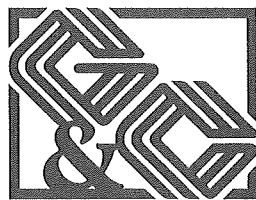


**Neighborhood Housing  
Services of San Antonio, Inc.**

**Financial Statements**

**September 30, 2018**



**GREGORY & CRUTCHFIELD, LLC**  

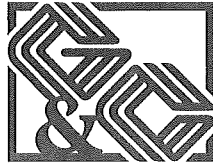
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**CERTIFIED PUBLIC ACCOUNTANTS**

**Neighborhood Housing Services of San Antonio, Inc.**

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**GREGORY & CRUTCHFIELD, LLC**  
CERTIFIED PUBLIC ACCOUNTANTS  
**Independent Auditor's Report**

To the Board of Directors of  
Neighborhood Housing Services of San Antonio, Inc.

**Report on the Financial Statements**

We have audited the accompanying statement of financial position of Neighborhood Housing Services of San Antonio, Inc. ("NHS") (a nonprofit corporation) as of September 30, 2018, and the related consolidated statements of activities and changes in net assets, cash flows and functional expenses for the year then ended, and the related notes to the financial statements.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these 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 financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

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

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

**Opinion**

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

## Independent Auditor's Report – page 2

### Report of Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses on pages 12 is presented for purposes of additional analysis and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the 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 January 29, 2019 on our consideration of Neighborhood Housing Services of San Antonio, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. 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 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 Neighborhood Housing Services of San Antonio, Inc.'s internal control over financial reporting and compliance.



Gregory & Crutchfield, LLC  
San Antonio, Texas  
January 29, 2019

**Neighborhood Housing Services of San Antonio, Inc.**  
**Statement of Financial Position**  
**September 30, 2018**

<b>Assets</b>	
Cash and cash equivalents (substantially restricted)	1,016,458
Grants receivable	6,066
Prepaid expenses	18,399
Land, buildings and equipment, net of accumulated depreciation	274,055
Construction in progress	1,265,278
Mortgage loans receivable	4,506,939
Allowance for uncollectible loans	(144,411)
Notes receivable - forgivable	1,887,080
Allowance for forgivable loans	<u>(1,887,080)</u>
Total assets	<u><u>6,942,784</u></u>
 <b>Liabilities</b>	
Accounts payable and accrued expenses	25,957
Escrow accounts	15,687
Current portion - notes payable	<u>200,000</u>
Total liabilities	241,643
 <b>Net Assets</b>	
Without donor restrictions	2,209,932
With donor restrictions	<u>4,491,209</u>
Total net assets	6,701,141
Total liabilities and net assets	<u><u>6,942,784</u></u>

The accompanying notes are an integral part of these financial statements

**Neighborhood Housing Services of San Antonio, Inc.**  
**Statements of Activities and Changes in Net Assets**  
**For the Year Ended September 30, 2018**

	Without Donor Restrictions	With Donor Restrictions	<u>Total</u>
Support and revenue			
Grants from governmental agencies	-	48,928	48,928
Grants from private sources	43,400	-	43,400
Contributions	-	-	-
Loan interest	211,709	-	211,709
Loan origination, servicing fees and other	105,556	211	105,767
Sale of properties	-	960,293	960,293
Less cost of properties sold	-	(837,224)	(837,224)
Net assets released from restrictions	-	-	-
	<hr/>		
Total support and revenue	360,665	172,208	532,873
Expenses			
Program	501,654	74,835	576,489
General and administrative	125,384	-	125,384
Fundraising	19,380	-	19,380
	<hr/>		
Total expenses	646,418	74,835	721,253
Change in net assets	(285,754)	97,374	(188,380)
Interfund transfers	-	-	-
Total change in net assets	(285,754)	97,374	(188,380)
Net assets at beginning of year	<u>2,495,686</u>	<u>4,393,835</u>	<u>6,889,521</u>
Net assets at end of year	2,209,932	4,491,209	<u><u>6,701,141</u></u>

The accompanying notes are an integral part of these financial statements

**Neighborhood Housing Services of San Antonio, Inc.**  
**Statement of Cash Flows**  
**For the Year Ended September 30, 2018**

Cash flow from operating activities:	
Change in net assets	(188,380)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
(Increase) / decrease in:	
Depreciation	24,627
Grants receivable	14,697
Others receivables	(430)
Construction in progress	(187,760)
Mortgage loans receivables, net	146,078
Increase / (decrease) in:	
Accounts payable and accrued expenses	(52,238)
Escrow accounts	<u>4,827</u>
Net cash used by operating activities	(238,578)
Cash flow from investing activities:	
Purchases of property and equipment	<u>(5,998)</u>
Net cash used in investing activities	(5,998)
Cash flow from financing activities:	
Principal payments made on notes payable	<u>(215,760)</u>
Net cash used in financing activities	(215,760)
Net decrease in cash	(460,336)
Cash and cash equivalents, beginning of year	1,476,794
Cash and cash equivalents, end of year	<u><u>1,016,458</u></u>
Supplemental disclosure:	
Interest paid during the year	6,828

The accompanying notes are an integral part of these financial statements

**Neighborhood Housing Services of San Antonio, Inc.**  
**Notes to Financial Statements**  
**For the Year Ended September 30, 2018**

**Note 1 – The Organization**

Neighborhood Housing Services of San Antonio, Inc. (“NHS”) is a nonprofit organization incorporated under the laws of the State of Texas. The organization’s primary purposes are to stimulate the development of public-private-resident partnerships in targeted neighborhoods in need of assistance in being revitalized, and to develop revitalization and preservation programs as additional tools for neighborhoods to use against decline.

NHS’s operations and loans funds are funded by Federal grants passed through the City of San Antonio, the County of Bexar, Texas and the State of Texas. Other funding is received from grants and contributions made by various other organizations and private sector companies. These grants cover specific periods of time and specific programs and may not be renewed at the end of the grant period.

NHS is subject to the laws and regulations of certain Federal and local agencies as a result of the above mentioned funding and is subject to periodic examination by those agencies.

**Note 2 – Summary of Significant Accounting Principles**

The financial statements are presented on the accrual basis of accounting. In addition, the preparation of financial statements in conformity with United States generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Contributions** – The Organization adopted FASB ASU 958-605, "Accounting for Contributions Received and Contributions Made". In accordance with FASB ASU 958-605, contributions received shall distinguish between received with donor-imposed restrictions and those received without donor-imposed restrictions. The former shall be reported as donor-restricted support that increases net assets with donor restrictions. The latter shall be reported as support that increases net assets without donor restrictions.

**Financial Statement Presentation** – SAAHC adopted Statement of Financial Accounting Standards FASB ASU 958-205, "Financial Statements for Not-for-Profit Organizations." Under FASB ASU 958-205, the Organization is required to report assets and liabilities in reasonably homogeneous groups and sequence or classify them in ways that provide relevant information about interrelationships, liquidity, and financial flexibility. Classify and report net assets in two groups, net assets with donor restrictions and net assets without donor restrictions. Classify and report revenue, expenses, gains, and losses as increases or decreases in net assets with donor restrictions or net assets without donor restrictions.



**Neighborhood Housing Services of San Antonio, Inc.**  
**Notes to Financial Statements**  
**September 30, 2018**

**Note 2 – Summary of Significant Accounting Principles (continued)**

**Cash and cash equivalents** – Cash and cash equivalents include all cash balances on deposit with financial institutions and highly liquid investments with a maturity of three months or less at the date of acquisition.

NHS has revolving loan funds received from grants that restrict the use of funds to particular loan programs.

**Property and Equipment** – Property and equipment represent land, buildings, and equipment which are recorded at cost for purchased assets and fair market value as of the date of donation for donated assets. Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets which range from 5 to 40 years. Expenditures for individual building improvements and equipment in excess of \$500 are capitalized.

**Revenue Recognition** – The organization recognizes revenue when earned.

**Cost Reimbursement Contracts** – Contract revenue is recorded as qualifying expenses are incurred. The related receivables represent qualifying costs incurred by NHS for which reimbursement from the funding agency had not yet been received as of year-end.

**Fair Value of Financial Instruments** – The estimated fair value for specific groups of financial instruments are presented within the footnotes applicable to such items. The fair value of financial instruments for which estimated fair value amounts have not been specifically presented is estimated to approximate the related book value.

**Tax Exempt Status** – NHS is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Management is not aware of any tax positions that would have a significant impact on its financial position.

**New Accounting Pronouncements** – In May 2014, the Financial Accounting Standards Board (FASB) issued a new accounting pronouncement regarding revenue recognition effective for reporting periods beginning after December 15, 2018. Management does not expect the new standard to have a significant impact to its financial position, results of operations and related disclosures.

In February 2016, the FASB issued a new accounting pronouncement regarding lease accounting for reporting periods beginning after December 15, 2019. A lessee will be required to recognize on the balance sheet the assets and liabilities for leases terms of more than 12 months. Management is currently evaluating the effect this pronouncement will have on the financial statements and related disclosures.

**Estimates** -The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Neighborhood Housing Services of San Antonio, Inc.**  
**Notes to Financial Statements**  
**September 30, 2018**

**Note 3 – Cash Balance Credit Risk**

At various times throughout the year, NHS's cash and cash equivalent balances exceeded the FDIC's insurance limits of \$250,000. NHS has not sustained any losses as a result of the excess balances.

**Note 4 – Construction in Progress**

Construction in progress represents the Organization's costs incurred in purchasing and developing land and for construction projects in progress. These amounts are considered inventory and are valued at the lower of cost or market.

**Note 5 – Property and Equipment**

A summary of the Organization's fixed assets as of September 30, 2018 is as follows:

Furniture and equipment	282,821
Building and improvements	501,497
Accumulated depreciation	<u>(510,263)</u>
Total	<u>274,055</u>

Depreciation expense for the year ended September 30, 2018 was \$24,627.

**Note 6 – Notes Receivable – Forgivable**

NHS has made forgivable loans under HUD'S HOME program as part of a program involving local financial institutions which make a secured mortgage loan and NHS, utilizing the HUD grant monies, makes supplemental notes that are forgiven ratably over time (normally 180 months) provided the homebuyer continues to comply with certain loan conditions. NHS has recorded these loans and has established an equal amount as forgivable loan discharge. Each month the applicable portion of the note receivable that is forgiven is removed from notes receivable and the allowance balances.

**Note 7 – Mortgage Loans Receivable**

Mortgage loans receivable consist of long-term secured, low interest rate promissory notes arising from home rehabilitation or sales of houses to low-income families under the U.S. Department of Housing and Urban Development's HOME program. These loans payments range from five to thirty years with interest rates from 0% to 8%. Loans are made and approved in accordance with NHS's loan policy and grant restrictions. The fair value of these loans is estimated to approximate the book value.

**Neighborhood Housing Services of San Antonio, Inc.**  
**Notes to Financial Statements**  
**September 30, 2018**

**Note 7 – Mortgage Loans Receivable (continued)**

The September 30, 2018 notes receivable balances and delinquency status (excluding forgivable loans) are shown in the following table:

Loans Status	COSA HOME Fund	CDBG Loan Fund	NR PNR NRC	FNMA Loan Fund	All Other Funds	2018 Total
Current	325,149	7,931	320,804	82,829	3,064,169	\$3,800,879
# loans	38	1	45	5	369	469
30-59 days	51,052	-	92,988	15,115	352,073	\$496,113
# loans	3	-	9	1	17	31
Over 60 days	27,839	-	37,096	-	145,012	\$209,947
# loans	3	-	3	-	13	19

The allowance for uncollectible loans is computed by management and as of September 30, 2017 the balance was \$144,411.

**Note 8 – Notes Payable**

A summary of NHS's notes payable and balances at September 30, 2018 are as follows:

Wells Fargo Bank \$500,000, unsecured, fixed interest rate of 2% due quarterly, matures June 11, 2019, NHS was granted the two year extension period, required to make quarterly principal payments over eight equal installments to fully repay the Loan.

	<u>200,000</u>
Total notes payable	<u>\$200,000</u>

**Neighborhood Housing Services of San Antonio, Inc.**  
**Notes to Financial Statements**  
**September 30, 2018**

**Note 8 – Notes Payable (continued)**

Principal payments on notes payable at September 30, 2018 are due as follows:

2018	100,000
2019	100,000
2020	--
2021	--
2022	--
Thereafter	--
	\$200,000

**Note 9 – Net Assets with donor restrictions**

Nets assets with donor restrictions at September 30, 2018 are restricted to reinvestment in loans based upon the particular revolving loan fund’s purpose and governing contracts.

**Note 10 – Defined Contribution Plan**

NHS provides a tax-qualified, defined-contribution 401(k) savings plan for its qualifying employees. NHS may make calculated contributions on behalf of the employees and employees may also make elective pre-tax contributions to the plan. During the year ended September 30, 2018 NHS contributed \$12,706 to the plan.

**Note 11 – Contingencies**

**Forgivable Loans - HOME Programs**

Grants received under the HOME program are classified as permanently restricted net assets. Pursuant to contracts with the pass through agency (City of San Antonio), should the City terminate the contracts for noncompliance, NHS would be liable to the City for any monies it has received from the City under these contracts.

**Note 12 - Restatement of Prior Year Balances**

During 2018 management determined that the prior year construction in progress as of September 30, 2017 for lots at Las Bougainvilleas and in Somerset, Texas being held by NHS had carrying values on the books that were in excess of the fair market by \$301,508 and \$161,246, respectively. The resulting prior period correction resulted in a total decrease in both the current year’s beginning construction in progress balance and beginning net assets with donor restrictions balance of \$462,754.

Management also discovered that the perpetual loans receivable from the City of San Antonio and the San Antonio State Home loans in the amounts of \$930,862 and \$165,000 respectively were forgivable loans that should have been offset by a contra allowance for forgivable loans account in the same amounts.

**Neighborhood Housing Services of San Antonio, Inc.**  
**Notes to Financial Statements**  
**September 30, 2018**

**Note 12 - Restatement of Prior Year Balances (continued)**

The result of this correction resulted in a decrease of \$930,862 and \$165,000 in the current year's beginning net value of perpetual loans and San Antonio State Home loans receivable and a decrease of \$1,095,862 in beginning net assets with donor restrictions. In addition, these loans have been reclassified into the notes receivable – forgivable classification in the accompanying statement of financial position with the offsetting contra account being added to allowance for forgivable loans classification on the same statement. (see Note 7).

**Note 13 – Liquidity and Availability of Financial Assets**

The following reflects the Organization's financial assets as of the balance sheet date, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the balance sheet date.

Financial assets at year - end	1,022,524
Less those unavailable for general expenditures within one year, due to:	
Donor – restricted to payment of current liabilities	241,643
Donor – restricted cash accounts	<u>105,825</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>675,056</u>

**Note 14 – Organization's Evaluation of Events and Transactions**

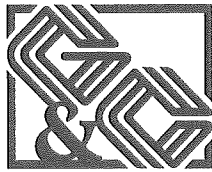
In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through January 29, 2019 which is the date of the independent auditor's report.

## **Other Reports and Supplementary Information**

**Neighborhood Housing Services of San Antonio, Inc.**  
**Reporting of Expenses by Nature and Function**  
**For the Year Ended September 30, 2018**

	Program	General and Administrative	Fundraising	Total
Grants to others	-	-	-	-
Salaries	263,575	51,068	14,826	329,469
Payroll expenses and payroll services fees	21,455	4,157	1,207	26,819
Legal and accounting	6,191	10,855	-	17,046
Interest expense	6,828	-	-	6,828
Depreciation expense	18,968	5,659	-	24,627
Miscellaneous expense	4,968	4,480	-	9,448
Computer expense	2,979	516	373	3,868
Advertising/marketing	150	-	-	150
Telephone and communications	10,825	1,876	1,353	14,054
Loan loss expense	-	-	-	-
Pensions expense	10,165	2,541	-	12,706
Office expense	5,714	991	714	7,419
Insurance	43,729	15,468	-	59,198
FTHB counseling	-	-	-	-
Education and training - staff	12,282	3,123	-	15,405
Maintenance and repairs	16,915	9,104	-	26,019
Utilities	6,482	1,124	810	8,416
Postage and delivery	3,087	676	96	3,859
Contract labor	42,990	3,922	-	46,912
Bank charges	946	-	-	946
Food and hospitality	-	-	-	-
Program expenses	3,221	-	-	3,221
Taxes	24,433	-	-	24,433
Annual meeting expense	-	6,851	-	6,851
Cleaning services	-	-	-	-
Mileage	2,578	748	-	3,327
Write off	68,007	-	-	68,007
Subscriptions and publications	-	2,225	-	2,225
Other expenses	-	-	-	-
Totals	576,489	125,384	19,380	721,253

The accompanying notes are an integral part of these financial statements



**GREGORY & CRUTCHFIELD, LLC**  
CERTIFIED PUBLIC ACCOUNTANTS

**Report on Internal Control over Financial Reporting and on  
Compliance and Other Matters Based on an Audit of Financial Statements  
Performed in Accordance with *Government Auditing Standards***

To the Board of Directors  
Neighborhood Housing Services of San Antonio, Inc.

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* issue by the Comptroller General of the United States, the financial statements of Neighborhood Housing Services of San Antonio, Inc. (a nonprofit organization), which comprise the statement of financial position as of September 30, 2018, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 29, 2019.

Internal Control over Financial Reporting

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

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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Neighborhood Housing Services of San Antonio, Inc.'s 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*.

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 organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Gregory & Crutchfield, LLC". The signature is written in a cursive, flowing style.

Gregory & Crutchfield, LLC  
San Antonio, Texas  
January 29, 2019