



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

Phoenix, Arizona

CONSOLIDATED FINANCIAL STATEMENTS
AND OMB CIRCULAR A-133
SUPPLEMENTARY REPORTS

Years Ended December 31, 2014 and 2013





HENRY & HORNE, LLP
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Neighborhood Housing Services of Phoenix, Inc., Subsidiaries and Affiliate

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Neighborhood Housing Services of Phoenix, Inc., Subsidiaries and Affiliate (a nonprofit organization) which comprise the consolidated statements of financial position as of December 31, 2014 and 2013, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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 from material misstatement.

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

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

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Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Neighborhood Housing Services of Phoenix, Inc., Subsidiaries and Affiliate as of December 31, 2014 and 2013 and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

Correction of Error

As discussed in Note 19 to the consolidated financial statements, the consolidated financial statements as of December 31, 2013 have been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

Other Matters

Other Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements 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 consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 18, 2015 on our consideration of Neighborhood Housing Services of Phoenix, Inc., Subsidiaries and Affiliate's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is 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* in considering the Organization's internal control over financial reporting and compliance.

Henry + Home, LLP

Tempe, Arizona
March 18, 2015



NEIGHBORHOOD HOUSING SERVICES OF PHOENIX, INC.,
 SUBSIDIARIES AND AFFILIATE
 CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
 December 31, 2014 and 2013 (Restated)

	<u>2014</u>	<u>2013 (Restated)*</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 6,301,730	\$ 6,196,269
Restricted cash	451,796	270,782
Promises to give	150,000	-
Governmental receivables	279,744	721,415
Note receivable, current	70,348	80,738
Other receivables	119,366	51,854
Property held for re-sale	1,911,000	2,188,204
Prepaid expenses and deposits	64,586	61,379
Mortgage loans receivable, current	102,321	74,460
	<u>9,450,891</u>	<u>9,645,101</u>
PROPERTY AND EQUIPMENT, net	<u>2,498,861</u>	<u>2,820,788</u>
OTHER ASSETS		
Mortgage loans receivable, net of current portion and allowance	3,630,415	2,808,200
Note receivable, net of current portion	353,667	409,237
Escrow reserve deposit	96,148	202,240
	<u>4,080,230</u>	<u>3,419,677</u>
TOTAL ASSETS	<u>\$ 16,029,982</u>	<u>\$ 15,885,566</u>

**Reclassified to conform to current year presentation*

	<u>2014</u>	<u>2013 (Restated)</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 279,365	\$ 246,545
Line of credit	6,918	-
Accrued compensated absences	-	67,353
Due to City of Phoenix	731,962	1,114,138
Loan impounds and client deposits	61,190	986,332
Deferred revenue	3,353,426	1,488,052
Notes payable, current	20,599	1,037,524
TOTAL CURRENT LIABILITIES	<u>4,453,460</u>	<u>4,939,944</u>
NOTES PAYABLE, net of current portion	<u>1,249,175</u>	<u>657,481</u>
TOTAL LIABILITIES	<u>5,702,635</u>	<u>5,597,425</u>
NET ASSETS		
Unrestricted	6,780,268	6,965,299
Temporarily restricted	2,216,769	1,930,744
Permanently restricted	1,330,310	1,392,098
TOTAL NET ASSETS	<u>10,327,347</u>	<u>10,288,141</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 16,029,982</u>	<u>\$ 15,885,566</u>

NEIGHBORHOOD HOUSING SERVICES OF PHOENIX, INC.,
SUBSIDIARIES AND AFFILIATE
CONSOLIDATED STATEMENTS OF ACTIVITIES
Years Ended December 31, 2014 and 2013 (Restated)

	2014			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
SUPPORT AND REVENUE				
Public Support				
Governmental grants	\$ 2,820,246	\$ 148,869	\$ 150,000	\$ 3,119,115
Nongovernmental grants and contributions	513,372	163,421	-	676,793
Contributions in-kind	-	-	-	-
TOTAL SUPPORT	3,333,618	312,290	150,000	3,795,908
Revenue				
Fees	6,852,005	-	-	6,852,005
Interest income on mortgages	159,606	-	-	159,606
Investment income	23,293	-	-	23,293
Bad debt recoveries	-	-	-	-
Sale of property	-	-	-	-
TOTAL REVENUE	7,034,904	-	-	7,034,904
Net assets released from temporary restrictions	26,265	(26,265)	-	-
Net assets released from permanent restrictions	211,788	-	(211,788)	-
TOTAL SUPPORT AND REVENUE	10,606,575	286,025	(61,788)	10,830,812
EXPENSES				
Program Services				
Homebuyer counseling and education	957,127	-	-	957,127
Loan services	8,232,801	-	-	8,232,801
Affordable housing development	307,522	-	-	307,522
Agency funds	16,939	-	-	16,939
La Ciudad, LLC	125,329	-	-	125,329
TOTAL PROGRAM SERVICES	9,639,718	-	-	9,639,718
Supporting Services				
Management and general	974,790	-	-	974,790
Resource development	120,564	-	-	120,564
Community outreach	56,534	-	-	56,534
TOTAL SUPPORTING SERVICES	1,151,888	-	-	1,151,888
TOTAL EXPENSES	10,791,606	-	-	10,791,606
CHANGE IN NET ASSETS BEFORE NHS SW ACQUISITION	(185,031)	286,025	(61,788)	39,206
EXCESS OF ASSETS ACQUIRED OVER LIABILITIES ASSUMED IN THE ACQUISITION OF NHS SW	-	-	-	-
CHANGE IN NET ASSETS	(185,031)	286,025	(61,788)	39,206
NET ASSETS, BEGINNING OF YEAR, as restated	6,965,299	1,930,744	1,392,098	10,288,141
NET ASSETS, END OF YEAR	\$ 6,780,268	\$ 2,216,769	\$ 1,330,310	\$ 10,327,347

See accompanying notes.

2013 (Restated)			
Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 558,337	\$ 36,434	\$ 230,000	\$ 824,771
3,163,052	-	-	3,163,052
994	-	-	994
<u>3,722,383</u>	<u>36,434</u>	<u>230,000</u>	<u>3,988,817</u>
2,510,743	-	-	2,510,743
159,608	-	-	159,608
657	-	-	657
33,876	-	-	33,876
33,830	-	-	33,830
<u>2,738,714</u>	<u>-</u>	<u>-</u>	<u>2,738,714</u>
163,126	(163,126)	-	-
190,750	-	(190,750)	-
<u>6,814,973</u>	<u>(126,692)</u>	<u>39,250</u>	<u>6,727,531</u>
1,426,124	-	-	1,426,124
3,080,426	-	-	3,080,426
368,845	-	-	368,845
120,260	-	-	120,260
194,424	-	-	194,424
<u>5,190,079</u>	<u>-</u>	<u>-</u>	<u>5,190,079</u>
890,714	-	-	890,714
77,123	-	-	101,873
101,873	-	-	77,123
<u>1,069,710</u>	<u>-</u>	<u>-</u>	<u>1,069,710</u>
<u>6,259,789</u>	<u>-</u>	<u>-</u>	<u>6,259,789</u>
555,184	(126,692)	39,250	467,742
<u>(411,941)</u>	<u>1,322,423</u>	<u>392,098</u>	<u>1,302,580</u>
143,243	1,195,731	431,348	1,770,322
<u>6,822,056</u>	<u>735,013</u>	<u>960,750</u>	<u>8,517,819</u>
<u>\$6,965,299</u>	<u>\$ 1,930,744</u>	<u>\$ 1,392,098</u>	<u>\$10,288,141</u>

NEIGHBORHOOD HOUSING SERVICES OF PHOENIX, INC.,
 SUBSIDIARIES AND AFFILIATE
 CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
 Year Ended December 31, 2014

	PROGRAM SERVICES			
	Homebuyer Counseling and Education	Loan Services	Affordable Housing Development	AZ FC Prevention Task Force
Salaries and wages	\$ 687,356	\$ 454,573	\$ 119,772	\$ -
Employee benefits/ payroll taxes	109,544	74,721	24,353	-
TOTAL SALARIES, WAGES AND RELATED EXPENSES	796,900	529,294	144,125	-
Professional fees	15,053	201,350	6,528	7,237
Rent	25,823	-	-	-
Operating supplies	15,646	9,218	1,225	55
Property taxes	-	679	4,612	-
Telephone and utilities	7,776	4,390	1,178	453
Postage and printing	7,514	3,639	185	441
Equipment rental and maintenance	19,771	16,885	5,547	-
Advertising and marketing	11,409	784	78	2,400
Travel and training	14,498	7,861	4,310	2,500
Repairs and maintenance	4,411	8,125	59,410	-
Insurance	15,530	6,400	9,021	3,822
Dues and subscriptions	1,376	4,633	21,425	31
Other expenses	-	-	3,375	-
Interest	-	12,500	10,833	-
Subsidies to clients	-	7,601,459	4,618	-
Bad debt expense	4,218	(182,061)	21,763	-
TOTAL EXPENSES BEFORE DEPRECIATION	939,925	8,225,156	298,233	16,939
Depreciation	17,202	7,645	9,289	-
TOTAL EXPENSES	\$ 957,127	\$ 8,232,801	\$ 307,522	\$ 16,939

SUPPORTING SERVICES

La Ciudad, LLC	Subtotal	Management and General	Resource Development	Community Outreach	Subtotal	Total
\$ -	\$ 1,261,701	\$ 565,329	\$ 90,422	\$ 33,422	\$ 689,173	\$ 1,950,874
-	208,618	90,333	7,938	7,397	105,668	314,286
-	1,470,319	655,662	98,360	40,819	794,841	2,265,160
7,031	237,199	127,401	642	69	128,112	365,311
-	25,823	-	-	-	-	25,823
-	26,144	8,735	4,970	1,055	14,760	40,904
-	5,291	1,386	-	-	1,386	6,677
-	13,797	27,756	215	240	28,211	42,008
-	11,779	4,562	776	229	5,567	17,346
-	42,203	30,742	938	1,314	32,994	75,197
-	14,671	9,286	12,698	1,539	23,523	38,194
-	29,169	11,645	171	8,226	20,042	49,211
9,880	81,826	19,002	101	196	19,299	101,125
13,228	48,001	7,970	624	1,221	9,815	57,816
-	27,465	8,099	532	573	9,204	36,669
-	3,375	1,000	-	-	1,000	4,375
40,454	63,787	20,826	-	-	20,826	84,613
-	7,606,077	-	-	-	-	7,606,077
-	(156,080)	-	-	-	-	(156,080)
70,593	9,550,846	934,072	120,027	55,481	1,109,580	10,660,426
54,736	88,872	40,718	537	1,053	42,308	131,180
<u>\$ 125,329</u>	<u>\$ 9,639,718</u>	<u>\$ 974,790</u>	<u>\$ 120,564</u>	<u>\$ 56,534</u>	<u>\$ 1,151,888</u>	<u>\$ 10,791,606</u>

NEIGHBORHOOD HOUSING SERVICES OF PHOENIX, INC.,
SUBSIDIARIES AND AFFILIATE
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
Year Ended December 31, 2013

	PROGRAM SERVICES				
	Homebuyer Counseling and Education	Loan Services	Affordable Housing Development	AZ FC Prevention Task Force	La Ciudad, LLC
Salaries and wages	\$ 1,036,898	\$ 301,250	\$ 134,819	\$ -	\$ -
Employee benefits/ payroll taxes	200,598	62,477	25,731	-	-
TOTAL SALARIES, WAGES AND RELATED EXPENSES	1,237,496	363,727	160,550	-	-
Professional fees	25,010	4,187	12,215	67,402	40
Rent	12,814	-	-	-	-
Operating supplies	20,588	7,282	1,607	473	216
Property taxes	1,000	1,162	3,917	-	24,111
Telephone and utilities	5,180	3,167	1,378	-	17,540
Postage and printing	725	5,793	138	3,988	-
Equipment rental and maintenance	17,612	10,928	7,503	420	-
Advertising and marketing	5,652	402	588	35,181	-
Travel and training	17,979	10,387	3,258	150	-
Repairs and maintenance	4,809	12,248	97,881	-	6,989
Insurance	20,141	8,189	4,571	3,593	6,464
Dues and subscriptions	978	4,438	30,468	336	-
Other expenses	43,999	108	5,292	-	-
Interest	746	15,234	833	-	81,964
Subsidies to clients	-	2,625,274	22,484	-	-
Property loss reserve	-	-	-	-	-
Bad debt expense	-	-	-	8,717	-
Hospitality	1,137	-	50	-	-
TOTAL EXPENSES BEFORE DEPRECIATION	1,415,866	3,072,526	352,733	120,260	137,324
Depreciation	10,258	7,900	16,112	-	57,100
TOTAL EXPENSES	\$ 1,426,124	\$ 3,080,426	\$ 368,845	\$ 120,260	\$ 194,424

SUPPORTING SERVICES

Subtotal	Management and General	Resource Development	Community Outreach	Subtotal	Total
\$ 1,472,967	\$ 576,364	\$ 85,896	\$ 50,311	\$ 712,571	\$ 2,185,538
288,806	79,928	8,294	6,888	95,110	383,916
1,761,773	656,292	94,190	57,199	807,681	2,569,454
108,854	66,518	357	481	67,356	176,210
12,814	-	(9,744)	699	(9,045)	3,769
30,166	12,151	1,398	1,432	14,981	45,147
30,190	(16,979)	-	14	(16,965)	13,225
27,265	16,302	117	150	16,569	43,834
10,644	2,722	132	798	3,652	14,296
36,463	36,512	778	1,884	39,174	75,637
41,823	7,230	12,896	11,077	31,203	73,026
31,774	12,904	332	542	13,778	45,552
121,927	15,302	150	181	15,633	137,560
42,958	4,170	662	982	5,814	48,772
36,220	6,593	2	895	7,490	43,710
49,399	39	-	-	39	49,438
98,777	41,153	-	-	41,153	139,930
2,647,758	-	-	-	-	2,647,758
-	-	-	-	-	-
8,717	-	-	-	-	8,717
1,187	-	-	-	-	1,187
5,098,709	860,909	101,270	76,334	1,038,513	6,137,222
91,370	29,805	603	789	31,197	122,567
<u>\$ 5,190,079</u>	<u>\$ 890,714</u>	<u>\$ 101,873</u>	<u>\$ 77,123</u>	<u>\$ 1,069,710</u>	<u>\$ 6,259,789</u>

NEIGHBORHOOD HOUSING SERVICES OF PHOENIX, INC.,
 SUBSIDIARIES AND AFFILIATE
 CONSOLIDATED STATEMENTS OF CASH FLOWS
 Years Ended December 31, 2014 and 2013 (Restated)

	2014	2013 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 39,206	\$ 1,770,322
Excess of assets acquired over liabilities assumed in the acquisition of NHS SW	-	(1,302,580)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	131,180	122,567
Change in allowance for mortgage loans receivable	6,141,972	2,041,638
Change in imputed interest	28,705	50,006
Losses on sale of properties held for re-sale	317,218	1,039,423
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Promises to give	(150,000)	-
Governmental receivables	441,671	(159,008)
Other receivables	(67,512)	117,433
Prepaid expenses and deposits	(3,207)	(9,967)
Increase (decrease) in:		
Accounts payable and accrued expenses	32,820	(83,840)
Accrued compensated absences	(67,353)	(10,807)
Amounts due to City	(382,176)	(3,011,843)
Deferred revenues	1,865,374	949,595
Advances on contracts	-	(4,940)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>8,327,898</u>	<u>1,507,999</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(26,115)	(149,460)
Proceeds from sale of property and equipment	216,862	592,565
Proceeds from sale of property held for re-sale	1,365,000	4,620,147
Purchase of and improvement costs for property held for re-sale	(1,405,014)	(2,434,694)
Payments received on note receivable	65,960	-
Payments received on mortgage loans receivable	1,631,447	852,218
Proceeds received for sale of mortgage loans receivable	-	1,288,835
Mortgage loans and down payment assistance issued	(8,623,495)	(3,800,065)
Change in escrow reserve deposit	106,092	(4,825)
Change in loan impounds and client deposits	(925,142)	(53,367)
Change in restricted cash	(181,014)	597,849
Transfer of cash from NHS SW	-	353,815
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	<u>(7,775,419)</u>	<u>1,863,018</u>

See accompanying notes.

	<u>2014</u>	<u>2013 (Restated)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Net borrowings on line of credit	6,918	-
Proceeds from notes payable	604,000	288,095
Payments on notes payable	<u>(1,057,936)</u>	<u>(943,959)</u>
NET CASH USED FINANCING ACTIVITIES	<u>(447,018)</u>	<u>(655,864)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	105,461	2,715,153
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>6,196,269</u>	<u>3,481,116</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 6,301,730</u></u>	<u><u>\$ 6,196,269</u></u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	<u><u>\$ 68,744</u></u>	<u><u>\$ 89,924</u></u>



NEIGHBORHOOD HOUSING SERVICES
OF PHOENIX, INC., SUBSIDIARIES AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2014 and 2013

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES

Neighborhood Housing Services of Phoenix, Inc. (“NHSP”) is dedicated to making stable homes and communities possible by educating, building, and lending. In February 2013, NHSP obtained control of and entered into an affiliation agreement with Neighborhood Housing Services of Southwestern Maricopa County, Inc. (“NHS SW”), a nonprofit organization that provides similar services as NHSP, including homebuyer education and loan services. The intended result of this affiliation is to direct all of NHSP’s current counseling services to NHS SW, and direct all of NHS SW’s current lending portfolio and activities to NHSP. NHSP has both an economic interest in and control of NHS SW. Subsequent to December 31, 2014, NHSP officially changed its legal name to Trellis.

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 NHSP’s affiliate, Neighborhood Housing Services of Southwestern Maricopa County, Inc.; together, “the Organization”. Significant interorganization and intercompany transactions and balances have been eliminated.

Additionally, NHSP is the sole member and manager of the following entities, which had no activity during the years ended December 31, 2013 and 2014.

- NHSP Holdings, LLC
- Roberta Henry, LLC
- Target Area B, LLC
- Vista Park, LLC
- NHSP Realty, LLC
- NHSP Construction, LLC

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 Money Management: understanding credit, budgeting, goal setting, and Financial Coaching Discovery.

NEIGHBORHOOD HOUSING SERVICES
OF PHOENIX, INC., SUBSIDIARIES AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2014 and 2013

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

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 tract 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 (“the Partnership”), a wholly-owned subsidiary. In 2005, the Partnership purchased land on which to build a 65-unit single-family subdivision. There was no activity within the Partnership during the year ended December 31, 2014 and there were no account balances at December 31, 2014.

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.

In December 2009, the 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 serves as a fiscal sponsor of the Task Force. Additionally, two officers of the Organization’s Board of Directors also serve as officers of the Task Force.

Due to the Organization’s fiscal sponsorship 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.

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

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.

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.
- The NHS SW fund represents resources that are available for the general operations and certain lending activities.

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

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 per the terms of the NeighborWorks America Investment and Grant Agreement. The funds are used for neighborhood revitalization expenditures, including for acquisition and construction costs of homes and for making home loans.

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.

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, 2014 and 2013, 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.

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

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, and direct and indirect costs of housing construction 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.

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.

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

Property and Equipment

Acquisitions of property and equipment in excess of \$1,000 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.

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.

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

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. If the asset or liability has a specified term (contractual term), the Level 2 input must be observable for substantially the full term of the asset or liability. |
| 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). |

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.

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

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 Arizona's Management of Charitable Funds Act (MCFA) and its own governing documents. MCFA requires the preservation of endowment funds. When a donor's intent is not expressed, MCFA 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 MCFA.

In accordance with the NWA fund agreements, the Organization is required to invest and use the endowment to purchase housing opportunities for and provide lending activities to qualifying low to moderate-income individuals. In addition, the Organization may fund mortgage loans to low to moderate-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 donated 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, property rehabilitation 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 \$38,194 and \$73,026 for the years ended December 31, 2014 and 2013.

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

Neighborhood Housing Services of Phoenix, Inc. and Neighborhood Housing Services of Southwestern Maricopa County, Inc. qualify as tax-exempt organizations 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, these organizations qualify for the charitable contribution deduction under Section 170 of the Code and have been classified as organizations that are not private foundations. 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.

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, 2014 and 2013, 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, 2011 and 2010, 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, 2014 and 2013, 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 consolidated financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through March 18, 2015, 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, 2014 and 2013, the Organization's bank balances exceed the federally insured limits by approximately \$7,440,000 and \$5,729,000, respectively.

The Organization extends loans to 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.

Governmental receivables include amounts due from three funding sources that represent 75% and 91% of the total governmental receivables balance for the years ended December 31, 2014 and 2013, respectively. Concentrations of credit risk with governmental receivables are limited due to the Organization's relationships and collection history with these funding sources.

NOTE 3 GOVERNMENTAL RECEIVABLES

At December 31, 2014 and 2013 governmental receivables consisted of the following:

	2014	2013
City of Phoenix	\$ 91,544	\$ 525,031
Attorney General	124,775	117,928
Arizona Department of Housing	34,500	15,735
Other	<u>28,925</u>	<u>62,721</u>
Total governmental receivables	<u>\$ 279,744</u>	<u>\$ 721,415</u>

At December 31, 2014 and 2013, management considers governmental receivables to be fully collectible; therefore, no allowance has been recorded.

NEIGHBORHOOD HOUSING SERVICES
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 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 4 NOTE RECEIVABLE

In May 2013, NHS SW sold an administration building and entered into a note agreement with the buyer in the amount of \$495,000 for a portion of the sales amount. In accordance with the terms of the agreement, the buyer will make monthly payments to NHS SW in the amount of \$3,181, including principal and interest at 6%, and also began paying \$55,000 on an annual basis in May 2014. Principal amounts expected to be received for the years ended December 31, under the terms of this agreement are as follows:

Years Ending December 31,

2015	\$ 70,348
2016	74,687
2017	79,293
2018	<u>199,687</u>
Total	<u>\$ 424,015</u>

NOTE 5 PROPERTY HELD FOR RE-SALE

The Organization purchases in-fill lots for construction of new single-family homes under various programs. At December 31, 2014, the Organization held 6 completed homes and 43 parcels of land. At December 31, 2013, the Organization held 6 completed homes, 3 homes under construction, and 25 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.

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NOTE 5 PROPERTY HELD FOR RE-SALE (Continued)

The following table summarizes fair value at December 31, 2014:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Property held for re-sale	<u>\$ -</u>	<u>\$ 1,911,000</u>	<u>\$ -</u>	<u>\$ 1,911,000</u>

The following table summarizes fair value at December 31, 2013:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Property held for re-sale	<u>\$ -</u>	<u>\$ 2,188,204</u>	<u>\$ -</u>	<u>\$ 2,188,204</u>

NOTE 6 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 1.0% to 8.5%. The majority of these loans carry interest rates in the range of 4.0% to 6.0%. Deferred and forgivable loans are non-interest bearing. Forgivable loans are generally provided for down payment assistance. 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 pay either the original assistance amount or the remaining prorated assistance amount which has not been forgiven. Accordingly, 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.

NEIGHBORHOOD HOUSING SERVICES
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NOTE 6 MORTGAGE LOANS RECEIVABLE (Continued)

Mortgage loans consisted of the following at December 31:

	<u>2014</u>	<u>2013</u>
<u>Amortizing loans:</u>		
Phoenix Family Housing Fund	\$ 888,936	\$ 125,198
Operating Reserve	148,406	261,253
Homeowner Development Fund	1,599,448	1,486,715
NWA Loan Fund	503,952	681,474
CDBG	<u>222,671</u>	<u>206,717</u>
	<u>3,363,413</u>	<u>2,761,357</u>
 <u>Deferred loans (due on sale):</u>		
Homeowner development funds	422,780	490,281
NWA loan fund	<u>290,968</u>	<u>214,509</u>
	<u>713,748</u>	<u>704,790</u>
 <u>Forgivable loans:</u>		
Homeowner development funds	11,891,495	5,519,728
Operating Reserve	61,228	61,228
CDBG	<u>345,801</u>	<u>351,534</u>
	12,298,524	5,932,490
Total loans receivable	16,375,685	9,398,637
Less: allowance for uncollectible mortgage loans	<u>(12,642,949)</u>	<u>(6,515,977)</u>
Net mortgage loans receivable	3,732,736	2,882,660
Current portion	<u>(102,321)</u>	<u>(74,460)</u>
	<u>\$ 3,630,415</u>	<u>\$ 2,808,200</u>

NEIGHBORHOOD HOUSING SERVICES
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NOTE 6 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>
2015	\$ 102,321
2016	107,234
2017	104,817
2018	105,469
2019	110,049
Thereafter	<u>2,833,523</u>
Total	<u>\$ 3,363,413</u>

The activity for the allowance account for uncollectible mortgage loans during 2013 and 2014 is as follows:

Allowance, December 31, 2012	\$ 4,050,628
NHS SW Affiliation	747,126
Write-offs of uncollectible amounts	(267,313)
Additions to allowance, forgivable loans	<u>1,985,536</u>
Allowance, December 31, 2013	6,515,977
Write-offs of uncollectible amounts	(15,000)
Additions to allowance, forgivable loans	<u>6,141,972</u>
Allowance, December 31, 2014	<u>\$ 12,642,949</u>

NEIGHBORHOOD HOUSING SERVICES
 OF PHOENIX, INC., SUBSIDIARIES AND AFFILIATE
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NOTE 6 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.

The ending balances in the allowance for uncollectible mortgage loans attributed to loans evaluated individually and loans evaluated collectively was as follows at December 31:

	<u>2014</u>	<u>2013</u>
Loans evaluated individually (impaired)	\$ 22,606	\$ 66,698
Loans evaluated collectively	<u>12,620,343</u>	<u>6,449,279</u>
Allowance for uncollectible mortgage loans balance	<u>\$ 12,642,949</u>	<u>\$ 6,515,977</u>

The balances of gross mortgage loans receivable evaluated individually and loans evaluated collectively were as follows at December 31:

	<u>2014</u>	<u>2013</u>
Loans evaluated individually (impaired)	\$ 307,891	\$ 464,118
Loans evaluated collectively	<u>16,067,794</u>	<u>8,934,519</u>
Ending balance	<u>\$ 16,375,685</u>	<u>\$ 9,398,637</u>

As of December 31, 2014, amortizing loans were delinquent as follows:

	<u>Number of Loans</u>	<u>Operating Funds</u>	<u>NWA Loan Funds</u>	<u>NHS SW</u>	<u>Total</u>
30 to 59 days	4	\$ 163,935	\$ 23,592	\$ 14,434	\$ 201,961
60 to 89 days	4	255,579	231,913	-	487,492
Over 90 days	<u>6</u>	<u>201,953</u>	<u>-</u>	<u>13,091</u>	<u>215,044</u>
Total	<u>14</u>	<u>\$ 621,467</u>	<u>\$ 255,505</u>	<u>\$ 27,525</u>	<u>\$ 904,497</u>

NEIGHBORHOOD HOUSING SERVICES
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NOTE 6 MORTGAGE LOANS RECEIVABLE (Continued)

As of December 31, 2013, amortizing loans were delinquent as follows:

	<u>Number of Loans</u>	<u>Operating Funds</u>	<u>NWA Loan Funds</u>	<u>NHS SW</u>	<u>Total</u>
30 to 59 days	4	\$ 19,778	\$ -	\$ 2,027	\$ 21,805
Over 90 days	<u>6</u>	<u>258,581</u>	<u>119,307</u>	<u>86,260</u>	<u>464,148</u>
Total	<u>10</u>	<u>\$ 278,359</u>	<u>\$ 119,307</u>	<u>\$ 88,287</u>	<u>\$ 485,953</u>

At December 31, 2014 and 2013, the total recorded investment in impaired loans amounted to \$307,891 and \$464,118, respectively. For the years ended December 31, 2014 and 2013, the average recorded investment in impaired loans was approximately \$61,600 and \$77,400, respectively. Interest income on impaired loans of \$13,146 and \$16,838 was recognized for cash payments received in 2014 and 2013.

NOTE 7 PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31:

	<u>2014</u>	<u>2013</u>
Land	\$ 473,964	\$ 473,964
Office building	2,174,213	2,174,213
Furniture, fixtures and equipment	215,544	198,431
Leasehold improvements	225,848	221,329
Rental properties	<u>148,575</u>	<u>387,067</u>
Total cost and donated value	3,238,144	3,455,004
Accumulated depreciation	<u>(739,283)</u>	<u>(634,216)</u>
Property and equipment, net	<u>\$ 2,498,861</u>	<u>\$ 2,820,788</u>

Depreciation expense charged to operations was \$131,180 and \$122,567 for the years ended December 31, 2014 and 2013.

NEIGHBORHOOD HOUSING SERVICES
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NOTE 8 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 2013 the Organization sold approximately \$1,288,000 of mortgage loans. The Organization did not realize a gain and did not intend to realize a gain from the sale of these mortgage loans. The Organization was required to make escrow reserve deposits of \$96,148 and \$202,240, respectively, to be used in the event of any loan defaults, which includes deposits from sales of mortgage loans made prior to the years ended December 31, 2014 and 2013. 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, 2014 and 2013, there were no loans outstanding that were specifically held for sale.

NOTE 9 DUE TO CITY OF PHOENIX

At December 31, 2014 and 2013, the Organization had a liability of \$731,962 and \$1,114,138, respectively, due to the City of Phoenix. The majority of 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. In accordance with the agreement with the City, the City absorbs any gains or losses generated upon the sales of these properties.

NOTE 10 LINE OF CREDIT

The Organization has a revolving line of credit with a financial institution which provides for maximum borrowings of \$500,000. The line of credit bears interest at the 30 day LIBOR rate plus 3.50%. The line of credit is collateralized by real estate properties owned by the Organization and classified as property held for sale.

NEIGHBORHOOD HOUSING SERVICES
OF PHOENIX, INC., SUBSIDIARIES AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2014 and 2013

NOTE 11 NOTES PAYABLE

Notes payable at December 31, 2014 and 2013 consist of the following:

	2014		2013	
	Maturity Value	Discount	Current Note Balance	Note Balance
\$604,000 face amount note payable to a bank payable in monthly installments of principal and interest at 3.97%. The note is due May 1, 2019 and is secured by an office building.	\$ 604,000	\$ -	\$ 591,504	\$ -
\$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 was paid in full during 2014 and was secured by an office building.	-	-	-	1,037,524
\$250,000 face amount note payable to a bank in quarterly installments of interest only at 2%. Interest is imputed at 3.25% in accordance with below-market-rate interest rules. The note is due October 31, 2017 and is unsecured.	250,000	9,025	240,975	238,088
\$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	32,980	217,020	209,262

NEIGHBORHOOD HOUSING SERVICES
 OF PHOENIX, INC., SUBSIDIARIES AND AFFILIATE
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 December 31, 2014 and 2013

NOTE 11 NOTES PAYABLE (Continued)

	2014		2013	
	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 8.25% in accordance with below-market-rate interest rules. The note is due June 5, 2017 and is unsecured.	250,000	29,725	220,275	210,131
Total notes payable	\$1,354,000	\$ 71,730	\$1,269,774	\$1,695,005
Current portion			20,599	1,037,524
Long-term portion			\$1,249,175	\$ 657,481

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

Years Ending December 31,

2015	\$ 20,599
2016	21,379
2017	483,570
2018	240,255
2019	503,971
	\$1,269,774

Total interest on long-term debt for the year ended December 31, 2014 was \$84,614, including approximately \$29,000 for amortization of imputed interest. Total interest on long-term debt for the year ended December 31, 2013 was \$130,885, including \$50,000 for amortization of imputed interest.

NEIGHBORHOOD HOUSING SERVICES
 OF PHOENIX, INC., SUBSIDIARIES AND AFFILIATE
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 December 31, 2014 and 2013

NOTE 12 TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets were restricted for the following purposes as of December 31:

	<u>2014</u>	<u>2013</u>
<u>Operating funds:</u>		
Performing various activities related to the Organization's operating budget, including community impact studies and technology, finance and affiliation support.	\$ 148,869	\$ -
<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.	1,957,665	1,807,665
<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.	100,000	100,000
<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.	<u>10,235</u>	<u>23,079</u>
Total temporarily restricted net assets	<u>\$ 2,216,769</u>	<u>\$ 1,930,744</u>

NEIGHBORHOOD HOUSING SERVICES
 OF PHOENIX, INC., SUBSIDIARIES AND AFFILIATE
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 December 31, 2014 and 2013

NOTE 12 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, 2014 and 2013, temporarily restricted net assets were released from program restrictions as follows:

	<u>2014</u>	<u>2013</u>
<u>AZ Foreclosure Prevention Task Force funds:</u>		
Foreclosure prevention activities	\$ 26,265	\$ 129,584
<u>Agency funds:</u>		
Management fees incurred	-	20,461
Other	<u>-</u>	<u>13,081</u>
Total temporarily restricted net assets released from restrictions	<u>\$ 26,265</u>	<u>\$ 163,126</u>

NEIGHBORHOOD HOUSING SERVICES
OF PHOENIX, INC., SUBSIDIARIES AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2014 and 2013

NOTE 13 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, 2014 and 2013 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, December 31, 2012	\$ -	\$ 100,000	\$ 960,750	\$ 1,060,750
Affiliation with NHS SW	-	-	392,098	392,098
Contributions	-	-	230,000	230,000
Interest income	-	29,388	-	29,388
Appropriated for expenditures	(190,750)	(29,388)	-	(220,138)
Capital conversion of endowment net assets	<u>190,750</u>	<u>-</u>	<u>(190,750)</u>	<u>-</u>
Endowment net assets, December 31, 2013	<u>\$ -</u>	<u>\$ 100,000</u>	<u>\$ 1,392,098</u>	<u>\$ 1,492,098</u>
Contributions	-	-	150,000	150,000
Interest income	-	27,212	-	27,212
Appropriated for expenditures	(211,788)	(27,212)	-	(239,000)
Capital conversion of endowment net assets	<u>211,788</u>	<u>-</u>	<u>(211,788)</u>	<u>-</u>
Endowment net assets, December 31, 2014	<u>\$ -</u>	<u>\$ 100,000</u>	<u>\$ 1,330,310</u>	<u>\$ 1,430,310</u>

NEIGHBORHOOD HOUSING SERVICES
 OF PHOENIX, INC., SUBSIDIARIES AND AFFILIATE
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 December 31, 2014 and 2013

NOTE 13 PERMANENTLY RESTRICTED NET ASSETS (Continued)

During the years ended December 31, 2014 and 2013, NeighborWorks America converted \$211,788 and \$190,750, respectively, of the endowment funds to be used for operating activities, thereby releasing the funds from restriction.

NOTE 14 ACQUISITION

On February 15, 2013, NHSP acquired NHS SW by obtaining control through the authority to appoint the directors of the board of NHS SW. This acquisition was for the purpose of more effectively and efficiently performing the charitable mission of each organization. The result of this acquisition will be to direct all of NHSP's counseling services to NHS SW, and to direct all of NHS SW's lending portfolio and lending activities to NHSP.

On the statement of activities, the inherent contribution received was recorded as the excess of the fair value of net assets acquired in the acquisition of NHS SW and increased unrestricted net assets. The amount includes the following:

Cash	\$ 353,814
Receivables	1,669,753
Allowance for uncollectible accounts	(747,126)
Property held for resale	97,206
Property and equipment	598,429
Accounts payable and accrued expenses	(50,543)
Long term debt	<u>(618,953)</u>
	<u><u>\$ 1,302,580</u></u>

NEIGHBORHOOD HOUSING SERVICES
OF PHOENIX, INC., SUBSIDIARIES AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2014 and 2013

NOTE 15 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, 2014 are as follows:

Years Ending December 31,

2015	\$	11,100
2016		11,100
2017		<u>3,213</u>
	\$	<u><u>25,413</u></u>

NEIGHBORHOOD HOUSING SERVICES
 OF PHOENIX, INC., SUBSIDIARIES AND AFFILIATE
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 December 31, 2014 and 2013

NOTE 16 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 Audits of HUD Programs*.

The calculation of net worth is as follows for the years ending December 31:

	<u>2014</u>	<u>2013 (Restated)</u>
Unrestricted net assets per the consolidated statement of financial position of Neighborhood Housing Services	\$ 6,780,268	\$ 6,965,299
Unacceptable assets	<u>-</u>	<u>-</u>
Adjusted net worth for HUD retirement programs	6,780,268	6,965,299
Amount required by HUD	<u>63,000</u>	<u>63,000</u>
Adjusted net worth above HUD requirements	<u><u>\$ 6,717,268</u></u>	<u><u>\$ 6,902,299</u></u>

NOTE 17 ECONOMIC DEPENDENCY

During the years ended December 31, 2014 and 2013, the Organization received significant amounts of revenue either directly or indirectly from NWA, which approximated 28% and 63% of total support and revenue. Loss of this revenue in the future could have a material effect on the programs offered by the Organization.

NOTE 18 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 \$17,500. 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 years ended December 31, 2014 and 2013, the Organization made matching contributions of \$16,046 and \$8,000.

NEIGHBORHOOD HOUSING SERVICES
 OF PHOENIX, INC., SUBSIDIARIES AND AFFILIATE
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 December 31, 2014 and 2013

NOTE 19 RESTATEMENTS

As a result of management's internal review of the Organization's revenue recognition policies, the Organization determined that net assets had been overstated and deferred revenue had been understated at December 31, 2013 as follows.

It was determined by management that the Organization had made an error in properly recognizing revenue related to a particular contract during the year ended December 31, 2013. Management discovered that a portion of the funds received under the contract in the year ended December 31, 2013 was incorrectly recorded as revenue. It should have been recorded as a liability in deferred revenue. As a result of this discovery, the Organization restated the December 31, 2013 financial statements to properly reflect the amount of \$208,161 as deferred revenue in the proper period.

This correction resulted in total net assets being overstated in the amount of \$208,161 as of December 31, 2013. The restatement has no effect on the results of current year activities. The balances of unrestricted net assets were adjusted as of December 31, 2013 to correct these errors as follows:

	<u>As previously reported</u>	<u>Restated</u>	<u>Difference</u>
Deferred revenue	\$ 1,279,891	\$ 1,488,052	\$ 208,161
Nongovernmental grants and contributions	\$ 3,371,213	\$ 3,163,052	\$ (208,161)
Change in net assets	\$ 1,978,483	\$ 1,770,322	\$ (208,161)
Unrestricted net assets at December 31, 2013	\$ 7,173,460	\$ 6,965,299	\$ (208,161)



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

CONSOLIDATING INFORMATION

NEIGHBORHOOD HOUSING SERVICES OF PHOENIX, INC.,
SUBSIDIARIES AND AFFILIATE
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
December 31, 2014

	Neighborhood Housing Services of Phoenix, Inc				
	Operating Funds	Homeowner Development Funds	NeighborWorks America Loan Fund	Arizona Foreclosure Prevention Task Force	Total All Funds
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	\$ 1,322,864	\$ 3,416,853	\$ 1,204,063	\$ 13,499	\$ 5,957,279
Restricted cash	451,796	-	-	-	451,796
Promises to give	150,000	-	-	-	150,000
Governmental receivables	256,753	15,524	-	7,467	279,744
Note receivable, current portion	-	-	-	-	-
Other receivables	49,961	43,839	159,886	-	253,686
Property held for re-sale	54,603	1,343,100	450,000	-	1,847,703
Prepaid expenses and deposits	43,821	2,748	-	-	46,569
Mortgage loans receivable, current	-	42,812	10,729	-	53,541
TOTAL CURRENT ASSETS	2,329,798	4,864,876	1,824,678	20,966	9,040,318
PROPERTY AND EQUIPMENT, net	289,438	129,517	-	-	418,955
OTHER ASSETS					
Mortgage loans receivable, net	360,209	1,764,418	711,870	-	2,836,497
Note receivable, net	200,505	-	-	-	200,505
Escrow reserve deposit	15,836	53,111	27,201	-	96,148
Investment in subsidiaries	-	1,460,303	-	-	1,460,303
TOTAL OTHER ASSETS	576,550	3,277,832	739,071	-	4,593,453
TOTAL ASSETS	\$ 3,195,786	\$ 8,272,225	\$ 2,563,749	\$ 20,966	\$ 14,052,726

<u>La Ciudad, LLC</u>	<u>NHS SW</u>	<u>Eliminations</u>	<u>Total</u>
\$ 63,739	\$ 280,712	\$ -	\$ 6,301,730
-	-	-	451,796
-	-	-	150,000
-	-	-	279,744
-	70,348	-	70,348
10,440	13,440	(158,200)	119,366
-	63,297	-	1,911,000
16,388	1,629	-	64,586
-	48,780	-	102,321
<u>90,567</u>	<u>478,206</u>	<u>(158,200)</u>	<u>9,450,891</u>
<u>2,061,240</u>	<u>18,666</u>	<u>-</u>	<u>2,498,861</u>
-	793,918	-	3,630,415
-	353,667	(200,505)	353,667
-	-	-	96,148
-	-	(1,460,303)	-
-	1,147,585	(1,660,808)	4,080,230
<u>\$ 2,151,807</u>	<u>\$ 1,644,457</u>	<u>\$ (1,819,008)</u>	<u>\$ 16,029,982</u>

NEIGHBORHOOD HOUSING SERVICES OF PHOENIX, INC.,
 SUBSIDIARIES AND AFFILIATE
 CONSOLIDATING STATEMENT OF FINANCIAL POSITION (Continued)
 December 31, 2014

	Neighborhood Housing Services of Phoenix, Inc				
	Operating Funds	Homeowner Development Funds	NeighborWorks America Loan Fund	Arizona Foreclosure Prevention Task Force	Total All Funds
LIABILITIES AND NET ASSETS					
CURRENT LIABILITIES					
Accounts payable and accrued expenses	\$ 201,906	\$ 58,114	\$ -	\$ 1,406	\$ 261,426
Line of credit	-	6,918	-	-	6,918
Accrued compensated absences	-	-	-	-	-
Due to City of Phoenix	-	731,962	-	-	731,962
Loan impounds and client deposits	-	53,626	-	-	53,626
Deferred revenue	444,709	2,908,717	-	-	3,353,426
Notes payable, current	-	-	-	-	-
TOTAL CURRENT LIABILITIES	646,615	3,759,337	-	1,406	4,407,358
NOTES PAYABLE, net of current portion	437,295	240,975	-	-	678,270
TOTAL LIABILITIES	1,083,910	4,000,312	-	1,406	5,085,628
NET ASSETS (DEFICIT)					
Unrestricted	1,963,007	3,639,847	1,133,439	9,325	6,745,618
Temporarily restricted	148,869	632,066	100,000	10,235	891,170
Permanently restricted	-	-	1,330,310	-	1,330,310
TOTAL NET ASSETS (DEFICIT)	2,111,876	4,271,913	2,563,749	19,560	8,967,098
TOTAL LIABILITIES AND NET ASSETS (DEFICIT)	\$ 3,195,786	\$ 8,272,225	\$ 2,563,749	\$ 20,966	\$ 14,052,726

<u>La Ciudad, LLC</u>	<u>NHS SW</u>	<u>Eliminations</u>	<u>Total</u>
\$ 100,000	\$ 76,139	\$ (158,200)	\$ 279,365
-	-	-	6,918
-	-	-	-
-	-	-	731,962
-	7,564	-	61,190
-	-	-	3,353,426
<u>20,599</u>	<u>-</u>	<u>-</u>	<u>20,599</u>
120,599	83,703	(158,200)	4,453,460
<u>570,905</u>	<u>200,505</u>	<u>(200,505)</u>	<u>1,249,175</u>
<u>691,504</u>	<u>284,208</u>	<u>(358,705)</u>	<u>5,702,635</u>
1,460,303	34,650	(1,460,303)	6,780,268
-	1,325,599	-	2,216,769
-	-	-	1,330,310
<u>1,460,303</u>	<u>1,360,249</u>	<u>(1,460,303)</u>	<u>10,327,347</u>
<u>\$ 2,151,807</u>	<u>\$ 1,644,457</u>	<u>\$ (1,819,008)</u>	<u>\$ 16,029,982</u>

NEIGHBORHOOD HOUSING SERVICES OF PHOENIX, INC.,
 SUBSIDIARIES AND AFFILIATE
 CONSOLIDATING STATEMENT OF ACTIVITIES
 Year Ended December 31, 2014

	Neighborhood Housing Services of Phoenix, Inc.				
	Operating Funds	Homeowner Development Funds	NeighborWorks America Loan Fund	Arizona Foreclosure Prevention Task Force	Total All Funds
SUPPORT AND REVENUE					
Public Support					
Governmental grants	\$ 456,694	\$ 2,499,000	\$ 150,000	\$ 13,421	\$ 3,119,115
Nongovernmental grants and contributions	639,043	37,000	58,200	-	734,243
Contributions in-kind	-	-	-	-	-
TOTAL SUPPORT	1,095,737	2,536,000	208,200	13,421	3,853,358
Revenue					
Fees	1,597,230	5,255,615	-	-	6,852,845
Interest income on mortgages	45,452	31,762	17,596	-	94,810
Investment income	10,804	352	253	-	11,409
Bad debt recoveries	-	-	-	-	-
Sale of property	-	-	-	-	-
Gain on investment in subsidiaries	-	68,265	-	-	68,265
TOTAL REVENUE	1,653,486	5,355,994	17,849	-	7,027,329
TOTAL SUPPORT AND REVENUE	2,749,223	7,891,994	226,049	13,421	10,880,687
EXPENSES					
Program Services					
Homebuyer education	1,004,495	-	-	-	1,004,495
Loan services	924,349	7,861,262	(157,980)	-	8,627,631
Affordable housing development	209,750	98,393	-	-	308,143
Agency funds	-	-	-	16,939	16,939
La Ciudad, LLC	-	-	-	-	-
TOTAL PROGRAM SERVICES	2,138,594	7,959,655	(157,980)	16,939	9,957,208
Supporting Services					
Management and general	1,048,870	2,883	-	-	1,051,753
Resource development	122,037	-	-	-	122,037
Community outreach	59,425	-	-	-	59,425
TOTAL SUPPORTING SERVICES	1,230,332	2,883	-	-	1,233,215
TOTAL EXPENSES	3,368,926	7,962,538	(157,980)	16,939	11,190,423
Change in net assets before transfers in (out)	(619,703)	(70,544)	384,029	(3,518)	(309,736)
Transfers in (out)	3,581	13,767	254,949	-	272,297
CHANGE IN NET ASSETS	(616,122)	(56,777)	638,978	(3,518)	(37,439)
NET ASSETS (DEFICIT), BEGINNING OF YEAR as restated	2,727,998	4,328,690	1,924,771	23,078	9,004,537
NET ASSETS (DEFICIT), END OF YEAR	\$ 2,111,876	\$ 4,271,913	\$ 2,563,749	\$ 19,560	\$ 8,967,098

La Ciudad, LLC	NHS SW	Eliminations	Total
\$ -	\$ -	\$ -	\$ 3,119,115
-	273,547	(330,997)	676,793
-	-	-	-
-	273,547	(330,997)	3,795,908
184,150	1,860	(186,850)	6,852,005
-	77,631	(12,835)	159,606
9,444	2,440	-	23,293
-	-	-	-
-	-	-	-
-	-	(68,265)	-
193,594	81,931	(267,950)	7,034,904
193,594	355,478	(598,947)	10,830,812
-	-	(47,368)	957,127
-	(42,973)	(351,857)	8,232,801
-	6,333	(6,954)	307,522
-	-	-	16,939
125,329	-	-	125,329
125,329	(36,640)	(406,179)	9,639,718
-	43,176	(120,139)	974,790
-	-	(1,473)	120,564
-	-	(2,891)	56,534
-	43,176	(124,503)	1,151,888
125,329	6,536	(530,682)	10,791,606
68,265	348,942	(68,265)	39,206
-	(272,297)	-	-
68,265	76,645	(68,265)	39,206
1,392,038	1,283,604	(1,392,038)	10,288,141
<u>\$ 1,460,303</u>	<u>\$ 1,360,249</u>	<u>\$ (1,460,303)</u>	<u>\$ 10,327,347</u>



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

OMB CIRCULAR A-133
SUPPLEMENTARY REPORTS

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HENRY & HORNE, LLP
Certified Public Accountants

INDEPENDENT AUDITORS' 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., Subsidiaries and Affiliate
Phoenix, Arizona

We have audited, in accordance with the 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, the consolidated financial statements of Neighborhood Housing Services of Phoenix, Inc. (a nonprofit organization), Subsidiaries and Affiliate, which comprise the consolidated statement of financial position as of December 31, 2014, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated March 18, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered Neighborhood Housing Services of Phoenix, Inc., Subsidiaries and Affiliate's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of Neighborhood Housing Services of Phoenix, Inc., Subsidiaries and Affiliate's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2014-001 and 2014-002 to be material weaknesses.

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Casa Grande, AZ 85122-2950
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Fax (520) 426-9432

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Neighborhood Housing Services of Phoenix, Inc., Subsidiaries and Affiliate's consolidated 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*.

Neighborhood Housing Services of Phoenix, Inc., Subsidiaries and Affiliate's responses to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Neighborhood Housing Services of Phoenix, Inc., Subsidiaries and Affiliate's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Henry + Horne, LLP

Tempe, Arizona
March 18, 2015



HENRY & HORNE, LLP
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

Board of Directors
Neighborhood Housing Services of Phoenix, Inc.

Report on Compliance for Each Major Federal Program

We have audited Neighborhood Housing Services of Phoenix, Inc.'s 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.'s major federal programs for the year ended December 31, 2014. Neighborhood Housing Services of Phoenix, Inc.'s major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Neighborhood Housing Services of Phoenix, Inc.'s major federal programs based on our audit of the types of compliance requirements referred to above. 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.'s 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 on compliance for each major federal program. Our audit does not provide a legal determination on Neighborhood Housing Services of Phoenix, Inc.'s compliance.

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Opinion on Each Major Federal Program

In our opinion, Neighborhood Housing Services of Phoenix, Inc. 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, 2014.

Report on Internal Control Over Compliance

Management of Neighborhood Housing Services of Phoenix, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit, we considered Neighborhood Housing Services of Phoenix, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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.'s 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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2014-003 and 2014-004 that we consider to be significant deficiencies.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Henry + Home, LLP

Tempe, Arizona
March 18, 2015

NEIGHBORHOOD HOUSING SERVICES
OF PHOENIX, INC., SUBSIDIARIES AND AFFILIATE
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
December 31, 2014

NOTE 1 BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Neighborhood Housing Services of Phoenix, Inc. 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 2014 *Catalog of Federal Domestic Assistance*.

NEIGHBORHOOD HOUSING SERVICES OF PHOENIX, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended December 31, 2014

<u>Federal Grantor / Cluster / Pass-Through Grantor / Program</u>	<u>Federal CFDA Number</u>	<u>Grantor's Number</u>	<u>Federal Expenditures</u>
U.S. Department of Housing and Urban Development			
CDBG - Entitlement Grants Cluster			
<i>Passed through the City of Phoenix:</i>			
Community Development Block Grant	14.218	134808	\$ 4,034
<i>Passed through Maricopa County:</i>			
Community Development Block Grant	14.218	C-22-13	<u>41,425</u>
			45,459
<i>Passed through the City of Glendale:</i>			
Neighborhood Stabilization Program	14.253	09-14	<u>667</u>
Total CDBG - Entitlement Grants Cluster			<u>46,126</u>
Housing Counseling Assistance Program			
<i>NeighborWorks America</i>			
Housing Counseling Assistance Program	14.169		<u>60,120</u>
Capacity Building for Community Development and Affordable Housing			
<i>Local Initiatives Support Corporation:</i>			
NCDI Grant	14.252	40904-0030	<u>13,652</u>
Housing Finance Agencies Risk Sharing			
<i>Arizona State Department of Housing</i>			
Hardest Hit Program	14.188	2010-02	<u>118,830</u>
Neighborhood Stabilization Program			
<i>Chicanos Por La Causa:</i>			
Neighborhood Stabilization Program	14.256	Unknown	<u>17,250</u>
<i>City of Surprise:</i>			
Neighborhood Stabilization Program	14.225	COS 09-017	<u>16,081</u>
Total U.S. Department of Housing and Urban Development			<u>272,059</u>
U.S. Department of Treasury			
<i>NeighborWorks America:</i>			
Capital grant - nonexpendable	21.000	None	1,330,310
Restricted - expendable	21.000	None	150,000
Operating grants - expendable	21.000	None	<u>338,846</u>
Total U.S. Department of Treasury			<u>1,819,156</u> *
Total Expenditures of Federal Awards			<u>\$ 2,091,215</u>

* Denotes major program
See accompanying notes.

NEIGHBORHOOD HOUSING SERVICES
 OF PHOENIX, INC., SUBSIDIARIES AND AFFILIATE
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 December 31, 2014

SECTION I – SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unmodified
 Internal control over financial reporting:
 • Material weakness(es) identified? X yes 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)? X yes none reported

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

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? X yes no

There were no prior year findings.

NEIGHBORHOOD HOUSING SERVICES
OF PHOENIX, INC., SUBSIDIARIES AND AFFILIATE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
December 31, 2014

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

2014-001 – Revenue Recognition

Condition: Certain revenue was not correctly recognized in the period it was earned, resulting in a prior period adjustment. In addition, a determination of classification of revenue as either contributions or exchange transactions (fees-for-service) is not always completed on a consistent basis, particularly with grants.

Criteria: Internal controls should be in place to ensure revenue is properly recognized and classified. Also, an analysis of grant agreements should be completed to determine whether the revenue meets the definition of a contribution, which may be restricted and/or conditional, or an exchange transaction.

Cause: The Organization did not have consistent controls in place to ensure revenue is properly recognized and reported on the financial statements.

Effect: The misclassification resulted in a prior period adjustment to reduce revenue in the prior year by \$208,161. The determination of revenue as contributions or exchange transactions is important because the classification determines the timing of when the revenue is recognized.

Recommendation: We recommend that a process be implemented to analyze each new grant agreement to identify whether the revenues are contributions or exchange transactions. In addition, this analysis should identify any conditions or restrictions if the revenue is determined to be contribution revenue. We also recommend that the individual performing this analysis has a good understanding in making these determinations.

View of Responsible Officials and Planned Corrective Actions: Though the Organization agrees with this finding, the classification and recognition of revenue from this particular contract was not straight forward.

Nevertheless, all new program revenue sources will now be subjected to a consistent and documented revenue classification and recognition analysis prior to program implementation. Our Director of Finance will utilize the revenue recognition guidance and tools provided by our auditor to determine whether revenue should be classified and recorded as a contribution or an exchange transaction. Per this guidance, contributions will be recognized as revenue when we received. If there are no restrictions on the contribution, it will be recognized as an unrestricted contribution in the period it was received. If there is any time or purpose restriction, then the revenue will be identified as a temporarily restricted contribution. As for exchange transactions or fee-for-service activities, revenue will be recognized when earned.

NEIGHBORHOOD HOUSING SERVICES
OF PHOENIX, INC., SUBSIDIARIES AND AFFILIATE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
December 31, 2014

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

2014-002 – Allowance for Uncollectible Mortgage Loans

Condition: The Organization has a methodology for determining an allowance to its mortgage loan portfolios, based on a percentage of the gross receivables. A 10% allowance was recorded for the deferred loan portfolio for NHSP, and a 100% allowance was recorded for the deferred loan portfolio for NHS SW. It is acknowledged that Organization management has appropriate reasoning and support for the determination of the 10% allowance for NHSP deferred loans.

The NHS SW deferred loans were part of the acquisition in the prior year. The information necessary to provide the basis for the reasoning for the 100% allowance on the NHS SW deferred loans portfolio was not available at the time of audit procedures. Upon inquiry during the audit process, management was able to obtain the information necessary, however, this information to support the basis for the allowance was not available throughout 2014, resulting in the potential for misstatement.

Criteria: Procedures should be in place to ensure that the allowance for uncollectable accounts is supported by a reasonable estimation methodology.

Cause: The Organization did not have a complete understanding of the basis for recording the differing allowance percentages for the two portfolios.

Effect: Not having an understanding of the basis for recording the allowance results in the potential for a material misstatement to the financial statements.

Recommendation: We recommend that documentation is obtained and reviewed to support the reasoning for applying the allowance percentages to the different portfolios. This would include a thorough understanding of which loan portfolios are forgivable.

View of Responsible Officials and Planned Corrective Actions: Though the Organization agrees with this finding, the Organization believes that it is important to note that the allowance percentages applied to the NHS Phoenix and NHS-SW portfolios were always correct. However, there was confusion as to why our affiliate, NHS-SW, labeled forgivable loans as deferred, particularly since these loans were in fact fully forgivable. After investigating the issue further, it was discovered that these 'deferred' loans were merely labeled incorrectly by NHS-SW. A deferred loan is a loan which must be paid back upon the sale or refinancing of a property, and a forgivable loan is one that will be fully forgiven at some point in the future. Hence, though the 100% allowance percentage for these NHS-SW forgivable loans was accurate, these loans should have been labeled or classified as fully forgivable loans, not as deferred loans.

NEIGHBORHOOD HOUSING SERVICES
OF PHOENIX, INC., SUBSIDIARIES AND AFFILIATE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
December 31, 2014

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

2014-002 – Allowance for Uncollectible Mortgage Loans (Continued)

Our Director of Lending and Servicing and our Director Finance will put a process in place for analyzing new loan portfolios to ensure that the appropriate allowance percentage is documented and applied to these portfolios before adding them to either the NHS Phoenix or NHS-SW loan servicing and general ledger records. Each loan will be properly identified as amortizing, deferred or fully forgivable based on the loan documents, and the appropriate allowance percentage will be applied.

NEIGHBORHOOD HOUSING SERVICES
OF PHOENIX, INC., SUBSIDIARIES AND AFFILIATE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
December 31, 2014

SECTION III – FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AWARDS

U.S. Department of Treasury
Passed Through NeighborWorks America
CFDA No. 21.000
Award Period: FY 2014

2014-003 – Properly Completing the Schedule of Federal Awards

Condition: One grant was not properly recognized as federal funding and therefore not included in the Schedule of Expenditures of Federal Awards.

Criteria: Internal controls should be in place to ensure federal funding is recognized and properly reported on the Schedule of Expenditures of Federal Awards.

Cause: There wasn't a control in place to properly identify federal funding received by the Organization.

Effect: An audit adjustment to the Schedule of Expenditures of Federal Awards in the amount of \$330,310 was required. Not having a procedure in place to ensure that all federal funding is identified can result in a material misstatement to the Schedule of Expenditures of Federal Awards, and can also result in insufficient testing of federal funding as required.

Recommendation: Procedures should be implemented to review funding contracts by the accounting department as they are received. There should also be a separate review of the Schedule of Expenditures of Federal Awards to ensure it is complete and accurate.

View of Responsible Officials and Planned Corrective Actions: The Organization agrees with this finding and our Director of Finance will document and implement procedures for evaluating all revenue items, including any year-end adjusting revenue entries, recorded in the general ledger throughout the calendar year to determine whether they require SEFA reporting.

Because this grant amount involved an uncommon adjusting entry to reflect an internal transfer of assets from NHS-SW to NHS Phoenix, our Director of Finance erroneously assumed that this unusual transaction did not require SEFA recognition.

NEIGHBORHOOD HOUSING SERVICES
OF PHOENIX, INC., SUBSIDIARIES AND AFFILIATE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
December 31, 2014

SECTION III – FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AWARDS
(Continued)

U.S. Department of Treasury
Passed Through NeighborWorks America
CFDA No. 21.000
Award Period: FY 2014

2014-004 – Payroll Approvals

Condition: Evidence of supervisor’s approval of wages allocated to federal awards was not documented.

Criteria: Internal controls should be in place to ensure the approvals are documented.

Cause: Supervisors electronically approve individual payroll allocations for each pay period. However, documentation of these approvals is not consistent. There is currently no procedure in place to ensure all charges to federal awards have been approved by a manager prior to using the payroll allocations to complete the overhead allocations.

Effect: Without documentation of manager approvals, evidence of accurate payroll and overhead expense allocations charged to the federal funding (the major program) is lacking.

Recommendation: A formal procedure should be implemented to ensure that documentation of manager’s approvals is evident. In addition, a formal procedure should be implemented to verify all timesheets have been approved prior to making the payroll journal entry and using the FTE’s by grant for the overhead allocations.

Views of Responsible Officials and Planned Corrective Actions: The Organization agrees with this finding and our Director of Finance immediately addressed this issue during the monthly staff meeting held on Feb 27, 2015. All staff members were trained on how to properly allocate their time on a daily basis and approve their timesheets at the end of each pay period. Additionally, all department managers/supervisors were trained on how to approve departmental staff timesheets once submitted by staff for management’s approval. Finally, all new employees will be trained by the Senior Staff Accountant on this approval process during their first day of employment.

SECTION IV – PRIOR YEAR FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None