



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

**PHOENIX, ARIZONA**

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

Years Ended December 31, 2011 and 2010





HENRY & HORNE, LLP  
Certified Public Accountants

## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated statements of financial position of Neighborhood Housing Services of Phoenix, Inc. and Subsidiaries as of December 31, 2011 and 2010 and the related consolidated statements of activities, functional expenses and cash flows for the years 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 audits.

We conducted our audits 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 audits provide 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, 2011 and 2010, and the changes in their net assets and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 22, 2012 on our consideration of Neighborhood Housing Services of Phoenix, Inc. and Subsidiaries' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is 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 audits.

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Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements of Neighborhood Housing Services of Phoenix, Inc. and Subsidiaries 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 purposes of 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 audits 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 basic consolidated financial statements as a whole.

*Henry + Horne, LLP*

Scottsdale, Arizona  
March 22, 2012

NEIGHBORHOOD HOUSING SERVICES OF PHOENIX, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION  
December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 3,368,876	\$ 3,722,070
Restricted cash	949,942	589,389
Governmental receivables	532,749	123,192
Promises to give	-	99,350
Other receivables	146,344	67,540
Property held for re-sale	2,905,630	3,060,257
Prepaid expenses and deposits	47,515	27,340
Mortgage loans receivable, current	<u>43,553</u>	<u>62,687</u>
TOTAL CURRENT ASSETS	<u>7,994,609</u>	<u>7,751,825</u>
PROPERTY AND EQUIPMENT, net	<u>2,990,785</u>	<u>2,537,324</u>
OTHER ASSETS		
Mortgage loans receivable, net of current portion	2,805,121	4,089,674
Escrow reserve deposit	<u>251,865</u>	<u>54,387</u>
TOTAL OTHER ASSETS	<u>3,056,986</u>	<u>4,144,061</u>
TOTAL ASSETS	<u>\$ 14,042,380</u>	<u>\$ 14,433,210</u>

See accompanying notes.

	<u>2011</u>	<u>2010</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 301,512	\$ 387,028
Accrued compensated absences	54,005	45,684
Due to City of Phoenix	1,688,613	259,186
Advances on contracts	8,913	6,971
Loan impounds and client deposits	912,491	866,572
Deferred revenue	33,467	1,361,088
Notes payable, current	<u>1,062,870</u>	<u>2,120,599</u>
TOTAL CURRENT LIABILITIES	4,061,871	5,047,128
NOTES PAYABLE, net of current portion	<u>1,605,779</u>	<u>1,826,681</u>
TOTAL LIABILITIES	<u>5,667,650</u>	<u>6,873,809</u>
NET ASSETS		
Unrestricted	6,433,338	2,603,709
Temporarily restricted	704,300	3,567,669
Permanently restricted	<u>1,237,092</u>	<u>1,388,023</u>
TOTAL NET ASSETS	<u>8,374,730</u>	<u>7,559,401</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 14,042,380</u>	<u>\$ 14,433,210</u>

NEIGHBORHOOD HOUSING SERVICES OF PHOENIX, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENT OF ACTIVITIES  
Year Ended December 31, 2011

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>
<b>SUPPORT AND REVENUE</b>		
Public Support		
Governmental grants	\$ 1,384,330	\$ 561,467
Nongovernmental grants and contributions	815,032	-
Contributions in-kind	<u>21,939</u>	<u>-</u>
TOTAL SUPPORT	<u>2,221,301</u>	<u>561,467</u>
Revenue		
Fees	1,660,465	-
Interest income on mortgages	180,864	-
Investment income	<u>1,089</u>	<u>-</u>
TOTAL REVENUE	<u>1,842,418</u>	<u>-</u>
Net assets released from restrictions	<u>3,700,767</u>	<u>(3,424,836)</u>
TOTAL SUPPORT AND REVENUE	<u>7,764,486</u>	<u>(2,863,369)</u>
<b>EXPENSES</b>		
Program Services		
Homebuyer education	1,258,271	-
Loan services	696,726	-
Affordable housing development	816,061	-
Agency funds	97,708	-
Phoenix Housing Partnership, LLP	191,579	-
La Ciudad, LLC	<u>194,499</u>	<u>-</u>
TOTAL PROGRAM SERVICES	<u>3,254,844</u>	<u>-</u>
Supporting Services		
Management and general	541,271	-
Community outreach	42,961	-
Resource development	<u>95,781</u>	<u>-</u>
TOTAL SUPPORTING SERVICES	<u>680,013</u>	<u>-</u>
TOTAL EXPENSES	<u>3,934,857</u>	<u>-</u>
Changes in net assets	3,829,629	(2,863,369)
NET ASSETS, BEGINNING OF YEAR	<u>2,603,709</u>	<u>3,567,669</u>
NET ASSETS, END OF YEAR	<u>\$ 6,433,338</u>	<u>\$ 704,300</u>

See accompanying notes.

<u>Permanently Restricted</u>	<u>Total</u>
\$ 125,000	\$ 2,070,797
-	815,032
<u>-</u>	<u>21,939</u>
125,000	2,907,768
-	1,660,465
-	180,864
<u>-</u>	<u>1,089</u>
-	1,842,418
<u>(275,931)</u>	<u>-</u>
<u>(150,931)</u>	<u>4,750,186</u>
-	1,258,271
-	696,726
-	816,061
-	97,708
-	191,579
<u>-</u>	<u>194,499</u>
-	3,254,844
-	541,271
-	42,961
<u>-</u>	<u>95,781</u>
-	680,013
-	3,934,857
(150,931)	815,329
<u>1,388,023</u>	<u>7,559,401</u>
<u>\$ 1,237,092</u>	<u>\$ 8,374,730</u>

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

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>
<b>SUPPORT AND REVENUE</b>		
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>
<b>TOTAL SUPPORT</b>		
Revenue		
Fees	905,856	-
Interest income on mortgages	268,071	-
Investment income	4,882	-
	<u>1,178,809</u>	<u>-</u>
<b>TOTAL REVENUE</b>		
Net assets released from restrictions	<u>671,642</u>	<u>(360,306)</u>
	<u>7,062,795</u>	<u>28,416</u>
<b>TOTAL SUPPORT AND REVENUE</b>		
<b>EXPENSES</b>		
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>
<b>TOTAL PROGRAM SERVICES</b>		
Supporting Services		
Management and general	508,523	-
Community outreach	45,654	-
Resource development	83,352	-
	<u>637,529</u>	<u>-</u>
<b>TOTAL SUPPORTING SERVICES</b>		
<b>TOTAL EXPENSES</b>		
	<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
<u>-</u>	<u>2,808</u>
110,750	5,711,816
-	905,856
-	268,071
<u>-</u>	<u>4,882</u>
-	1,178,809
<u>(311,336)</u>	<u>-</u>
<u>(200,586)</u>	<u>6,890,625</u>
-	980,735
-	4,302,482
-	761,824
-	107,072
<u>-</u>	<u>185,752</u>
-	6,337,865
-	508,523
-	45,654
<u>-</u>	<u>83,352</u>
-	637,529
-	6,975,394
(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, 2011

	PROGRAM SERVICES				
	Homebuyer Counseling and Education	Loan Services	Affordable Housing Development	Agency Funds	Phoenix Housing Partnership
Salaries and wages	\$ 828,751	\$ 152,458	\$ 122,920	\$ -	\$ -
Employee benefits/ payroll taxes	174,390	23,540	20,351	-	-
<b>TOTAL SALARIES, WAGES AND RELATED EXPENSES</b>	<b>1,003,141</b>	<b>175,998</b>	<b>143,271</b>	<b>-</b>	<b>-</b>
Professional fees	28,560	16,524	150,709	73,957	14,571
Rent	65,489	14,492	9,947	-	-
Operating supplies	9,019	4,988	1,387	5,744	-
Property taxes	-	1,246	7,808	-	8,806
Telephone and utilities	4,332	952	519	-	-
Postage and printing	1,935	5,353	929	68	-
Equipment rental and maintenance	18,604	9,013	64,269	683	-
Advertising and marketing	81,044	245	1,414	8,712	-
Travel and training	67,382	2,394	5,694	-	-
Repairs and maintenance	7,522	15,928	20,831	-	-
Insurance	15,147	3,246	5,413	3,157	1,037
Dues and subscriptions	3,646	1,378	2,143	1,140	-
Other expenses	3,099	1,667	857	4,084	-
Interest	-	66,927	6,018	-	-
Subsidies to clients	-	57,301	45,000	-	-
Loss on sale, property held for resale	-	-	33,068	-	-
Property loss reserve	-	-	330,000	-	167,165
Bad debt expense	3	330,481	-	420	-
Hospitality	792	-	-	52	-
<b>TOTAL EXPENSE BEFORE DEPRECIATION</b>	<b>1,309,715</b>	<b>708,133</b>	<b>829,277</b>	<b>98,017</b>	<b>191,579</b>
Depreciation	14,045	3,085	2,631	-	-
<b>TOTAL EXPENSES BEFORE ELIMINATIONS</b>	<b>1,323,760</b>	<b>711,218</b>	<b>831,908</b>	<b>98,017</b>	<b>191,579</b>
Eliminations	(65,489)	(14,492)	(15,847)	(309)	-
<b>TOTAL EXPENSES</b>	<b>\$ 1,258,271</b>	<b>\$ 696,726</b>	<b>\$ 816,061</b>	<b>\$ 97,708</b>	<b>\$ 191,579</b>

See accompanying notes.

SUPPORTING SERVICES

La Ciudad, LLC	Subtotal	Management and General	Resource Development	Community Outreach	Subtotal	Total
\$ -	\$ 1,104,129	\$ 294,046	\$ 71,289	\$ 23,596	\$ 388,931	\$ 1,493,060
-	218,281	53,634	7,360	3,292	64,286	282,567
-	1,322,410	347,680	78,649	26,888	453,217	1,775,627
-	284,321	45,766	6	61	45,833	330,154
-	89,928	73,492	1,917	2,785	78,194	168,122
241	21,379	6,873	374	1,405	8,652	30,031
27,031	44,891	526	-	-	526	45,417
15,406	21,209	7,932	73	208	8,213	29,422
-	8,285	523	183	1,879	2,585	10,870
-	92,569	13,629	729	1,054	15,412	107,981
-	91,415	344	10,176	9,681	20,201	111,616
-	75,470	6,547	-	164	6,711	82,181
13,875	58,156	9,952	140	358	10,450	68,606
5,271	33,271	2,927	234	180	3,341	36,612
17	8,324	3,565	166	575	4,306	12,630
-	9,707	287	4,534	-	4,821	14,528
77,809	150,754	81,065	-	-	81,065	231,819
-	102,301	-	-	-	-	102,301
-	33,068	-	-	-	-	33,068
-	497,165	-	-	-	-	497,165
-	330,904	1,068	-	-	1,068	331,972
-	844	-	-	-	-	844
139,650	3,276,371	602,176	97,181	45,238	744,595	4,020,966
54,849	74,610	12,587	517	508	13,612	88,222
194,499	3,350,981	614,763	97,698	45,746	758,207	4,109,188
-	(96,137)	(73,492)	(1,917)	(2,785)	(78,194)	(174,331)
<u>\$ 194,499</u>	<u>\$ 3,254,844</u>	<u>\$ 541,271</u>	<u>\$ 95,781</u>	<u>\$ 42,961</u>	<u>\$ 680,013</u>	<u>\$ 3,934,857</u>

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

	PROGRAM SERVICES				
	Homebuyer Counseling and 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	-	-
<b>TOTAL SALARIES, WAGES AND RELATED EXPENSES</b>	<b>759,538</b>	<b>204,270</b>	<b>117,511</b>	<b>-</b>	<b>-</b>
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	-
<b>TOTAL EXPENSE BEFORE DEPRECIATION</b>	<b>1,064,730</b>	<b>4,315,394</b>	<b>773,007</b>	<b>110,878</b>	<b>129,662</b>
Depreciation	16,461	4,726	2,349	-	56,090
<b>TOTAL EXPENSES BEFORE ELIMINATIONS</b>	<b>1,081,191</b>	<b>4,320,120</b>	<b>775,356</b>	<b>110,878</b>	<b>185,752</b>
Eliminations	(100,456)	(17,638)	(13,532)	(3,806)	-
<b>TOTAL EXPENSES</b>	<b>\$ 980,735</b>	<b>\$ 4,302,482</b>	<b>\$ 761,824</b>	<b>\$ 107,072</b>	<b>\$ 185,752</b>

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 STATEMENTS OF CASH FLOWS  
Years Ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 815,329	\$ (84,769)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	88,222	89,449
Change in allowance for mortgage loans receivable	388,491	559,858
Change in imputed interest	198,108	142,315
Impairment of property held for re-sale	631,621	110,133
(Gain) loss on disposal of property and equipment	10,340	-
(Gain) loss on sale of properties held for re-sale	104,736	(63,278)
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Governmental receivables	(409,557)	141,592
Promises to give	99,350	(99,350)
Other receivables	(78,804)	10,995
Prepaid expenses and deposits	(20,175)	6,631
Increase (decrease) in:		
Accounts payable and accrued expenses	(85,516)	3,941
Accrued compensated absences	8,321	9,383
Amounts due to City	1,429,427	259,186
Deferred revenues	(1,327,621)	(19,566)
Advances on contracts	1,942	2,132
	<u>1,854,214</u>	<u>1,068,652</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES		
	<u>1,854,214</u>	<u>1,068,652</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(738)	(67,555)
Transfer to escrow reserve deposit	(197,478)	(54,387)
Change in loan impounds and client deposits	45,919	188,073
Payments received on mortgage loans receivable	190,978	66,085
Payments received for sale of mortgage loans receivable	1,969,439	543,871
Proceeds from sale of property held for re-sale	941,575	1,540,184
Purchase of and improvement costs for property held for re-sale	(2,074,590)	(714,173)
Change in restricted cash	(360,553)	(199,217)
Mortgage loans issued	(1,245,221)	(548,671)
	<u>(730,669)</u>	<u>754,210</u>
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES		
	<u>(730,669)</u>	<u>754,210</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on recoverable grant	-	(75,000)
Proceeds from notes payable	1,731,969	25,000
Payments on notes payable	(3,208,708)	(1,901,418)
	<u>(1,476,739)</u>	<u>(1,951,418)</u>
NET CASH USED BY FINANCING ACTIVITIES		
	<u>(1,476,739)</u>	<u>(1,951,418)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(353,194)	(128,556)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>3,722,070</u>	<u>3,850,626</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 3,368,876</u>	<u>\$ 3,722,070</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	<u>\$ 126,416</u>	<u>\$ 197,944</u>

See accompanying notes.

NEIGHBORHOOD HOUSING SERVICES  
OF PHOENIX, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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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 Counseling and Education – The Organization teaches through counseling and education. Certified counselors are bi-lingual and offer one-on-one budget, credit, delinquency, foreclosure intervention, refinance, anti-predatory lending and reverse mortgage counseling. The Organization has voluntarily adopted the National Industry Standards for Homeownership Education and Counseling, which establishes standards for providing education and counseling services to the public and sets training standards for counseling agencies. Ongoing classes include Homebuyer Education, both online and on-site, and online Financial Education, both of which are offered in English and Spanish. The Organization also offers additional specific workshops on topical subjects such as foreclosure scams and financial recovery.

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.

Arizona Foreclosure Prevention Task Force ("Task Force") was formed as a non-profit corporation 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.

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

Due to the nature of the mission of the Task Force, all activity and balances of the Task Force have been presented as a program of the Organization on the accompanying supplementary consolidating financial statements.

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.

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.

Basis of Consolidation

The consolidated financial statements include the accounts of Neighborhood Housing Services of Phoenix, Inc. and its wholly-owned subsidiaries, Phoenix Housing Partnership, LLC and La Ciudad, LLC. 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.



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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, Task Force 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  
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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, 2011 and 2010, management expects receivables to be fully collectible, and no allowance has been recorded.

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. There were no promises to give at December 31, 2011.

Property Held for Re-Sale

Real estate held for re-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. The Organization considers the credit quality of its mortgage loans receivable primarily by assessing the sufficiency of collateral for the receivables on an ongoing basis, while also assessing the collection experience of existing receivables and the credit worthiness of new receivables.

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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 and 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.

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.

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 estimated useful lives of the assets.

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  
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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"><li>• Quoted prices for similar assets or liabilities in active markets;</li><li>• Quoted prices for identical or similar assets or liabilities in inactive markets;</li><li>• Inputs other than quoted prices that are observable for the asset or liability;</li><li>• Inputs that are derived principally from or corroborated by observable market data by correlation or other means.</li></ul> |
| 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).   |

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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.

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.

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

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, as well as from rental income earned on rental properties. Fees are recognized as services are provided.

Advertising Costs

Advertising costs are charged to operations as incurred. Advertising expenses totaled \$111,616 and \$95,913 in 2011 and 2010, respectively.

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.

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

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, 2011 and 2010, the Organization had no uncertain tax positions that qualify for either recognition or disclosure in the financial statements.

The Organization's federal and state exempt returns are no longer subject to examination by the Internal Revenue Service and the State of Arizona for fiscal years prior to December 31, 2008 and 2007, respectively, generally three to four years after they were filed.

The Organization recognizes interest and penalties associated with income taxes in operating expenses. During the years ended December 31, 2011 and 2010, the Organization did not have any income tax related interest and penalty expense.

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 22, 2012, the date the financial statements were available to be issued.

NEIGHBORHOOD HOUSING SERVICES  
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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 and loans receivable.

The Organization maintains its cash in bank accounts which may periodically exceed federally insured deposit limits. At December 31, 2011 and 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.

NOTE 3 GOVERNMENTAL RECEIVABLES

At December 31, governmental receivables consisted of:

	<u>2011</u>	<u>2010</u>
City of Phoenix	\$ 379,881	\$ 49,479
Fannie Mae	150,965	-
NeighborWorks America	-	31,180
State of Arizona	-	26,998
Other	<u>1,903</u>	<u>15,535</u>
Total governmental receivables	<u>\$ 532,749</u>	<u>\$ 123,192</u>

At December 31, 2011 and 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, 2011, the Organization held 9 completed homes, 21 homes under construction and 25 parcels of land. 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.



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NOTE 4 PROPERTY HELD FOR RE-SALE (Continued)

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, 2011:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Property held for re-sale	<u>\$ -</u>	<u>\$ 2,905,630</u>	<u>\$ -</u>	<u>\$ 2,905,630</u>

During the year ended December 31, 2011, certain properties that were held for re-sale were reclassified as rental properties. Accordingly, \$551,285 was transferred out of property held for re-sale and into property and equipment. This change was recorded on the actual date the properties were delisted for sale.

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>

During the years ended December 31, 2011 and 2010, the Organization recorded impairment losses of \$631,621 and \$110,133, respectively, 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 decided not to proceed with the project that the pre-development fees related to.

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 8.5%. 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.

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NOTE 5 MORTGAGE LOANS RECEIVABLE (Continued)

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 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 loan portfolio. The amount of the allowance is based on management's evaluation of the 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. Mortgage loans consisted of the following at December 31, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
<u>Amortizing loans:</u>		
Phoenix Family Housing fund	\$ 2,004,471	\$ 2,938,345
Homeowner development funds	242,996	371,644
NWA loan fund	547,924	593,798
	<u>2,795,391</u>	<u>3,903,787</u>
<u>Deferred loans (due on sale):</u>		
Homeowner development funds	464,279	494,280
NWA loan fund	138,409	128,409
	<u>602,688</u>	<u>622,689</u>
<u>Forgivable loans:</u>		
Homeowner development funds	476,765	478,615
Total loans receivable	3,874,844	5,005,091
Less: allowance for uncollectible mortgage loans	<u>(1,026,170)</u>	<u>(852,730)</u>
Net mortgage loans receivable	2,848,674	4,152,361
Current portion	<u>(43,553)</u>	<u>(62,687)</u>
	<u>\$ 2,805,121</u>	<u>\$ 4,089,674</u>

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NOTE 5 MORTGAGE LOANS RECEIVABLE (Continued)

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

<u>Years Ending December 31,</u>	<u>Amortizing Loan Collections</u>
2012	\$ 43,553
2013	45,649
2014	46,606
2015	48,282
2016	47,881
Thereafter	<u>2,563,420</u>
Total	<u>\$ 2,795,391</u>

The activity for the allowance account for uncollectible mortgage loans during 2011 and 2010 is as follows:

Allowance, December 31, 2009	\$ 502,125
Write-offs of uncollectible amounts	(209,253)
Additions to allowance	<u>559,858</u>
Allowance, December 31, 2010	852,730
Write-offs of uncollectible amounts	(215,051)
Additions to allowance	<u>388,491</u>
Allowance, December 31, 2011	<u>\$ 1,026,170</u>

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NOTE 5 MORTGAGE LOANS RECEIVABLE (Continued)

When determining an appropriate allowance for uncollectible mortgage loans, the Organization evaluates each loan balance that is considered to be impaired individually. The remaining loan balances are evaluated collectively. As of December 31, the ending balances in the allowance for uncollectible mortgage loans attributed to loans evaluated individually and loans evaluated collectively was as follows:

	<u>2011</u>	<u>2010</u>
Loans evaluated individually (impaired)	\$ 511,709	\$ 374,113
Loans evaluated collectively	<u>514,461</u>	<u>478,617</u>
Allowance for uncollectible mortgage loans balance	<u>\$ 1,026,170</u>	<u>\$ 852,730</u>

As of December 31, the balances of gross mortgage loans receivable evaluated individually and loans evaluated collectively were as follows:

	<u>2011</u>	<u>2010</u>
Loans evaluated individually (impaired)	\$ 796,170	\$ 576,795
Loans evaluated collectively	<u>3,078,674</u>	<u>4,428,296</u>
Ending balance	<u>\$ 3,874,844</u>	<u>\$ 5,005,091</u>

As of December 31, 2011, 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	3	\$ 118,576	\$ 122,640	\$ 241,216
60 to 90 days	6	605,603	-	605,603
Over 90 days	<u>7</u>	<u>781,449</u>	<u>14,721</u>	<u>796,170</u>
Total	<u>16</u>	<u>\$ 1,505,628</u>	<u>\$ 137,361</u>	<u>\$ 1,642,989</u>

NEIGHBORHOOD HOUSING SERVICES  
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NOTE 5 MORTGAGE LOANS RECEIVABLE (Continued)

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

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

At December 31, 2011 and 2010, the total recorded investment in impaired loans amounted to approximately \$796,000 and \$577,000, respectively. For the years ended December 31, 2011 and 2010, the average recorded investment in impaired loans was approximately \$113,700 and \$82,700, respectively. Interest income on impaired loans of \$14,949 and \$18,897 was recognized for cash payments received in 2011 and 2010, respectively.

NOTE 6 PROPERTY AND EQUIPMENT

At December 31, property and equipment consisted of:

	2011	2010
Land	\$ 458,964	\$ 458,964
Office building	2,134,786	2,134,786
Furniture, fixtures and equipment	135,985	141,157
Leasehold improvements	117,750	117,750
Rental properties	551,285	-
Total cost and donated value	3,398,770	2,852,657
Accumulated depreciation	<u>(407,985)</u>	<u>(315,333)</u>
Property and equipment, net	<u>\$ 2,990,785</u>	<u>\$ 2,537,324</u>

Depreciation expense charged to operations was \$88,222 and \$89,449 for 2011 and 2010, respectively.

NEIGHBORHOOD HOUSING SERVICES  
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NOTE 7 LOAN CONTINGENCIES

The Organization occasionally sells certain mortgage loans receivable at carrying value. Some loans are sold with default offset rights and are 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 2011, the Organization sold approximately \$2,000,000 of mortgage loans to two financial organizations. There was not, nor did the Organization intend to, realize a gain from the sale of these mortgage loans. The Organization was required to make escrow reserve deposits of \$197,478 to be used in the event of any loan defaults. During 2010, the Organization sold loans to one financial institution. The Organization was required to make an escrow reserve deposit of \$54,387 to be used in the event of any loan defaults. Any remaining balance of the escrow reserve deposits will be returned to the Organization from the financial institutions when the respective escrow reserve deposit terms are met. At December 31, 2011 and 2010, there were no loans outstanding that were specifically held for sale.

NOTE 8 DUE TO CITY OF PHOENIX

At December 31, 2011 and 2010, the Organization had a liability of \$1,688,613 and \$259,186, respectively, due to the City of Phoenix. These amounts were incurred for acquisition and improvement costs for homes purchased under the Organization's Neighborhood Stabilization Program contract with the City. Under this contract, the City issues short-term loans to the Organization for the costs of acquisition and improvements. These costs are included in property held for re-sale on the accompanying financial statements. When the properties are sold the loans are paid with the proceeds.

NEIGHBORHOOD HOUSING SERVICES  
OF PHOENIX, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2011 and 2010

NOTE 9 NOTES PAYABLE

Notes payable at December 31 consist of the following:

	2011		2010	
	Maturity Value	Discount	Current Note Balance	Note Balance
\$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	\$ 62,212	\$ 982,788	\$ 958,523
\$1,686,667 face amount note payable to a bank in monthly installments of interest only at LIBO. Interest is imputed at 5.25% in accordance with below-market-rate interest rules. The note is due June 23, 2012 and is unsecured. This note was subsequently paid off in full in March 2012.	746,667	5,937	740,730	-
\$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	1,949	298,051	293,901

NEIGHBORHOOD HOUSING SERVICES  
OF PHOENIX, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2011 and 2010

NOTE 9 NOTES PAYABLE (Continued)

	2011		2010	
	Maturity Value	Discount	Current Note Balance	Note Balance
\$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	14,243	235,757	226,945
\$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	54,932	195,068	188,582
\$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	57,834	192,166	184,226
\$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.	25,000	911	24,089	22,790



NEIGHBORHOOD HOUSING SERVICES  
OF PHOENIX, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2011 and 2010

NOTE 9 NOTES PAYABLE (Continued)

	2011			2010
	Maturity Value	Discount	Current Note Balance	Note Balance
\$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 was due June 23, 2011 and was unsecured.	-	-	-	483,421
\$2,000,000 face amount note payable to a nonprofit public benefit corporation in monthly installments of interest 6.5% with periodic principal payments upon sale of subject purchase inventory. The note was due September 29, 2011 and was secured by property held for re-sale.	-	-	-	383,932
\$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 was due June 23, 2011 and was unsecured.	-	-	-	245,429

NEIGHBORHOOD HOUSING SERVICES  
OF PHOENIX, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2011 and 2010

NOTE 9 NOTES PAYABLE (Continued)

	2011			2010
	Maturity Value	Discount	Current Note Balance	Note Balance
\$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 was due June 23, 2011 and was unsecured.	-	-	-	243,933
\$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 was due June 23, 2011 and was unsecured.	-	-	-	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 was due June 23, 2011 and was unsecured.	-	-	-	241,844
\$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 was due June 23, 2011 and was unsecured.	-	-	-	183,000

NEIGHBORHOOD HOUSING SERVICES  
OF PHOENIX, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2011 and 2010

NOTE 9 NOTES PAYABLE (Continued)

	2011		2010	
	Maturity Value	Discount	Current Note Balance	Note Balance
\$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 was due December 10, 2011 and was unsecured.	-	-	-	48,197
Total notes payable	<u>\$ 2,866,667</u>	<u>\$ 198,018</u>	\$ 2,668,649	\$ 3,947,280
Current portion			<u>1,062,870</u>	<u>2,120,599</u>
Long-term portion			<u>\$ 1,605,779</u>	<u>\$ 1,826,681</u>

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

Years Ending December 31,

2012	\$ 1,071,667
2013	250,000
2014	1,045,000
2015	-
2016	-
Thereafter	<u>500,000</u>
	<u>\$ 2,866,667</u>

Total interest on long-term debt for the years ended December 31, 2011 and 2010 was \$231,819 and \$302,035, including approximately \$105,000 and \$142,000 for amortization of imputed interest, respectively.

NEIGHBORHOOD HOUSING SERVICES  
OF PHOENIX, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2011 and 2010

NOTE 9 NOTES PAYABLE (Continued)

Certain loans contain various financial and non-financial covenants that require the Organization to maintain certain financial statement ratios. The Organization met these annual financial covenants for the year ended December 31, 2011. 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 CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2011 and 2010

NOTE 10 TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets were restricted for the following purposes:

	<u>2011</u>	<u>2010</u>
<u>Homeowner development funds:</u>		
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.	\$ 522,884	\$ 3,186,854
<u>NWA loan funds:</u>		
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
<u>Agency funds:</u>		
Providing education and resources to Arizona Housing Counseling Collaborative, included in cash and cash equivalents in the accompanying consolidated statement of financial position.	33,883	25,359
<u>Arizona Foreclosure Prevention Task Force:</u>		
Providing education and resources to Arizona Foreclosure Prevention Task Force, included in cash and cash equivalents in the accompanying consolidated statement of financial position.	147,533	114,901
Other	-	13,081
Total temporarily restricted net assets	<u>\$ 704,300</u>	<u>\$ 3,567,669</u>

NEIGHBORHOOD HOUSING SERVICES  
 OF PHOENIX, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 December 31, 2011 and 2010

NOTE 10 TEMPORARILY RESTRICTED NET ASSETS (Continued)

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

During the years ended December 31, 2011 and 2010, temporarily restricted net assets were released from program restrictions as follows:

	<u>2011</u>	<u>2010</u>
<u>Homeowner development funds:</u>		
Loan payoffs	\$ 2,549,477	\$ -
Met CFDI contract requirements	1,599,039	-
Loan write off and bad debt expense	27,500	-
Impairment loss on property held for re-sale	-	110,133
Loss on sale of property held for re-sale	-	100,007
Write off pre-development fees	-	85,591
Other	-	59,110
	<u>4,176,016</u>	<u>354,841</u>
<u>NWA loan funds:</u>		
Capital conversion (Note 11)	(130,704)	(147,475)
Loan loss reserves	358,179	120,000
Other	-	25,960
	<u>227,475</u>	<u>(1,515)</u>
<u>Agency funds:</u>		
Management fees incurred	<u>10,507</u>	<u>6,980</u>
Restrictions fulfilled in the same period received	<u>(989,162)</u>	<u>-</u>
Total temporarily restricted net assets released from restrictions	<u>\$ 3,424,836</u>	<u>\$ 360,306</u>

The release of \$358,179 and \$120,000 during the years ended December 31, 2011 and 2010, respectively, for the loan loss reserves was made in accordance with Section V a.1) ii of the NeighborWorks America Investment and Grant Agreement.

NEIGHBORHOOD HOUSING SERVICES  
OF PHOENIX, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2011 and 2010

NOTE 11 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. The changes in endowment net assets for the years ended December 31, 2011 and 2010 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, December 31, 2009	\$ 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 assets	<u>163,861</u>	<u>147,475</u>	<u>(311,336)</u>	<u>-</u>
Endowment net assets, December 31, 2010	163,861	147,475	1,388,023	1,699,359
Reclassification	(48,793)	48,793	-	-
Contributions	-	-	125,000	125,000
Interest income	-	31,207	-	31,207
Appropriated for expenditures	(260,295)	(358,179)	-	(618,474)
Capital conversion of endowment net assets	<u>145,227</u>	<u>130,704</u>	<u>(275,931)</u>	<u>-</u>
Endowment net assets, December 31, 2011	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,237,092</u>	<u>\$ 1,237,092</u>

NEIGHBORHOOD HOUSING SERVICES  
OF PHOENIX, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2011 and 2010

NOTE 11 PERMANENTLY RESTRICTED NET ASSETS (Continued)

During 2011 and 2010, NeighborWorks America converted \$275,931 and \$311,336, respectively, of the endowment funds to be used for operating activities, thereby releasing the funds from restriction.

NOTE 12 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.

The Organization leases equipment under various lease agreements. Minimum future rental payments under the operating lease at December 31, 2011 are as follows:

Years Ending December 31,

2012	\$	19,698
2013		9,029
2014		<u>2,388</u>
	\$	<u><u>31,115</u></u>



NEIGHBORHOOD HOUSING SERVICES  
 OF PHOENIX, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 December 31, 2011 and 2010

NOTE 13 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 for the years ending December 31:

	<u>2011</u>	<u>2010</u>
Unrestricted net assets per the consolidation statement of financial position of Neighborhood Housing Services of Phoenix, Inc.	\$ 6,433,338	\$ 2,603,709
Unacceptable assets	<u>(150)</u>	<u>(150)</u>
Adjusted net worth for HUD retirement programs	6,433,188	2,603,559
Amount required by HUD	<u>63,000</u>	<u>63,000</u>
Adjusted net worth above HUD requirements	<u>\$ 6,370,188</u>	<u>\$ 2,540,559</u>

NOTE 14 ECONOMIC DEPENDENCY

During the year ended December 31, 2011, the Organization received significant amounts of public support and revenue either directly or indirectly from the U.S. Department of Treasury, approximately 60%, and the U.S. Department of Housing and Urban Development, approximately 21%. Loss of this revenue in the future could have a material effect on the programs offered by the Organization.

During the year ended December 31, 2010, the Organization received a significant amount, approximately 50%, of public support and revenue either directly or indirectly from the Arizona Department of Housing.

NOTE 15 PENSION PLAN

The Organization established a 401(k) plan effective January 1, 2004 that covers all employees. Employees may contribute up to 100% of compensation not to exceed \$16,500. The Organization may make a discretionary matching contribution to all employees with one year of service completed, which is determined annually by the board of directors. During the year ended December 31, 2011, the Organization made a matching contribution of approximately \$11,000. No matching contributions were made during the year ended December 31, 2010.

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

OMB CIRCULAR A-133  
SUPPLEMENTARY REPORTS



HENRY & HORNE, LLP  
Certified Public Accountants

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, 2011, and have issued our report thereon dated March 22, 2012. 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.

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### 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 22, 2012



HENRY & HORNE, LLP  
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH  
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL  
EFFECT ON EACH MAJOR PROGRAM AND ON 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 Neighborhood Housing Services of Phoenix, Inc. and Subsidiaries' compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Neighborhood Housing Services of Phoenix, Inc. and Subsidiaries' major federal programs for the year ended December 31, 2011. 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.

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## Compliance (Continued)

In our opinion, Neighborhood Housing Services of Phoenix, Inc. and Subsidiaries complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2011.

### Internal Control Over Compliance

Management of 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 to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, 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 22, 2012

NEIGHBORHOOD HOUSING SERVICES OF PHOENIX, INC. AND SUBSIDIARIES  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year Ended December 31, 2011

<u>Federal Grantor / Cluster / Pass-Through Grantor / Program</u>	<u>Federal CFDA Number</u>	<u>Grantor's Number</u>	<u>Federal Expenditures</u>
<b>U.S. Department of Housing and Urban Development</b>			
<i>Arizona State Department of Housing:</i>			
Hardest Hit Program	14.188	2010-02	<u>\$ 47,213</u>
 CDBG - Entitlement Grants Cluster			
<i>City of Phoenix:</i>			
Community Development Block Grant	14.218	129298	12,195
Community Development Block Grant	14.218	Unknown	22,134
Neighborhood Stabilization Program	14.218	127744	41,023
Neighborhood Stabilization Program	14.218	98421-005	14,405
Neighborhood Stabilization Program	14.218	Unknown	11,140
<i>Local Initiatives Support Corporation:</i>			
Community Development Block Grant	14.218	40904-0021	2,457
<i>City of Glendale:</i>			
Neighborhood Stabilization Program	14.253	Unknown	<u>8,190</u>
Total CDBG - Entitlement Grants Cluster			<u>111,544</u>
 <i>Arizona State Department of Housing:</i>			
Neighborhood Stabilization Program	14.228	09-06 (B)	83,360
<i>Local Initiatives Support Corporation:</i>			
Neighborhood Stabilization Program	14.228	40904-0025	<u>2,000</u>
			<u>85,360</u>
 <i>City of Phoenix:</i>			
HOME Investment Partnership Program	14.239	98421	1,699
<i>Arizona State Department of Housing:</i>			
HOME Investment Partnership Program	14.239	325-09	<u>45,000</u>
			<u>46,699</u>
 <i>Local Initiatives Support Corporation:</i>			
NCDI Grant	14.252	40904-0026	<u>3,238</u>
 <i>City of Phoenix:</i>			
ARRA - Neighborhood Stabilization Program	14.256	132361	26,842
ARRA - Neighborhood Stabilization Program	14.256	Unknown	<u>2,428</u>
			<u>29,270</u>
<b>Total U.S. Department of Housing and Urban Development</b>			<u>323,324</u>

NEIGHBORHOOD HOUSING SERVICES OF PHOENIX, INC. AND SUBSIDIARIES  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year Ended December 31, 2011

<b>Federal Grantor / Cluster / Pass-Through Grantor / Program</b>	<b>Federal CFDA Number</b>	<b>Grantor's Number</b>	<b>Federal Expenditures</b>
<b>U.S. Department of Treasury</b>			
<i>NeighborWorks America:</i>			
Capital grant - nonexpendable	21.000	None	\$ 1,176,342
Capital grant - nonexpendable	21.000	None	10,000
Restricted - expendable	21.000	None	358,179
Operating grants - expendable	21.000	None	<u>527,875</u>
			<u>2,072,396</u> *
Community Development Financial Institution Program	21.020	091FA007888	540,946
	21.020	101FA008880	<u>721,770</u>
			<u>1,262,716</u>
<b>Total U.S. Department of Treasury</b>			<u>3,335,112</u>
<b>U.S. Department of Energy</b>			
<i>Arizona State Department of Energy:</i>			
Neighborhood Stabilization Program	81.041	None	<u>50,000</u>
<b>Total U.S. Department of Energy</b>			<u>50,000</u>
<b>Total Expenditures of Federal Awards</b>			<u><u>\$ 3,708,436</u></u>

\* Denotes major program



NEIGHBORHOOD HOUSING SERVICES  
OF PHOENIX, INC. AND SUBSIDIARIES  
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
December 31, 2011

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 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 2011 *Catalog of Federal Domestic Assistance*.

NEIGHBORHOOD HOUSING SERVICES  
 OF PHOENIX, INC. AND SUBSIDIARIES  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 December 31, 2011

SECTION I – SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unqualified  
 Internal control over financial reporting:  
 • Material weakness(es) identified?      yes   X   no  
 • Significant deficiency(ies) identified that are not  
 considered to be a material weakness(es)?      yes   X   none reported  
 Noncompliance material to financial statements noted?      yes   X   no

Federal Awards

Internal control over major programs:  
 • Material weakness(es) identified?      yes   X   no  
 • Significant deficiency(ies) identified that are  
 not considered to be a material weakness(es)?      yes   X   none reported

Type of auditors' report issued on compliance for major  
 programs: Unqualified

Any audit findings disclosed that are required to be reported  
 in accordance with section 510(a) of OMB Circular A-133?      yes   X   no

Identification of major programs:

CFDA Numbers	Name of Federal Program or Cluster
21.000	Department of Treasury – NeighborWorks America

Dollar threshold used to distinguish between Type A and  
 Type B programs: \$300,000

Auditee qualified as low-risk auditee?      yes   X   no

There were no prior year findings.

NEIGHBORHOOD HOUSING SERVICES  
OF PHOENIX, INC. AND SUBSIDIARIES  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
December 31, 2011

SECTION II – FINDINGS RELATED TO FINANCIAL STATEMENTS REPORTED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

None

SECTION III – FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AWARDS

None

SECTION IV – PRIOR YEAR FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None

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

CONSOLIDATING INFORMATION

NEIGHBORHOOD HOUSING SERVICES OF PHOENIX, INC. AND SUBSIDIARIES  
CONSOLIDATING STATEMENT OF FINANCIAL POSITION  
December 31, 2011

	Neighborhood Housing Services of Phoenix, Inc.			
	Operating Funds	Homeowner Development Funds	NeighborWorks America Loan Fund	Agency Funds
<b>ASSETS</b>				
<b>CURRENT ASSETS</b>				
Cash and cash equivalents	\$ 180,849	\$ 2,602,506	\$ 385,013	\$ 33,883
Restricted cash	851,830	-	-	-
Governmental receivables	343,354	139,153	-	-
Other receivables	146,344	-	100,000	-
Property held for re-sale	-	2,163,240	742,390	-
Prepaid expenses and deposits	39,308	1,175	-	-
Mortgage loans receivable, current	32,965	3,507	7,081	-
TOTAL CURRENT ASSETS	<u>1,594,650</u>	<u>4,909,581</u>	<u>1,234,484</u>	<u>33,883</u>
<b>PROPERTY AND EQUIPMENT, net</b>	<u>209,724</u>	<u>325,381</u>	<u>106,000</u>	<u>-</u>
<b>OTHER ASSETS</b>				
Mortgage loans receivable, net	1,651,908	631,942	521,271	-
Escrow reserve deposit	117,522	134,343	-	-
Investment in subsidiaries	-	1,419,869	-	-
TOTAL OTHER ASSETS	<u>1,769,430</u>	<u>2,186,154</u>	<u>521,271</u>	<u>-</u>
TOTAL ASSETS	<u>\$ 3,573,804</u>	<u>\$ 7,421,116</u>	<u>\$ 1,861,755</u>	<u>\$ 33,883</u>

Arizona Foreclosure Prevention Task Force	Total All Funds	Phoenix Housing Partnership, LLC	La Ciudad, LLC	Eliminations	Total
\$ 99,706	\$ 3,301,957	\$ 11,053	\$ 55,866	\$ -	\$ 3,368,876
-	851,830	-	98,112	-	949,942
50,242	532,749	-	-	-	532,749
-	246,344	-	-	(100,000)	146,344
-	2,905,630	-	-	-	2,905,630
-	40,483	-	7,032	-	47,515
-	43,553	-	-	-	43,553
149,948	7,922,546	11,053	161,010	(100,000)	7,994,609
-	641,105	-	2,349,680	-	2,990,785
-	2,805,121	-	-	-	2,805,121
-	251,865	-	-	-	251,865
-	1,419,869	-	-	(1,419,869)	-
-	4,476,855	-	-	(1,419,869)	3,056,986
\$ 149,948	\$ 13,040,506	\$ 11,053	\$ 2,510,690	\$ (1,519,869)	\$ 14,042,380

NEIGHBORHOOD HOUSING SERVICES OF PHOENIX, INC. AND SUBSIDIARIES  
CONSOLIDATING STATEMENT OF FINANCIAL POSITION (Continued)  
December 31, 2011

	Neighborhood Housing Services of Phoenix, Inc.			
	Operating Funds	Homeowner Development Funds	NeighborWorks America Loan Fund	Agency Funds
<b>LIABILITIES AND NET ASSETS</b>				
<b>CURRENT LIABILITIES</b>				
Accounts payable and accrued expenses	\$ 90,575	\$ 189,436	\$ -	\$ -
Accrued compensated absences	54,005	-	-	-
Due to City of Phoenix	-	1,688,613	-	-
Advances on contracts	-	8,913	-	-
Loan impounds and client deposits	1,525	910,966	-	-
Deferred revenue	1,013	32,454	-	-
Notes payable, current	740,730	322,140	-	-
<b>TOTAL CURRENT LIABILITIES</b>	<b>887,848</b>	<b>3,152,522</b>	<b>-</b>	<b>-</b>
NOTES PAYABLE, net of current portion	622,991	-	-	-
<b>TOTAL LIABILITIES</b>	<b>1,510,839</b>	<b>3,152,522</b>	<b>-</b>	<b>-</b>
<b>NET ASSETS</b>				
Unrestricted	2,062,965	3,745,710	624,663	-
Temporarily restricted	-	522,884	-	33,883
Permanently restricted	-	-	1,237,092	-
<b>TOTAL NET ASSETS</b>	<b>2,062,965</b>	<b>4,268,594</b>	<b>1,861,755</b>	<b>33,883</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 3,573,804</b>	<b>\$ 7,421,116</b>	<b>\$ 1,861,755</b>	<b>\$ 33,883</b>

Arizona Foreclosure Prevention Task Force	Total All Funds	Phoenix Housing Partnership, LLC	La Ciudad, LLC	Eliminations	Total
\$ 2,415	\$ 282,426	\$ 6,148	\$ 112,938	\$ (100,000)	\$ 301,512
-	54,005	-	-	-	54,005
-	1,688,613	-	-	-	1,688,613
-	8,913	-	-	-	8,913
-	912,491	-	-	-	912,491
-	33,467	-	-	-	33,467
-	1,062,870	-	-	-	1,062,870
2,415	4,042,785	6,148	112,938	(100,000)	4,061,871
-	622,991	-	982,788	-	1,605,779
2,415	4,665,776	6,148	1,095,726	(100,000)	5,667,650
-	6,433,338	-	1,414,964	(1,414,964)	6,433,338
147,533	704,300	4,905	-	(4,905)	704,300
-	1,237,092	-	-	-	1,237,092
147,533	8,374,730	4,905	1,414,964	(1,419,869)	8,374,730
\$ 149,948	\$ 13,040,506	\$ 11,053	\$ 2,510,690	\$ (1,519,869)	\$ 14,042,380



NEIGHBORHOOD HOUSING SERVICES OF PHOENIX, INC. AND SUBSIDIARIES  
CONSOLIDATING STATEMENT OF ACTIVITIES  
Year Ended December 31, 2011

	Neighborhood Housing Services of Phoenix, Inc.			
	Operating Funds	Homeowner Development Funds	NeighborWorks America Loan Fund	Agency Funds
<b>SUPPORT AND REVENUE</b>				
Public Support				
Governmental grants	\$ 395,168	\$ 1,512,046	\$ 125,000	\$ -
Nongovernmental grants and contributions	725,932	-	-	-
Contributions in-kind	6,522	11,952	-	-
<b>TOTAL SUPPORT</b>	<b>1,127,622</b>	<b>1,523,998</b>	<b>125,000</b>	<b>-</b>
<b>Revenue</b>				
Fees	1,583,066	83,609	-	-
Interest income on mortgages	114,648	35,065	31,151	-
Investment income	246	189	488	-
Loss on investment in subsidiaries	-	(217,791)	-	-
<b>TOTAL REVENUE</b>	<b>1,697,960</b>	<b>(98,928)</b>	<b>31,639</b>	<b>-</b>
<b>TOTAL SUPPORT AND REVENUE</b>	<b>2,825,582</b>	<b>1,425,070</b>	<b>156,639</b>	<b>-</b>
<b>EXPENSES</b>				
Program Services				
Homebuyer education	1,323,760	-	-	-
Loan services	579,794	132,424	-	-
Affordable housing development	224,659	366,249	240,000	-
Agency funds	-	-	-	4,557
Phoenix Housing Partnership, LLC	-	-	-	-
La Ciudad, LLC	-	-	-	-
<b>TOTAL PROGRAM SERVICES</b>	<b>2,128,213</b>	<b>498,673</b>	<b>240,000</b>	<b>4,557</b>
Supporting Services				
Management and general	605,313	9,450	-	-
Community outreach	45,746	-	-	-
Resource development	97,698	-	-	-
<b>TOTAL SUPPORTING SERVICES</b>	<b>748,757</b>	<b>9,450</b>	<b>-</b>	<b>-</b>
<b>TOTAL EXPENSES</b>	<b>2,876,970</b>	<b>508,123</b>	<b>240,000</b>	<b>4,557</b>
Change in net assets before transfers in (out)	(51,388)	916,947	(83,361)	(4,557)
Transfers in (out)	250,372	164,793	(410,109)	-
Change in net assets	198,984	1,081,740	(493,470)	(4,557)
<b>NET ASSETS, BEGINNING OF YEAR</b>	<b>1,863,981</b>	<b>3,186,854</b>	<b>2,355,225</b>	<b>38,440</b>
<b>NET ASSETS, END OF YEAR</b>	<b>\$ 2,062,965</b>	<b>\$ 4,268,594</b>	<b>\$ 1,861,755</b>	<b>\$ 33,883</b>

Arizona Foreclosure Prevention Task Force	Total All Funds	Phoenix Housing Partnership, LLC	La Ciudad, LLC	Eliminations	Total
\$ 38,583	\$ 2,070,797	\$ -	\$ -	\$ -	\$ 2,070,797
89,100	815,032	-	-	-	815,032
3,465	21,939	-	-	-	21,939
131,148	2,907,768	-	-	-	2,907,768
-	1,666,675	-	168,243	(174,453)	1,660,465
-	180,864	-	-	-	180,864
-	923	4	162	-	1,089
-	(217,791)	-	-	217,791	-
-	1,630,671	4	168,405	43,338	1,842,418
131,148	4,538,439	4	168,405	43,338	4,750,186
-	1,323,760	-	-	(65,489)	1,258,271
-	712,218	-	-	(15,492)	696,726
-	830,908	-	-	(14,847)	816,061
93,460	98,017	-	-	(309)	97,708
-	-	191,579	-	-	191,579
-	-	-	194,499	-	194,499
93,460	2,964,903	191,579	194,499	(96,137)	3,254,844
-	614,763	-	-	(73,492)	541,271
-	45,746	-	-	(2,785)	42,961
-	97,698	-	-	(1,917)	95,781
-	758,207	-	-	(78,194)	680,013
93,460	3,723,110	191,579	194,499	(174,331)	3,934,857
37,688	815,329	(191,575)	(26,094)	217,669	815,329
(5,056)	-	-	-	-	-
32,632	815,329	(191,575)	(26,094)	217,669	815,329
114,901	7,559,401	196,480	1,441,058	(1,637,538)	7,559,401
\$ 147,533	\$ 8,374,730	\$ 4,905	\$ 1,414,964	\$ (1,419,869)	\$ 8,374,730