7,062,604
79,626	7,999	972	852	9,823	89,449
6,473,297	545,104	85,929	47,723	678,756	7,152,053
(135,432)	(36,581)	(2,577)	(2,069)	(41,227)	(176,659)
<u>\$ 6,337,865</u>	<u>\$ 508,523</u>	<u>\$ 83,352</u>	<u>\$ 45,654</u>	<u>\$ 637,529</u>	<u>\$ 6,975,394</u>

NEIGHBORHOOD HOUSING SERVICES OF PHOENIX, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
Year Ended December 31, 2010

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ (84,769)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	89,449
Change in allowance for mortgage loans receivable	559,858
Change in imputed interest	142,315
Impairment of property held for re-sale	110,133
Gain on sale of properties held for sale	(63,278)
Changes in operating assets and liabilities:	
Decrease (increase) in:	
Governmental receivables	141,592
Promises to give	(99,350)
Other receivables	10,995
Prepaid expenses and deposits	6,631
Increase (decrease) in:	
Accounts payable and accrued expenses	263,127
Accrued compensated absences	9,383
Deferred revenues	(19,566)
Advances on contracts	2,132
	<u>1,068,652</u>
	NET CASH PROVIDED BY OPERATING ACTIVITIES
	<u>1,068,652</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of property and equipment	(67,555)
Transfer to escrow reserve deposit	(54,387)
Change in loan impounds and client deposits	188,073
Payments received on mortgage loans receivable	66,085
Payments received for sale of mortgage loans receivable	543,871
Proceeds from sale of property held for re-sale	1,540,184
Purchase of and improvement costs for property held for re-sale	(714,173)
Change in restricted cash	(199,217)
Mortgage loans issued	(548,671)
	<u>754,210</u>
	NET CASH PROVIDED BY INVESTING ACTIVITIES
	<u>754,210</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Payments on recoverable grant	(75,000)
Proceeds from notes payable	25,000
Payments on notes payable	(1,901,418)
	<u>(1,951,418)</u>
	NET CASH USED BY FINANCING ACTIVITIES
	<u>(1,951,418)</u>
	NET DECREASE IN CASH AND CASH EQUIVALENTS
	(128,556)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>3,850,626</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 3,722,070</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION	
Cash paid for interest	<u>\$ 197,944</u>

See accompanying notes.

NEIGHBORHOOD HOUSING SERVICES
OF PHOENIX, INC. AND SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS
December 31, 2010

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES

Neighborhood Housing Services of Phoenix, Inc. (the "Organization") and its subsidiary, Phoenix Housing Partnership, LLC, are dedicated to the revitalization of Phoenix neighborhoods by providing a full range of services and programs to encourage, create and support homeownership.

The Organization provides services in three major program areas, which are as follows:

Homebuyer Education – All borrowers are required to attend an eight hour homebuyer education class on the process of purchasing a home and the responsibilities of homeownership. Classes are taught in English and Spanish. Clients who want to pursue homeownership are also provided individual counseling on budget and credit issues, as needed. A six hour financial literacy curriculum is also offered to all clients to improve personal financial management skills. In addition, foreclosure prevention counseling is provided to existing homeowners who are experiencing financial difficulties.

Loan Services – The Organization is a licensed mortgage bank in the State of Arizona, an approved Fannie Mae seller/servicer, and a U.S. Department of Housing and Urban Development (HUD) approved FHA correspondent. The Organization originates and services first and second mortgage loans and down payment/closing cost assistance grants and loans. The Organization develops and/or administers special mortgage programs that meet the credit needs of low and moderate income borrowers. Loan terms may vary from conventional interest-bearing and fully amortizing to fully forgivable loans which subsidize a home purchase.

Affordable Housing Development – The Organization develops affordable single family homes in neighborhoods targeted for revitalization efforts by its board of directors. These development programs primarily focus on acquisition and rehabilitation of single family homes which are mainly located in low to moderate-income census track areas and are funded with governmental grants to subsidize the cost of development.

New construction standards exceed the minimum requirements of both HUD and the City of Phoenix. The new construction standards seek to eliminate the need for major replacement or repair costs for homebuyers in the first five years of ownership.

In 2004, the Organization created the Phoenix Housing Partnership, LLC, a wholly-owned subsidiary. In 2005, the Partnership purchased land on which to build a 65-unit single-family subdivision. There was no activity in 2010 in this entity.

NEIGHBORHOOD HOUSING SERVICES
OF PHOENIX, INC. AND SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS
December 31, 2010

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES (Continued)

During 2006, La Ciudad, LLC (“La Ciudad”) was formed as a wholly-owned subsidiary of Neighborhood Housing Services of Phoenix, Inc. for the purpose of owning and managing a 10,600 square foot office building. The Organization is the only tenant currently occupying approximately 8,500 square feet (80%) of rentable space.

Arizona Foreclosure Prevention Task Force (“Task Force”) was formed for the purpose of reducing the number of residential foreclosures in Arizona and the impact of foreclosures on families and communities. The Organization has both an economic interest in and control of the Task Force through the Organization’s authority to appoint the majority of board members for the Task Force. The Organization also serves as a fiscal sponsor of the Task Force.

Basis of Consolidation

The consolidated financial statements include the accounts of Neighborhood Housing Services of Phoenix, Inc., its wholly-owned subsidiaries, Phoenix Housing Partnership, LLC and La Ciudad, LLC, and the Task Force. Significant transactions and balances between the Organization and these entities have been eliminated.

Basis of Presentation

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting. The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. Temporarily restricted net assets consist of funds held for down-payment assistance, mortgage loans and education counseling. Permanently restricted net assets consist of funds held for financing development projects or mortgage loans.

Fund Accounting

To ensure observance of limitations and restrictions placed on the use of resources available to Neighborhood Housing Services of Phoenix, Inc., the accounts of the Organization are maintained in accordance with the principles of fund accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds established according to their nature and purpose. Separate accounts are maintained for each fund.

NEIGHBORHOOD HOUSING SERVICES
OF PHOENIX, INC. AND SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS
December 31, 2010

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES (Continued)

Fund Accounting (Continued)

The assets, liabilities and net assets of the Organization are reported in the following fund groups:

- Operating funds represent resources that are available for the general operations and certain lending activities of the Organization.
- Homeowner development, NeighborWorks America (NWA) loan fund, Agency funds and Phoenix Housing Partnership, LLC arise from contributions and grants from a variety of sources (including interest and other revenues earned thereon) which may be used only in accordance with the purposes established by the donors and grantors.
- La Ciudad, LLC receives rental income from Neighborhood Housing Services of Phoenix, Inc.

Cash and Cash Equivalents

For the purpose of the statement of cash flows, the Organization considers all highly liquid debt instruments with an original maturity of ninety days or less at date of acquisition to be cash equivalents.

Restricted Cash

Restricted cash consists of amounts specifically reserved for the replacement and leasing reserve as well as grant funding that has not yet been expended in accordance with restricted purposes.

Governmental Receivables, Other Receivables and Governmental Grants

The Organization receives grants from various city, state and federal agencies and other organizations and recognizes revenues from these grants as services are provided. A receivable is recorded to the extent the amount earned exceeds cash advances. Conversely, deferred revenue is recorded when cash advances exceed amounts earned. Funding sources may, at their discretion, request reimbursement for expenses or return of funds, or both, as a result of noncompliance by the Organization with the terms of the grants or contracts.

NEIGHBORHOOD HOUSING SERVICES
OF PHOENIX, INC. AND SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS
December 31, 2010

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES (Continued)

Governmental Receivables, Other Receivables and Governmental Grants (Continued)

Receivables are stated at the amount management expects to collect. Management provides for probable uncollectible amounts through a charge to earnings and a credit to the allowance for uncollectible accounts based on their assessment of the current status of individual receivables. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to allowance for uncollectible accounts and a credit to receivables. At December 31, 2010, management expects receivables to be fully collectible, and no allowance has been recorded. Receivables include approximately \$41,300 as of December 31, 2010 that are greater than 90 days outstanding.

Promises to Give

Unconditional promises to give are recognized as revenue in the period the promise is received and as assets, decreases of liabilities or expenses depending on the form of the benefit received. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using interest rates as determined by management applicable to the years in which the promises are received. If applicable, amortization of the discounts is included in contributions. Promises to give recorded in the consolidated statement of financial position at December 31, 2010 are receivable within one year.

Property Held for Re-Sale

Real estate held for sale is stated at the lower of cost or market and includes land under development, developed lots, direct and indirect costs of housing construction, and overhead incurred during the development period. Cost is determined by the specific identification method.

Mortgage Loans Receivable

Mortgage loans receivable are stated at unpaid principal balances, less an allowance for uncollectible loans. Interest on amortizing loans is recognized over the term of the loan and is calculated using conventional mortgage methods on principal amounts outstanding.

NEIGHBORHOOD HOUSING SERVICES
OF PHOENIX, INC. AND SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS
December 31, 2010

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES (Continued)

Mortgage Loans Receivable (Continued)

The allowance for uncollectible loans is increased by charges to income and decreased by charge-offs (net of recoveries). 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, estimated value of the underlying collateral and current economic conditions.

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 delinquent less than three months are generally not considered impaired. Management continually monitors delinquent loans to ensure collection and to determine impairment, if necessary. The Organization measures impairment on a loan-by-loan basis by using the fair value of collateral.

Property and Equipment

Acquisitions of property and equipment in excess of \$500 are capitalized. Property and equipment is recorded at cost or, if donated, at the approximate fair value at the date of gift to the Organization. Depreciation and amortization is computed using the straight-line method over the following general range of estimated useful lives:

	<u>Estimated Useful Lives</u>
Office building	39 years
Furniture, fixtures and equipment	3 – 7 years
Leasehold improvements	9 years

Major additions and improvements are capitalized. Maintenance and repairs are expensed as incurred. When property and equipment is sold or otherwise disposed of, the related costs and accumulated depreciation are removed from the accounts and any gain or loss is included in operations.

NEIGHBORHOOD HOUSING SERVICES
OF PHOENIX, INC. AND SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS
December 31, 2010

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES (Continued)

Impairment of Long-Lived Assets

The Organization reviews for the impairment of long-lived assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by 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.

Fair Value Measurements

The Accounting Standards Codification establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy are as follows:

- | | |
|---------|---|
| Level 1 | Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access. |
| Level 2 | Inputs to the valuation methodology include: <ul style="list-style-type: none">• Quoted prices for similar assets or liabilities in active markets;• Quoted prices for identical or similar assets or liabilities in inactive markets;• Inputs other than quoted prices that are observable for the asset or liability;• Inputs that are derived principally from or corroborated by observable market data by correlation or other means. |
| Level 3 | Inputs to the valuation methodology are unobservable and significant to the fair value measurement, and usually reflect the Organization's own assumptions about the assumptions that market participants would use in pricing the assets (i.e. real estate valuations, broker quotes). |

NEIGHBORHOOD HOUSING SERVICES
OF PHOENIX, INC. AND SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS
December 31, 2010

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES (Continued)

Fair Value Measurements (Continued)

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used maximize the use of observable inputs and minimize the use of unobservable inputs.

Endowment Funds

The Organization's endowment consists of funds restricted for the NeighborWorks America (NWA) loan fund. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Organization follows the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) and its own governing documents. UPMIFA requires the preservation of endowment funds. When a donor's intent is not expressed, UPMIFA directs the Organization to spend an amount that is prudent, consistent with the purposes of the fund, relevant economic factors and the donor's intent that the fund continue in perpetuity.

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 UPMIFA.

In accordance with the NWA fund agreement, 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.

NEIGHBORHOOD HOUSING SERVICES
OF PHOENIX, INC. AND SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS
December 31, 2010

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES (Continued)

Loan Impounds and Client Deposits

Loan impounds and client deposits consist of amounts collected by the Organization to pay property taxes and insurance on behalf of the homeowner.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support, depending on the existence and/or nature of any donor restrictions. All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily or permanently restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities as net assets released from restrictions. However, if a restriction is fulfilled in the same time period in which the contribution is received, the Organization reports the support as unrestricted.

Contributions of donated non-monetary assets are recorded at their fair values in the period received. Contributions of donated services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation services, are recorded at their fair market values in the period received. Volunteers donate a significant amount of time to the Organization's program services, but these amounts have not been reflected in the accompanying consolidated financial statements as it does not meet the recognition criteria.

Fees

Fee revenue consists primarily of fees related to homebuyer education and loan services provided by the Organization. Fees are recognized as services are provided.

Advertising Costs

Advertising costs are charged to operations as incurred. Advertising expenses totaled \$95,913 in 2010.

NEIGHBORHOOD HOUSING SERVICES
OF PHOENIX, INC. AND SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS
December 31, 2010

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES (Continued)

Functional Allocations of Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the consolidated statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited based on the percentage of total full-time employees in each line of business.

Income Tax Status

The Organization qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code (the "Code") and, accordingly, there is no provision for income taxes in the accompanying consolidated financial statements. In addition, the Organization qualifies for the charitable contribution deduction under Section 170 of the Code and has been classified as an organization that is not a private foundation. Income determined to be unrelated business taxable income (UBTI) would be taxable. Phoenix Housing Partnership, LLC and La Ciudad, LLC are organized as Arizona limited liability companies whose sole member is the Organization. For income tax purposes, these are disregarded entities and are treated as departments of the Organization. Accordingly, they are exempt from income taxes under applicable sections of the IRC and the Arizona Revised Statutes and have been classified as organizations that are not private foundations.

The Organization recognizes uncertainty in income taxes in the financial statements when it is more likely-than-not that the positions will not be sustained upon examination by the tax authorities. As of December 31, 2010, the Organization had no uncertain tax positions that qualify for either recognition or disclosure in the financial statements.

The federal informational returns of the Organization for the years ended prior to December 31, 2007 and state informational returns for the years ended prior to December 31 2006 are subject to examination by the taxing authorities, generally for three and four years respectively, after they were filed.

The Organization recognizes interest and penalties associated with income taxes in operating expenses. During the year ended December 31, 2010, the Organization did not have any income tax related interest and penalty expense.

NEIGHBORHOOD HOUSING SERVICES
OF PHOENIX, INC. AND SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS
December 31, 2010

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES (Continued)

Management's Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts in the consolidated financial statements and accompanying notes. Accordingly, actual results could differ from these estimates. Significant estimates include the allowance for uncollectible mortgage loans and the value of property held for re-sale.

Date of Management's Review

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through March 16, 2011, the date the financial statements were available to be issued.

NOTE 2 CONCENTRATIONS OF CREDIT RISK

Financial instruments that subject the Organization to potential concentrations of credit risk consist principally of cash and cash equivalents. The Organization maintains its cash in bank accounts which may periodically exceed federally insured deposit limits. Deposits in non-interest-bearing accounts are fully insured through December 31, 2012 under the Dodd-Frank Act. At December 31, 2010, the Organization's bank balances did not exceed the federally insured limits.

The Organization extends loans to low and moderate-income residents of a limited geographic area. Although loans are collateralized by the borrowers' property, a risk exists that property values may fall below the loan values creating a concentration of credit risk.

NEIGHBORHOOD HOUSING SERVICES
 OF PHOENIX, INC. AND SUBSIDIARIES
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2010

NOTE 3 GOVERNMENTAL RECEIVABLES

At December 31, 2010, governmental receivables consisted of:

City of Phoenix	\$ 49,479
NeighborWorks America	31,180
State of Arizona	26,998
Other	<u>15,535</u>
 Total governmental receivables	 <u>\$ 123,192</u>

At December 31, 2010, management considers governmental receivables to be fully collectible; therefore, no allowance has been recorded.

NOTE 4 PROPERTY HELD FOR RE-SALE

The Organization purchases in-fill lots for construction of new single-family homes under various programs. At December 31, 2010, the Organization held 6 completed homes, 11 homes under construction and 26 parcels of land. The parcels of land are intended for use in future projects. All property is carried at the lower of cost or market (fair value). Depreciation is not recorded on property held for re-sale.

Property held for re-sale is evaluated for impairment and is measured at fair value on a nonrecurring basis. The fair value is derived using comparable sales in the real estate market in the same geographic location.

The following table summarizes fair value at December 31, 2010:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Property held for re-sale	<u>\$ -</u>	<u>\$ 3,060,257</u>	<u>\$ -</u>	<u>\$ 3,060,257</u>

In 2010, the Organization recorded impairment losses on impairment of \$110,133 for property held for re-sale. The Organization also recorded a loss in 2010 of \$210,883 for pre-development fees that were previously capitalized as property held for re-sale. The Organization does not intend to proceed with the project that the pre-development fees relate to.

NEIGHBORHOOD HOUSING SERVICES
 OF PHOENIX, INC. AND SUBSIDIARIES
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2010

NOTE 5 MORTGAGE LOANS RECEIVABLE

The Organization extends long-term (up to 30 years) mortgage loans under several programs to enable clients to purchase homes. Interest rates on existing amortizing loans receivable range from 2.0% to 9.5%. The majority of these loans carry interest rates in the range of 5.0% to 7.5%. Deferred and forgivable loans are non-interest bearing. Forgivable loans are generally provided for down payment assistance and the balance is assigned to the City of Phoenix. These forgivable loans require the homeowner to occupy the premises for a period of five to ten years, after which the loan is forgiven. In the event that the homeowner sells the property before the forgivable period has expired, the homeowner must repay the original assistance amount. Therefore, forgivable loans are fully reserved. All loans are generally secured by a deed of trust on the property and certain loans are forgivable if the client meets certain ongoing requirements. Mortgage loans are carried at net realizable value, and consist of the following at December 31, 2010. Management believes that the amount of the allowance is adequate given the nature of the loans and the value of the related collateral.

Amortizing loans:

Phoenix Family Housing fund	\$ 2,938,345
Homeowner development funds	371,644
NWA loan fund	<u>593,798</u>
	<u>3,903,787</u>

Deferred loans (due on sale):

Homeowner development funds	494,280
NWA loan fund	<u>128,409</u>
	<u>622,689</u>

Forgivable loans:

Homeowner development funds	<u>478,615</u>
-----------------------------	----------------

Total loans receivable	5,005,091
Less: allowance for uncollectible mortgage loans	<u>(852,730)</u>

Net mortgage loans receivable	4,152,361
Current portion	<u>(62,687)</u>

Long-term portion	<u>\$ 4,089,674</u>
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NEIGHBORHOOD HOUSING SERVICES
OF PHOENIX, INC. AND SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS
December 31, 2010

NOTE 5 MORTGAGE LOANS RECEIVABLE (Continued)

The roll-forward for the allowance for uncollectible mortgage loans during 2010 is as follows:

Allowance, January 1, 2010	\$ 502,125
Less: write-offs of uncollectible amounts	(209,253)
Additions to allowance	<u>559,858</u>
Allowance, December 31, 2010	<u>\$ 852,730</u>

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

<u>Year Ended December 31,</u>	<u>Amortizing Loan Collections</u>
2011	\$ 62,687
2012	66,240
2013	70,320
2014	72,494
2015	75,216
Thereafter	<u>3,556,830</u>
Total	<u>\$ 3,903,787</u>

As of December 31, 2010, amortizing loans were delinquent as follows:

	<u>Number of Loans</u>	<u>Operating Funds</u>	<u>NWA Loan Funds</u>	<u>Total</u>
30 to 60 days	4	\$ 350,674	\$ -	\$ 350,674
60 to 90 days	7	595,966	-	595,966
Over 90 days	<u>7</u>	<u>329,224</u>	<u>247,571</u>	<u>576,795</u>
Total	<u>18</u>	<u>\$ 1,275,864</u>	<u>\$ 247,571</u>	<u>\$1,523,435</u>

At December 31, 2010, the total recorded investment in impaired loans amounted to approximately \$576,795. For the year ended December 31, 2010, the average recorded investment in impaired loans was approximately \$934,000. At December 31, 2010, the allowance for loan losses related to impaired loans was approximately \$173,000. Interest income on impaired loans of \$18,897 was recognized for cash payments received in 2010.

NEIGHBORHOOD HOUSING SERVICES
 OF PHOENIX, INC. AND SUBSIDIARIES
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2010

NOTE 6 PROPERTY AND EQUIPMENT

At December 31, 2010, property and equipment consisted of:

Land	\$ 458,964
Office building	2,134,786
Furniture, fixtures and equipment	141,157
Leasehold improvements	<u>117,750</u>
Total cost and donated value	2,852,657
Accumulated depreciation	<u>(315,333)</u>
Property and equipment, net	<u>\$ 2,537,324</u>

Depreciation expense charged to operations was \$89,449 for 2010.

NOTE 7 LOAN CONTINGENCIES

The Organization occasionally sells certain mortgage loans receivable at carrying value. Some loans are sold with recourse subject to loan reserve requirements. All such loans are serviced by the Organization in exchange for a monthly servicing fee on the outstanding balances of the loans. During 2010, the Organization sold loans to one financial institution. The Organization was required to make an escrow reserve deposit of \$54,387, which represents 10% of total loans sold to the financial institution, to be used in the event of any loan defaults. Any remaining balance of the deposit will be returned to the Organization from the financial institution in August 2012. At December 31, 2010, there were no loans outstanding that were specifically held for sale.

NOTE 8 NOTES PAYABLE

Notes payable at December 31, 2010 consist of the following:

	<u>Maturity Value</u>	<u>Discount</u>	<u>Current Note Balance</u>
\$250,000 face amount note payable to a bank in quarterly installments of interest only at 2%. Interest is imputed at 6% in accordance with below-market-rate interest rules. The note is due July 6, 2013 and is unsecured.	\$ 250,000	\$ 23,055	\$ 226,945

NEIGHBORHOOD HOUSING SERVICES
OF PHOENIX, INC. AND SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS
December 31, 2010

NOTE 8 NOTES PAYABLE (Continued)

	<u>Maturity Value</u>	<u>Discount</u>	<u>Current Note Balance</u>
\$50,000 face amount note payable to a bank in quarterly installments of interest only at 4%. Interest is imputed at 8% in accordance with below-market-rate interest rules. The note is due December 10, 2011 and is unsecured.	50,000	1,803	48,197
\$2,000,000 face amount note payable to a nonprofit public benefit corporation in monthly installments of interest at 6.5% with periodic principal payments upon sale of subject purchase inventory. The note is due September 29, 2011 and is secured by property held for re-sale.	383,932	-	383,932
\$250,000 face amount note payable to a bank in quarterly installments of interest only at 2%. Interest is imputed at 5% in accordance with below-market-rate interest rules. The note is due September 8, 2018 and is unsecured.	250,000	61,418	188,582
\$250,000 face amount note payable to a bank in quarterly installments of interest only at 3%. Interest is imputed at 6% in accordance with below-market-rate interest rules. The note is due June 23, 2011 and is unsecured.	186,667	3,667	183,000

NEIGHBORHOOD HOUSING SERVICES
 OF PHOENIX, INC. AND SUBSIDIARIES
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2010

NOTE 8 NOTES PAYABLE (Continued)

	<u>Maturity Value</u>	<u>Discount</u>	<u>Current Note Balance</u>
\$250,000 face amount note payable to a bank in quarterly installments of interest only at 3%. Interest is imputed at 6.75% in accordance with below-market-rate interest rules. The note is due June 23, 2011 and is unsecured.	250,000	4,571	245,429
\$250,000 face amount note payable to a bank in quarterly installments of interest only at 3%. Interest is imputed at 8% in accordance with below-market-rate interest rules. The note is due June 23, 2011 and is unsecured.	250,000	7,443	242,557
\$250,000 face amount note payable to a bank in quarterly installments of interest only at 3%. Interest is imputed at 8.25% in accordance with below-market-rate interest rules. The note is due June 23, 2011 and is unsecured.	250,000	8,156	241,844
\$500,000 face amount note payable to a bank in quarterly installments of interest only at 3%. Interest is imputed at 8.75% in accordance with below-market-rate interest rules. The note is due June 23, 2011 and is unsecured.	500,000	16,579	483,421

NEIGHBORHOOD HOUSING SERVICES
OF PHOENIX, INC. AND SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS
December 31, 2010

NOTE 8 NOTES PAYABLE (Continued)

	<u>Maturity Value</u>	<u>Discount</u>	<u>Current Note Balance</u>
\$250,000 face amount note payable to a bank in quarterly installments of interest only at 3%. Interest is imputed at 8% in accordance with below-market-rate interest rules. The note is due June 23, 2011 and is unsecured.	250,000	6,067	243,933
\$250,000 face amount note payable to a bank in quarterly installments of interest only at 3%. Interest is imputed at 8.25% in accordance with below-market-rate interest rules. The note is due June 5, 2017 and is unsecured.	250,000	65,774	184,226
\$300,000 face amount note payable to a bank in quarterly installments of interest only at 2%. Interest is imputed at 3.4% in accordance with below-market-rate interest rules. The note is due June 24, 2012 and is unsecured.	300,000	6,099	293,901
\$1,100,000 face amount note payable to a bank payable in monthly installments of principal and interest at 5.05%. Interest is imputed at 8% in accordance with below-market-rate interest rules. The note is due May 1, 2014 and is secured by an office building.	1,045,000	86,477	958,523

NEIGHBORHOOD HOUSING SERVICES
OF PHOENIX, INC. AND SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS
December 31, 2010

NOTE 8 NOTES PAYABLE (Continued)

	<u>Maturity Value</u>	<u>Discount</u>	<u>Current Note Balance</u>
\$25,000 face amount note payable to a bank with an interest rate of 0%. Interest is imputed at 5.5% in accordance with below-market-rate interest rules. The note is due September 1, 2012 and is unsecured.	<u>25,000</u>	<u>2,210</u>	<u>22,790</u>
Total notes payable	<u>\$ 4,240,599</u>	<u>\$ 293,319</u>	<u>\$ 3,947,280</u>
Current portion			<u>2,120,599</u>
Long-term portion			<u>\$ 1,826,681</u>

Annual principal payments due on notes payable over the next five years are as follows:

<u>Year Ending December 31,</u>	
2011	\$ 2,120,599
2012	325,000
2013	250,000
2014	1,045,000
2015	-
Thereafter	<u>500,000</u>
Total	<u>\$ 4,240,599</u>

Total interest on long-term debt for the year ended December 31, 2010 was \$302,035, including approximately \$142,000 for amortization of imputed interest.

Certain loans contain various financial and non-financial covenants that require the Organization to obtain a minimum net revenue and maintain a minimum debt coverage ratio. The Organization did not meet one of these annual financial covenants for the year ended December 31, 2010. The Organization obtained a waiver letter from the lender for the covenant violation.

NEIGHBORHOOD HOUSING SERVICES
OF PHOENIX, INC. AND SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS
December 31, 2010

NOTE 9 TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets were restricted for the following purposes:

Homeowner development funds:

Providing down payment grants and loans to low and moderate income families borrowing under various programs, and development of affordable housing units, included in cash and cash equivalents, property held for re-sale and mortgage loans receivable in the accompanying consolidated statement of financial position.

\$ 3,186,854

NWA loan funds:

Providing down payment grants and loans to low and moderate income families borrowing under various programs, and development of affordable housing units, included in cash and cash equivalents, property held for re-sale and mortgage loans receivable in the accompanying consolidated statement of financial position.

227,474

Agency funds:

Providing education and resources to Arizona Housing Counseling Collaborative, included in cash and cash equivalents in the accompanying consolidated statement of financial position.

140,260

Other

13,081

Total temporarily restricted net assets

\$ 3,567,669

NEIGHBORHOOD HOUSING SERVICES
 OF PHOENIX, INC. AND SUBSIDIARIES
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2010

NOTE 9 TEMPORARILY RESTRICTED NET ASSETS (Continued)

Revenue earned from the use of the above net assets is also temporarily restricted for eligible activities.

During the year ended December 31, 2010, temporarily restricted net assets were released from program restrictions as follows:

<u>Homeowner development funds:</u>	
Loss on sale of property held for re-sale	\$ 100,007
Impairment loss on property held for re-sale	110,133
Write off pre-development fees	85,591
Other	<u>59,110</u>
	<u>354,841</u>
 <u>NWA loan funds:</u>	
Capital conversion (Note 10)	(147,475)
Loan loss reserves	120,000
Other	<u>25,960</u>
	<u>(1,515)</u>
 <u>Agency funds:</u>	
Management fees incurred	<u>6,980</u>
 Total temporarily restricted net assets released from restrictions	 <u>\$ 360,306</u>

The release of \$120,000 during the year ended December 31, 2010 for the loan loss reserves was made in accordance with Section V a.1) ii of the NeighborWorks America Investment and Grant Agreement.

NOTE 10 PERMANENTLY RESTRICTED NET ASSETS

The Organization has entered into a NeighborWorks America Investment and Grant Agreement. Per the terms of this agreement, the Organization has established a permanently restricted fund. The fund is used for neighborhood revitalization expenditures, including for 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.

NEIGHBORHOOD HOUSING SERVICES
OF PHOENIX, INC. AND SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS
December 31, 2010

NOTE 10 PERMANENTLY RESTRICTED NET ASSETS (Continued)

The changes in endowment net assets for the year ended December 31, 2010 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, January 1, 2010	\$ 758,311	\$ 200,000	\$ 1,588,609	\$ 2,546,920
Contributions	-	-	110,750	110,750
Interest income	-	28,501	-	28,501
Appropriated for expenditures	(758,311)	(228,501)	-	(986,812)
Capital conversion of endowment net asset	<u>163,861</u>	<u>147,475</u>	<u>(311,336)</u>	<u>-</u>
Endowment net assets, December 31, 2010	<u>\$ 163,861</u>	<u>\$ 147,475</u>	<u>\$ 1,388,023</u>	<u>\$ 1,699,359</u>

During 2010, NeighborWorks America converted \$311,336 of the endowment funds to be used for operating activities, thereby releasing the funds from restriction.

NOTE 11 COMMITMENTS AND OTHER CONTINGENCIES

The Organization participates in numerous program grants and contracts. These grants, contracts and agreements 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, contract or agreement. 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. Lenders may, at their discretion, request repayment of the outstanding loan balances as a result of noncompliance with debt agreements.

NEIGHBORHOOD HOUSING SERVICES
 OF PHOENIX, INC. AND SUBSIDIARIES
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2010

NOTE 11 COMMITMENTS AND OTHER CONTINGENCIES (Continued)

The Organization leases equipment under a lease agreement expiring in May 2013. Minimum future rental payments under the operating lease at December 31, 2010 are as follows:

<u>Year Ending December 31,</u>		
2011	\$	15,492
2012		15,492
2013		<u>4,742</u>
Total future minimum lease payments	\$	<u>35,726</u>

NOTE 12 ADJUSTED NET WORTH – HUD TITLE II LOAN
 CORRESPONDENT

As a Title II Loan Correspondent, the Organization is required by the U.S. Department of Housing and Urban Development (HUD) to maintain adjusted net worth of \$63,000, as defined in the *Consolidated Audit Guide for Alerts of HUD Programs*.

The calculation of net worth is as follows:

Unrestricted net assets per the consolidated statement of financial position of Neighborhood Housing Services of Phoenix, Inc.	\$	2,603,709
Unacceptable assets		<u>(150)</u>
Adjusted net worth for HUD retirement programs		2,603,559
Amount required by HUD		<u>63,000</u>
Adjusted net worth above HUD requirement	\$	<u>2,540,559</u>

NEIGHBORHOOD HOUSING SERVICES
OF PHOENIX, INC. AND SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS
December 31, 2010

NOTE 13 ECONOMIC DEPENDENCY

The Organization receives a significant amount, approximately 50%, of public support and revenue either directly or indirectly from the Arizona Department of Housing. Loss of this revenue in the future could have a materially adverse effect on the programs offered by the Organization.

NOTE 14 PENSION PLAN

The Organization established a 401(k) plan effective January 1, 2004. The plan covers all employees over the age 21 who work at least 1,000 hours and have one year of service. Employees may contribute up to 100% of compensation not to exceed \$16,500 in 2010. The Organization may make a discretionary matching contribution to be determined annually by the board of directors. No matching contributions have been determined for 2010.



**NEIGHBORHOOD HOUSING SERVICES
OF PHOENIX, INC. AND SUBSIDIARIES**

OMB CIRCULAR A-133
SUPPLEMENTARY REPORTS

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

Board of Directors
Neighborhood Housing Services of Phoenix, Inc. and Subsidiaries
Phoenix, Arizona

We have audited the consolidated financial statements of Neighborhood Housing Services of Phoenix, Inc. and Subsidiaries as of and for the year ended December 31, 2010, and have issued our report thereon dated March 16, 2011. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Neighborhood Housing Services of Phoenix, Inc. and Subsidiaries' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Neighborhood Housing Services of Phoenix, Inc. and Subsidiaries' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Neighborhood Housing Services of Phoenix, Inc. and Subsidiaries' internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Organization's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Tempe
2055 E. Warner Road
Suite 101
Tempe, AZ 85284-3487
(480) 839-4900
Fax (480) 839-1749

Scottsdale
7098 E. Cochise Road
Suite 100
Scottsdale, AZ 85253-4517
(480) 483-1170
Fax (480) 483-7126

Casa Grande
1115 E. Cottonwood Lane
Suite 100
Casa Grande, AZ 85122-2950
(520) 836-8201
Fax (520) 426-9432

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Neighborhood Housing Services of Phoenix, Inc. and Subsidiaries' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, Board of Directors, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Henry + Horne, LLP".

Scottsdale, Arizona
March 16, 2011



INDEPENDENT AUDITORS' REPORT ON
COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH
MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133

Board of Directors
Neighborhood Housing Services of Phoenix, Inc. and Subsidiaries
Phoenix, Arizona

Compliance

We have audited the compliance of the Neighborhood Housing Services of Phoenix, Inc. and Subsidiaries, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2010. Neighborhood Housing Services of Phoenix, Inc. and Subsidiaries' major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Neighborhood Housing Services of Phoenix, Inc. and Subsidiaries' management. Our responsibility is to express an opinion on Neighborhood Housing Services of Phoenix, Inc. and Subsidiaries' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Neighborhood Housing Services of Phoenix, Inc. and Subsidiaries' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Neighborhood Housing Services of Phoenix, Inc. and Subsidiaries' compliance with those requirements.

Tempe
2055 E. Warner Road
Suite 101
Tempe, AZ 85284-3487
(480) 839-4900
Fax (480) 839-1749

Scottsdale
7098 E. Cochise Road
Suite 100
Scottsdale, AZ 85253-4517
(480) 483-1170
Fax (480) 483-7126

Casa Grande
1115 E. Cottonwood Lane
Suite 100
Casa Grande, AZ 85122-2950
(520) 836-8201
Fax (520) 426-9432

Compliance (Continued)

In our opinion, the Neighborhood Housing Services of Phoenix, Inc. and Subsidiaries complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2010.

Internal Control Over Compliance

Management of the Neighborhood Housing Services of Phoenix, Inc. and Subsidiaries is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Neighborhood Housing Services of Phoenix, Inc. and Subsidiaries' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Neighborhood Housing Services of Phoenix, Inc. and Subsidiaries' internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, Board of Directors, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Scottsdale, Arizona
March 16, 2011

**NEIGHBORHOOD HOUSING SERVICES OF PHOENIX, INC.
AND SUBSIDIARIES**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended December 31, 2010

Federal Grantor / Pass-Through Grantor / Program	Federal CFDA Number	Grantor's Number	Federal Expenditures
U.S. Department of Housing and Urban Development			
City of Phoenix:			
Community Development Block Grant	14.218	124722	\$ 11,920
Community Development Block Grant	14.218	129298	7,928
Community Development Block Grant	14.218		11,659
Local Initiative Support Corporation:			
Community Development Block Grant	14.218	40904-0021	3,910
Community Development Block Grant		259800	1,050
Subtotal CFDA 14.218			<u>36,467</u>
Arizona Department of Housing:			
Neighborhood Stabilization Program	14.228	09-06(B)	3,552,078
Local Initiative Support Corporation:			
Neighborhood Stabilization Program	14.228	40904-0025	3,000
City of Phoenix:			
Neighborhood Stabilization Program	14.228	12744	39,352
Neighborhood Stabilization Program	14.228	98421-004	11,706
Neighborhood Stabilization Program	14.228		3,921
City of Glendale:			
Neighborhood Stabilization Program	14.228	09-14	8,195
Subtotal CFDA 14.228			<u>3,618,252</u> *
Total U.S. Department of Housing and Urban Development			<u>3,654,719</u>
U.S. Department of Treasury			
Community Development Financial Institution Program	21.020	091FA007888	371,940 *
NeighborWorks America - Capital Grant - nonexpendable	21.000	None	1,247,273
NeighborWorks America - Capital Grant - nonexpendable	21.000	None	10,000
NeighborWorks America - Restricted - expendable	21.000	None	120,000
NeighborWorks America - Operating Grant - expendable	21.000	None	878,594
Total U.S. Department of Treasury			<u>2,627,807</u>
Corporation for National and Community Service			
Local Initiative Support Corporation			
Americorps	94.006	40904-0023	1,059
Total Corporation for National and Community Service			<u>1,059</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 6,283,585</u>

* Denotes major program

NEIGHBORHOOD HOUSING SERVICES
 OF PHOENIX, INC. AND SUBSIDIARIES
 NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 December 31, 2010

NOTE 1 BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Neighborhood Housing Services of Phoenix, Inc. and Subsidiaries and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with requirements of *U.S. Office of Management and Budget OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in, the preparation of the basic consolidated financial statements.

NOTE 2 CATALOG OF FEDERAL DOMESTIC ASSISTANCE (CFDA) NUMBERS

The program titles and CFDA numbers were obtained from the 2010 *Catalog of Federal Domestic Assistance*.

NOTE 3 SUBRECIPIENTS

Of the federal expenditures presented in the schedule, Neighborhood Housing Services of Phoenix, Inc. and Subsidiaries provided federal awards to subrecipients as follows:

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Amounts Provided to Subrecipients</u>
Neighborhood Stabilization Program	14.228	\$ 122,178

NEIGHBORHOOD HOUSING SERVICES OF PHOENIX, INC. AND SUBSIDIARIES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
December 31, 2010

Summary of Auditors' Results

1. The auditors' report expresses an unqualified opinion on the financial statements of Neighborhood Housing Services of Phoenix, Inc. and Subsidiaries.
2. No significant deficiencies relating to the audit of the financial statements are reported.
3. No instances of noncompliance material to the financial statements of the Neighborhood Housing Services of Phoenix, Inc. and Subsidiaries were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal award programs are reported.
5. The auditors' report on compliance for U.S. Department of Housing-Passed through Arizona Department of Housing, City of Glendale and City of Phoenix- Neighborhood Stabilization Program (CFDA #14.228) and the U.S. Department of Treasury - Community Development Financial Institutions Grant - Recovery (CFDA #21.020) expresses an unqualified opinion.
6. The audit disclosed no findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
7. The programs tested as major programs include U.S. Department of Housing-Passed through Arizona Department of Housing, City of Glendale and City of Phoenix- Neighborhood Stabilization Program (CFDA #14.228) and the U.S. Department of Treasury - Community Development Financial Institutions Grant - Recovery (CFDA #21.020).
8. The threshold used for distinguishing between Type A and B programs was \$300,000.
9. Neighborhood Housing Services of Phoenix, Inc. and Subsidiaries did not qualify as a low-risk auditee.

NEIGHBORHOOD HOUSING SERVICES OF PHOENIX, INC. AND SUBSIDIARIES
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
DECEMBER 31, 2010

Financial Statement Findings

2009-01 Revenue Recognition

Condition: During 2009 the Organization received grant funding of \$1,000,000 in advance. The Organization recorded all the revenue in 2009 however they had not completed the earning process, as outlined by the grant agreement.

Criteria: Generally accepted accounting principles require that revenue be recognized when it is earned not when it is received.

Effect: The Organization's consolidated financial statements grant revenues were overstated by approximately \$1,000,000.

Recommendation: The prior auditor recommended that the Organization review the policies and procedures over revenue recognition and update them to ensure revenues are recorded when earned.

Status: Corrected.

**NEIGHBORHOOD HOUSING SERVICES
OF PHOENIX, INC. AND SUBSIDIARIES**

CONSOLIDATING INFORMATION



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NEIGHBORHOOD HOUSING SERVICES OF PHOENIX, INC. AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
December 31, 2010

	Neighborhood Housing Services of Phoenix, Inc.			
	Operating Funds	Homeowner Development Funds	NeighborWorks America Loan Fund	Agency Funds
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	\$ 518,963	\$ 2,431,860	\$ 558,981	\$ 38,020
Restricted cash	526,057	-	-	-
Governmental receivables	111,255	278	-	-
Promises to give	99,350	-	-	-
Other receivables	65,620	1,500	100,000	420
Property held for re-sale	48,218	1,685,484	1,157,353	-
Prepaid expenses and deposits	20,275	2,537	-	-
Mortgage loans receivable, current	62,687	-	-	-
TOTAL CURRENT ASSETS	1,452,425	4,121,659	1,816,334	38,440
PROPERTY AND EQUIPMENT, net	132,795	-	-	-
OTHER ASSETS				
Mortgage loans receivable, net	2,709,063	841,720	538,891	-
Escrow reserve	-	54,387	-	-
Investment in subsidiaries	-	1,637,538	-	-
TOTAL OTHER ASSETS	2,709,063	2,533,645	538,891	-
TOTAL ASSETS	\$ 4,294,283	\$ 6,655,304	\$ 2,355,225	\$ 38,440

AZ Foreclosure Prevention Task Force	Total All Funds	Phoenix Housing Partnership, LLC	La Ciudad, LLC	Eliminations	Total
\$ 106,011	\$ 3,653,835	\$ 27,278	\$ 40,957	\$ -	\$ 3,722,070
-	526,057	-	63,332	-	589,389
11,659	123,192	-	-	-	123,192
-	99,350	-	-	-	99,350
-	167,540	-	-	(100,000)	67,540
-	2,891,055	169,202	-	-	3,060,257
-	22,812	-	4,528	-	27,340
-	62,687	-	-	-	62,687
117,670	7,546,528	196,480	108,817	(100,000)	7,751,825
-	132,795	-	2,404,529	-	2,537,324
-	4,089,674	-	-	-	4,089,674
-	54,387	-	-	-	54,387
-	1,637,538	-	-	(1,637,538)	-
-	5,781,599	-	-	(1,637,538)	4,144,061
\$ 117,670	\$ 13,460,922	\$ 196,480	\$ 2,513,346	\$ (1,737,538)	\$ 14,433,210

NEIGHBORHOOD HOUSING SERVICES OF PHOENIX, INC. AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF FINANCIAL POSITION (Continued)
December 31, 2010

	Neighborhood Housing Services of Phoenix, Inc.			
	Operating Funds	Homeowner Development Funds	NeighborWorks America Loan Fund	Agency Funds
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Accounts payable and accrued expenses	\$ 48,622	\$ 581,058	\$ -	\$ -
Accrued compensated absences	45,684	-	-	-
Advances on contracts	-	6,971	-	-
Loan impounds and client deposits	-	866,572	-	-
Deferred revenue	47,862	1,313,226	-	-
Notes payable, current	1,736,667	383,932	-	-
TOTAL CURRENT LIABILITIES	1,878,835	3,151,759	-	-
NOTES PAYABLE, net of current portion	551,467	316,691	-	-
TOTAL LIABILITIES	2,430,302	3,468,450	-	-
NET ASSETS				
Unrestricted	1,863,981	-	739,728	-
Temporarily restricted	-	3,186,854	227,474	38,440
Permanently restricted	-	-	1,388,023	-
TOTAL NET ASSETS	1,863,981	3,186,854	2,355,225	38,440
TOTAL LIABILITIES AND NET ASSETS	\$ 4,294,283	\$ 6,655,304	\$ 2,355,225	\$ 38,440

AZ Foreclosure Prevention Task Force	Total All Funds	Phoenix Housing Partnership, LLC	La Ciudad, LLC	Eliminations	Total
\$ 2,769	\$ 632,449	\$ -	\$ 113,765	\$ (100,000)	\$ 646,214
-	45,684	-	-	-	45,684
-	6,971	-	-	-	6,971
-	866,572	-	-	-	866,572
-	1,361,088	-	-	-	1,361,088
-	2,120,599	-	-	-	2,120,599
2,769	5,033,363	-	113,765	(100,000)	5,047,128
-	868,158	-	958,523	-	1,826,681
2,769	5,901,521	-	1,072,288	(100,000)	6,873,809
-	2,603,709	-	1,441,058	(1,441,058)	2,603,709
114,901	3,567,669	196,480	-	(196,480)	3,567,669
-	1,388,023	-	-	-	1,388,023
114,901	7,559,401	196,480	1,441,058	(1,637,538)	7,559,401
<u>\$ 117,670</u>	<u>\$ 13,460,922</u>	<u>\$ 196,480</u>	<u>\$ 2,513,346</u>	<u>\$ (1,737,538)</u>	<u>\$ 14,433,210</u>

NEIGHBORHOOD HOUSING SERVICES OF PHOENIX, INC. AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF ACTIVITIES
Year Ended December 31, 2010

	Neighborhood Housing Services of Phoenix, Inc.			
	Operating Funds	Homeowner Development Funds	NeighborWorks America Loan Fund	Agency Funds
SUPPORT AND REVENUE				
Public Support				
Governmental grants	\$ 899,550	\$ 3,629,514	\$ 110,750	\$ 40,610
Nongovernmental grants and contributions	950,722	-	-	4,478
Contributions in-kind	47	2,761	-	-
TOTAL SUPPORT	1,850,319	3,632,275	110,750	45,088
Revenue				
Fees	747,713	162,732	-	2,490
Interest income on mortgages	237,876	2,162	28,033	-
Investment income	2,375	1,869	468	-
Loss on investment in subsidiaries	-	(16,129)	-	-
TOTAL REVENUE	987,964	150,634	28,501	2,490
TOTAL SUPPORT AND REVENUE	2,838,283	3,782,909	139,251	47,578
EXPENSES				
Program Services				
Homebuyer education	1,081,191	-	-	-
Loan services	825,426	3,313,377	181,317	-
Affordable housing development	265,057	380,424	129,875	-
Agency funds	-	-	-	47,872
La Ciudad, LLC	-	-	-	-
TOTAL PROGRAM SERVICES	2,171,674	3,693,801	311,192	47,872
Supporting Services				
Management and general	482,745	62,359	-	-
Community outreach	47,723	-	-	-
Resource development	85,929	-	-	-
TOTAL SUPPORTING SERVICES	616,397	62,359	-	-
TOTAL EXPENSES	2,788,071	3,756,160	311,192	47,872
Change in net assets before transfers in (out)	50,212	26,749	(171,941)	(294)
Transfers in (out)	55,748	(36,222)	(19,754)	228
Change in net assets	105,960	(9,473)	(191,695)	(66)
NET ASSETS, BEGINNING OF YEAR	1,758,021	3,196,327	2,546,920	38,506
NET ASSETS, END OF YEAR	\$ 1,863,981	\$ 3,186,854	\$ 2,355,225	\$ 38,440

AZ Foreclosure Prevention Task Force	Total All Funds	Phoenix Housing Partnership, LLC	La Ciudad, LLC	Eliminations	Total
\$ 52,134	\$ 4,732,558	\$ -	\$ -	\$ -	\$ 4,732,558
21,250	976,450	-	-	-	976,450
-	2,808	-	-	-	2,808
<u>73,384</u>	<u>5,711,816</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,711,816</u>
-	912,935	-	169,455	(176,534)	905,856
-	268,071	-	-	-	268,071
-	4,712	52	118	-	4,882
-	(16,129)	-	-	16,129	-
-	1,169,589	52	169,573	(160,405)	1,178,809
<u>73,384</u>	<u>6,881,405</u>	<u>52</u>	<u>169,573</u>	<u>(160,405)</u>	<u>6,890,625</u>
-	1,081,191	-	-	(100,456)	980,735
-	4,320,120	-	-	(17,638)	4,302,482
-	775,356	-	-	(13,532)	761,824
63,006	110,878	-	-	(3,806)	107,072
-	-	-	185,752	-	185,752
<u>63,006</u>	<u>6,287,545</u>	<u>-</u>	<u>185,752</u>	<u>(135,432)</u>	<u>6,337,865</u>
-	545,104	-	-	(36,581)	508,523
-	47,723	-	-	(2,069)	45,654
-	85,929	-	-	(2,577)	83,352
-	678,756	-	-	(41,227)	637,529
<u>63,006</u>	<u>6,966,301</u>	<u>-</u>	<u>185,752</u>	<u>(176,659)</u>	<u>6,975,394</u>
<u>10,378</u>	<u>(84,896)</u>	<u>52</u>	<u>(16,179)</u>	<u>16,254</u>	<u>(84,769)</u>
-	-	#	-	-	-
10,378	(84,896)	52	(16,179)	16,254	(84,769)
<u>104,523</u>	<u>7,644,297</u>	<u>196,428</u>	<u>1,457,237</u>	<u>(1,653,792)</u>	<u>7,644,170</u>
<u>\$ 114,901</u>	<u>\$ 7,559,401</u>	<u>\$ 196,480</u>	<u>\$ 1,441,058</u>	<u>\$ (1,637,538)</u>	<u>\$ 7,559,401</u>