

NEIGHBORHOOD HOUSING SERVICES
OF THE LEHIGH VALLEY, INC.
(A Not-for-Profit Corporation)

YEAR ENDED DECEMBER 31, 2017 and
EIGHTEEN MONTHS ENDED DECEMBER 31, 2016

Consolidated Financial Statements,
Independent Auditors' Report, and Supplementary Information



**NEIGHBORHOOD HOUSING SERVICES
OF THE LEHIGH VALLEY, INC.**

**YEAR ENDED DECEMBER 31, 2017 and
EIGHTEEN MONTHS ENDED DECEMBER 31, 2016**

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INDEPENDENT AUDITORS' REPORT

Board of Directors

Neighborhood Housing Services of the Lehigh Valley, Inc .
239 North 10th Street
Allentown, PA 18102

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Neighborhood Housing Services of the Lehigh Valley, Inc. (a not-for-profit corporation) and Affiliates which comprise the consolidated statements of financial position as of December 31, 2017 and 2016, and the related consolidated statements of activities, changes in net assets, and cash flows for the year and eighteen months then ended, respectively, 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 auditors consider 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

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of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects the financial position of Neighborhood Housing Services of the Lehigh Valley, Inc. and Affiliates as of December 31, 2017 and 2016, and the changes in its net assets and its cash flows for year and eighteen months then ended, respectively, in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating statement of financial position, consolidating statement of activities and changes in net assets, and consolidating statement of cash flows are presented for purposes of additional analysis and are not a required part of the basic consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 27, 2018, on our consideration of Neighborhood Housing Services of the Lehigh Valley, Inc.'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 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 the Lehigh Valley, Inc.'s internal control over financial reporting and compliance.

GBB & Company, LLP

Allentown, PA
April 27, 2018

Neighborhood Housing Services of the Lehigh Valley, Inc.
(A Not-for-profit Corporation)
Consolidated Statements of Financial Position
December 31, 2017 and 2016

	2017	2016
ASSETS		
Cash	\$ 774,689	\$ 360,403
Restricted Deposits (Note 12)	0	148,329
Custodial Funds Held on Deposit	0	14,629
Loans Receivable		
Less Allowance for Uncollectibles (Note 2)	1,496,228	1,658,058
Grants and Accounts Receivable (Less Allowance for Uncollectibles of \$2,500 and \$2,500)	41,346	57,603
Prepaid Expenses	0	8,677
Total Current Assets	2,312,263	2,247,699
Pre-Development Costs and Operational Support Affordable Housing Program (Note 4)	0	291,137
Land, Building, and Equipment, net of accumulated depreciation (Note 3)	59,524	922,970
Deferred Financing Costs	0	4,333
Total Assets	\$ 2,371,787	\$ 3,466,139
 LIABILITIES		
Accounts Payable	\$ 8,915	\$ 49,936
Accrued Expenses	0	130,317
Custodial Funds	0	13,949
Total Current Liabilities	8,915	194,202
Pass-through Mortgage Payable (Note 7)	161,623	211,197
Mortgage Payable (Note 5)	0	1,017,340
Total Liabilities	170,538	1,422,739
 NET ASSETS		
Unrestricted		
Controlling Interest	(352,968)	(393,627)
Expended on Land, Building, and Equipment	67,928	67,928
Temporarily Restricted (Note 9)	172,205	177,278
Permanently Restricted (Note 10)	2,314,084	2,191,821
Total Net Assets	2,201,249	2,043,400
Total Liabilities And Net Assets	\$ 2,371,787	\$ 3,466,139

See Independent Auditors' Report and Notes to Consolidated Financial Statements

Neighborhood Housing Services of the Lehigh Valley, Inc.
(A Not-for-profit Corporation)
Consolidated Statements of Activities and Changes in Net Assets
For the Year Ended December 31, 2017 and the
Eighteen Months Ended December 31, 2016

	<u>2017</u>	<u>2016</u>
<u>Changes in Unrestricted Net Assets:</u>		
<u>Revenues, Gains, and Other Support:</u>		
Program Revenues	\$ 143,176	\$ 287,903
Fees	0	4,625
Interest	60,262	98,157
Miscellaneous	11,849	7,216
Rental Income	157,053	261,149
Gain on Sale of Assets	572,025	0
Net Assets Released from Restrictions:		
Satisfaction of Program Restrictions	<u>5,073</u>	<u>202,918</u>
Total Revenues, Gains, and Other Support	<u>949,438</u>	<u>861,968</u>
 <u>Expenses and Losses:</u>		
Program	386,484	630,313
Management and General	46,853	70,157
Fundraising	9,051	15,967
Loss on Sale of Building	69,902	0
Bad Debts	<u>396,489</u>	<u>0</u>
Total Expenses and Losses	<u>908,779</u>	<u>716,437</u>
Increase in Unrestricted Net Assets	<u>40,659</u>	<u>145,531</u>
 <u>Changes in Temporarily Restricted Net Assets:</u>		
Lehigh and Northampton Counties	0	4,998
Financial Institutions & Corporations	0	(447)
Net Assets Released from Restrictions	<u>(5,073)</u>	<u>(447)</u>
(Decrease) Increase in Temporarily Restricted Net Assets	<u>(5,073)</u>	<u>4,104</u>
 <u>Changes in Permanently Restricted Net Assets:</u>		
Loan Pool Contributions	122,075	5,639
Interest Income	188	3,677
Net Assets Released from Restrictions:		
Satisfaction of Program Restrictions	<u>0</u>	<u>(590,567)</u>
Increase (Decrease) in Permanently Restricted Net Assets	<u>122,263</u>	<u>(581,251)</u>
Change in Net Assets	157,849	(431,616)
Net Assets, Beginning of Year	2,043,400	2,475,016
Net Assets, End of Year	\$ 2,201,249	\$ 2,043,400

Neighborhood Housing Services of the Lehigh Valley, Inc.
(A Not-for-profit Corporation)
Consolidated Statements of Changes In Net Assets
For the Year Ended December 31, 2017
and for the Eighteen Months Ended December 31, 2016

	Unrestricted				
	<u>Controlling</u>	<u>Expended on</u>	<u>Temporarily</u>	<u>Permanently</u>	<u>Totals</u>
	<u>Interest</u>	<u>Land,</u>	<u>Restricted</u>	<u>Restricted</u>	
		<u>Building, and</u>			
		<u>Equipment</u>			
June 30, 2015	\$ (539,158)	\$ 67,928	\$ 173,174	\$ 2,773,072	\$2,475,016
Increase (Decrease) In Net Assets	145,531	0	4,104	(581,251)	431,616
December 31, 2016	(393,627)	67,928	177,278	2,191,821	2,043,400
Increase (Decrease) In Net Assets	40659	0	15,073)	122,263	157!849
December 31, 2017	\$ (352,968)	\$ 67,928	\$ 172,205	\$ 2,314,084	\$2,201,249

Neighborhood Housing Services of the Lehigh Valley, Inc.
(A Not-for-profit Corporation)
Consolidated Statements of Cash Flows
For the Year Ended December 31, 2017
and the Eighteen Months Ended December 31, 2016

	2017	2016
<u>Cash Flows from Operating Activities</u>		
Change in net assets	\$ 157,849	\$ (431,616)
Adjustments to reconcile changes in Net Assets to Net Cash Used by Operating Activities		
Depreciation and Amortization	66,016	107,599
(Gain) on sale of assets	(966,164)	0
Loan Write-offs and Allowances	0	63,439
(Increase) Decrease in Grants and Accounts Receivable	16,257	(4,956)
(Increase) Decrease in Revolving Loans Receivable	161,830	334,191
(Increase) Decrease in Prepaid Expenses	8,677	17,503
Increase (Decrease) in Accounts Payable	(41,021)	(21,957)
Increase (Decrease) in Accrued Expenses	(130,317)	(1,557)
Increase (Decrease) in Deferred Revenue	0	(10,226)
Increase (Decrease) in Custodial Funds	6,521	(807)
Net Cash Provided (Used) By Operating Activities	(720,352)	51,613
<u>Cash Flows from Investing Activities</u>		
(Increase) Decrease in Restricted Deposits	72,774	(23,354)
Proceeds from sale of assets	324,432	0
Capital Expenditures	(6,550)	0
Net Cash Provided (Used) by Investing Activities	390,656	(23,354)
<u>Cash Flows from Financing Activities</u>		
Principal payments on mortgage	(124,590)	0
Net Cash (Used) Provided by Financing Activities	(124,590)	0
Net Increase in Cash and Cash Equivalents	414,286	28,259
Cash and cash equivalents, Beginning of Year	360,403	332,144
Cash and cash equivalents, End of Year	\$ 774,689	\$ 360,403
<u>Supplemental Cash Flow Information</u>		
Cash paid for interest	\$ 0	\$ 4,646

NEIGHBORHOOD HOUSING SERVICES OF THE LEHIGH VALLEY, INC.
(A Not-for Profit Corporation)

YEAR ENDED DECEMBER 31, 2017 AND
EIGHTEEN MONTHS ENDED DECEMBER 31, 2016

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 Nature of Activities and Summary of Significant Accounting Policies

Nature of Activities

Neighborhood Housing Services of the Lehigh Valley, Inc. is a not-for-profit community development organization incorporated under the laws of the Commonwealth of Pennsylvania and licensed by the Pennsylvania Department of Banking for the purposes of providing rehabilitation, housing, and financial counseling for residents in Lehigh and Northampton Counties and provide low interest loans to needy first-time homebuyers for purchase and homeowners for repair.

Neighborhood Housing Services of the Lehigh Valley, Inc. is the sole owner of Neighborhood Turnabout Corporation, a for-profit corporation that is the general partner of Quality Neighborhoods, Ltd, a limited partnership. Neighborhood Turnabout Corporation has a 1% interest in Quality Neighborhoods, Ltd.

On December 31, 2013, Neighborhood Housing Services of the Lehigh Valley, Inc. purchased the remaining 99% limited partnership interest of Quality Neighborhoods, Ltd.

Principles of Consolidation

The consolidated financial statements have been prepared to focus on Neighborhood Housing Services of the Lehigh Valley, Inc., and all controlled organizations as a whole. All material intercompany balances and transactions have been eliminated. The consolidated statement of activities, changes in net assets, and cash flows for the period ended December 31, 2016 reflect eighteen months of activity.

Basis of Presentation

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted Net Assets - Net assets not subject to donor-imposed stipulations.

Temporarily Restricted Net Assets- Net assets subject to donor-imposed stipulations that may or will be met by actions of the Organization and/or the passage of time.

Permanently Restricted Net Assets- Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on related investments for general or specific purposes.

Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on related investments for general or specific purposes.

NEIGHBORHOOD HOUSING SERVICES OF THE LEHIGH VALLEY, INC.
(A Not-for Profit Corporation)

YEAR ENDED DECEMBER 31, 2017 AND
EIGHTEEN MONTHS ENDED DECEMBER 31, 2016

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 Nature of Activities and Summary of Significant Accounting Policies (continued)

Fund Accounting

To ensure proper usage of restricted and unrestricted assets, the Organization maintains its accounts according to fund principles. The assets, liabilities, and net assets are classified in accordance with specified restrictions or objectives. The Organization's funds are described below:

Operating Fund - represents the portion of expendable funds that are available to support the Organization's operations.

Neighborhood Reinvestment Fund - represents funds provided by Neighborhood Reinvestment Corporation for making loans and for acquisition of capital projects.

I 0th Street Project - represents funds invested by the Organization in the rehabilitation of several properties located on I 0th Street in Allentown, PA.

Easton HOOP - represents funds provided by the City of Easton for the Home Ownership Outreach Program (HOOP). Funds received are required to be maintained for a revolving loan pool.

Northampton County HOOP and Rehab - represents funds provided by the County of Northampton for HOOP and for rehabilitation loans. Funds under HOOP are required to be maintained for a revolving loan pool. The rehabilitation loans are forgiven over five years. Several of the rehabilitation loans are deferred; payment will be made when the homeowners either cease living in the property or sell the property.

Use of Estimates

The preparation of consolidated 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.

Revenues

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets by fulfillment of the donor-stipulated purpose or by passage of the stipulated time period are reported as reclassifications between the applicable classes of net assets.

Contributions

Contributions are recognized as revenues in the period received. Contributions of assets other than cash are recorded at their estimated fair value.

NEIGHBORHOOD HOUSING SERVICES OF THE LEHIGH VALLEY, INC.
(A Not-for Profit Corporation)

YEAR ENDED DECEMBER 31, 2017 AND
EIGHTEEN MONTHS ENDED DECEMBER 31, 2016

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE I Nature of Activities and Summary of Significant Accounting Policies (continued)

Contributions (continued)

Contributions received with the donor-imposed restrictions that are met in the same year as received are reported as revenues in the temporarily restricted net asset class, and a reclassification to unrestricted net assets is made to reflect the expiration of such restrictions.

Contributions of land, buildings and equipment without donor stipulations concerning the use of such long-lived assets are reported as revenues of the unrestricted net asset class. Contributions of cash or other assets to be used to acquire land, buildings and equipment without such donor stipulations are reported as revenues of the temporarily restricted net asset class; the restrictions are considered to be released at the time of acquisition of such long-lived assets.

Rental Income and Prepaid Rents

Rental income is recognized for apartment rentals as they accrue. Advance receipts of rental income are deferred and classified as liabilities until earned.

Cash Equivalents

For purposes of the Statement of Cash Flows, the Organization considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Grants and Accounts Receivable

Grants and accounts receivable consist of amounts due from various government agencies for contracted services as well as for reimbursable expenses related to loans issued under grant programs. Rents receivable, which relate to Quality Neighborhoods, Ltd, is also a component. For rents receivable, balances over 30 days old are considered delinquent. An allowance for doubtful accounts is maintained for rents receivable. The allowance is established as a reserve based on the balances in various aging categories and historical losses relative to those categories. Status of tenant, current or vacated, also is considered. All amounts of grants and accounts receivable of Neighborhood Housing Services of the Lehigh Valley, Inc. are current. Based on historical collections and the nature of receivables, management has determined that an allowance for uncollectible amounts is unnecessary for these balances.

Predevelopment Costs - Affordable Housing Program

These costs represent planning, legal and other capital expenditures involving the Organization's Affordable Housing Program in Allentown.

NEIGHBORHOOD HOUSING SERVICES OF THE LEHIGH VALLEY, INC.
(A Not-for Profit Corporation)

YEAR ENDED DECEMBER 31, 2017 AND
EIGHTEEN MONTHS ENDED DECEMBER 31, 2016

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE I Nature of Activities and Summary of Significant Accounting Policies (continued)

Land, Building and Equipment

Land, building and equipment is stated at cost. Depreciation is computed by use of the straight-line method based on estimated useful lives. The Organization capitalizes all items with a value greater than \$500 and a useful life greater than one year. Routine repairs and maintenance is expensed as incurred.

	<u>Years</u>
Land Improvements	15
Buildings and improvements	5-40
Furniture and Equipment	5-10

Intangible Assets and Deferred Charges

Mortgage origination costs are amortized over the term of the mortgage loan using the straight-line method. Amortization expense related to the deferred financing costs was \$1,984 and \$3,249 for the year ended December 31, 2017 and the eighteen-month period ended December 31, 2016, respectively.

~~Income Taxes~~

Neighborhood Housing Services of the Lehigh Valley, Inc. is a not-for-profit corporation that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

The accounting standard for uncertainty in income taxes addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under that guidance, the Organization may recognize the tax benefits from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities based on the technical merits of the position. Examples of tax positions include the tax-exempt status of the Organization and various positions related to the potential sources of unrelated business taxable income (UBIT). The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. There were no unrecognized tax benefits identified or recorded as liabilities for the year ended December 31, 2017 and the eighteen-months ended December 31, 2016.

Neighborhood Housing Services of the Lehigh Valley, Inc. files its 990 with the United States Internal Revenue Service and with the Bureau of Charitable Organizations in Pennsylvania. The Organization is generally no longer subject to examination by the Internal Revenue Service for years before 2013.

Quality Neighborhoods, Ltd files Form 1065 annually for the Partnership, and Neighborhood Turnabout Corporation files Form 1120. The returns are generally no longer subject to examination by the Internal Revenue Service for years before 2013.

NEIGHBORHOOD HOUSING SERVICES OF THE LEHIGH VALLEY, INC.
(A Not-for Profit Corporation)

YEAR ENDED DECEMBER 31, 2017 AND
EIGHTEEN MONTHS ENDED DECEMBER 31, 2016

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE2 Loans Receivable

Home ownership loans are approved/disapproved by staff based on an approval of the first mortgage by the participating lending organization and all loans are made in accordance with any grant restrictions. Rehabilitation loans are approved by a vote of the loan committee. Interest rates range from 0% to the prevailing market rate. Terms range from 1 to 30 years, with some loans due on sale or death. All loans are secured. For the year ended December 31, 2017, loans receivable consists of the following:

	Neighborhood Reinvestment Capital <u>Fund</u>	Other Loans <u>Loans</u>	<u>Total</u>
Total Loans Receivable	\$ 1,234,548	\$ 367,480	\$ 1,602,028
	215 loans	64 loans	279 loans
Allowance for Uncollectibles	<u>96,250</u>	<u>9,550</u>	<u>105,800</u>
Loans Receivable, Net	<u>\$ 1,138,298</u>	<u>\$ 357</u>	<u>\$ 1,496,228</u>
	<u>930</u>		

Loan Delinquency Status:

Current			\$ 1,336,677 48 loans 83%
31-60 Days Delinquent			\$ 20,109 4 loans 1%
61-90 Days Delinquent			\$ 26,027 6 loans 2%
Over 90 Days Delinquent			\$ 219,215 38 loans 14%

For the eighteen-months ended December 31, 2016, loans receivable consists of the following:

	Neighborhood Reinvestment Capital <u>Fund</u>	Other Loans <u>Loans</u>	<u>Total</u>
Total Loans Receivable	\$ 1,311,310	\$ 452,548	\$ 1,763,858
	223 loans	76 loans	299 loans
Allowance for Uncollectibles	<u>96,250</u>	<u>9,550</u>	<u>105,800</u>
Loans Receivable, Net	<u>\$ 1,215,060</u>	<u>\$ 442,998</u>	<u>\$ 1,658,058</u>

NEIGHBORHOOD HOUSING SERVICES OF THE LEHIGH VALLEY, INC.
(A Not-for Profit Corporation)

**YEAR ENDED DECEMBER 31, 2017 AND
EIGHTEEN MONTHS ENDED DECEMBER 31, 2016**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE2 Loans Receivable (continued)

December 31, 2016

	Neighborhood Reinvestment Capital Fund	Other Loans	Total
Loan Delinquency Status:			
Current	\$ 1,154,507 198 loans 88%	\$ 442,299 74 loans 98%	\$ 1,596,806 272 loans 91%
31-60 Days Delinquent	\$ 921 1 loan 0%	\$ 0 0 loans 0%	\$ 921 1 loan 0%
61-90 Days Delinquent	\$ 14,868 2 loans 1%	\$ 0 0 loans 0%	\$ 14,868 2 loans 0%
Over 90 Days Delinquent	\$ 141,014 22 loans 11%	\$ 10,249 2 loans 2%	\$ 151,263 24 loans 9%

NOTE3 Land, Building and Equipment

Land, building and equipment consist of the following:

	Year Ended <u>12/31/17</u>	18 months Ended <u>12/31/16</u>
Land and Land Improvements	\$ 9,348	\$ 101,211
Buildings	98,208	2,306,883
Equipment	42,555	65,111
Less: Accumulated Depreciation and Amortization	<u>(90,587)</u>	<u>(1,550,235)</u>
	<u>\$ 59,524</u>	<u>\$ 922,970</u>

Depreciation charged to expense was \$64,032 and \$104,351 for the year ended December 31, 2017 and the eighteen-month period ended December 31, 2016, respectively.

NOTE4 Predevelopment Costs and Operational Support - Affordable Housing Program

Neighborhood Housing Services of the Lehigh Valley, Inc. has previously invested \$291,137 in the affordable housing program for the 10th Street Project as of the year ended 2016. These funds were used to finance the predevelopment costs of the 10th Street Project as well as to provide operational support to the project. These costs were written off on December 1, 2017 when the 10th Street Building was sold.

NEIGHBORHOOD HOUSING SERVICES OF THE LEHIGH VALLEY, INC.
(A Not-for Profit Corporation)

**YEAR ENDED DECEMBER 31, 2017 AND
 EIGHTEEN MONTHS ENDED DECEMBER 31, 2016**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTES	Notes and Mortgages Payable	Year Ended <u>12/31/17</u>	18 months Ended <u>12/31/16</u>
	Notes Payable consist of:		
	Note payable to City of Allentown, which bore a 1% Interest rate per annum and was collateralized by real estate interest shall accrue and be payable to the City only to the extent the 10th Street Project has a "positive cash flow." Principal is due in the year 2023. The loan was satisfied December 1, 2017.	\$ 0	\$ 610,000
	Amended and restated first note payable to PHFA. Payment of principal made from excess revenues Generated by the project during any calendar year as determined by PHFA. There is no interest due or payable on the loan. Secured by real estate. The loan was satisfied December 1, 2017.	0	222,340
	0% Note payable to bank. Collateralized by realestate. Due in the year 2048. The loan was satisfied December 1, 2017.	0	<u>1852000</u> 1,017,340
	Current Portion:	<u>0</u>	<u>0</u>
	Long Term Portion	<u>\$ 0</u>	<u>\$1,017,340</u>

NOTE6 Grants

The following grants were in effect during the years ended December 31, 2017 and 2016:

Operating Fund

Neighborhood Reinvestment Corporation provided \$72,500 and \$65,000 in expendable grants during the year to defray operating expenses incurred by the Organization through the year ended December 31, 2017 and the eighteen-months ended December 31, 2016.

Operating Fund

The City of Allentown, PA provided \$0 and \$15,000 to defray operating expenses incurred by the Organization for the year ended December 31, 2017 and the eighteen-months ended December 31, 2016, respectively.

NOTE 7 Sale of Real Estate

On December 1, 2017 the Organization sold real estate that had been used for low income residential rentals. The contract sales price was \$400,000. Several governmental departments at the state and local level also forgave outstanding mortgages on the property at settlement.

NEIGHBORHOOD HOUSING SERVICES OF THE LEHIGH VALLEY, INC.
(A Not-for Profit Corporation)

**YEAR ENDED DECEMBER 31, 2017 AND
EIGHTEEN MONTHS ENDED DECEMBER 31, 2016**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8 Loans Sold with Recourse

The Organization has sold loans receivable, at current balance, to financial institutions. The terms of the sales agreement require the Organization to repurchase or substitute loans which become 90 days delinquent. The total balance of all outstanding 29 and 39 loans sold as of December 31, 2017 and 2016 was \$161,623 and \$211,197, respectively.

NOTE 9 Concentration of Credit Risk

Financial instruments which potentially subject the Organization to concentrations of credit risk consist principally of cash equivalents and trade accounts receivable. The Organization maintains cash balances which may exceed federally insured limits; they historically have not experienced any credit related losses.

The Organization provides mortgage assistance primarily to low-to-moderate income individuals. The mortgage receivable of \$1,496,228 and \$1,658,058 for the year ended December 31, 2017 and the eighteen months ended December 31, 2016, respectively, is secured by the property purchased or improved. The mortgage receivable is a concentration of credit risk.

NOTE 10 Temporarily Restricted Net Assets

Temporarily restricted net assets as of December 31, 2017 and 2016 consisted of the following:

	Year Ended <u>12/31/17</u>	18 months Ended <u>12/31/16</u>
Lehigh County HOOP	\$ 127,859	\$ 127,859
Century Fund Loans	9,596	14,669
Organizational Underwriting	24,750	24,750
Live Near Your Work	<u>102000</u>	<u>102000</u>
	\$ <u>172,205</u>	\$ <u>177,278</u>

NOTE 11 Permanently Restricted Net Assets

	Year Ended <u>12/31/17</u>	18 months Ended <u>12/31/16</u>
Permanently restricted net assets are restricted to:		
Investment in perpetuity, income from which is expendable to support:		
NeighborWorks America (see details below)	\$2,039,687	\$1,810,323
Investment in perpetuity, income from which is also restricted:		
Northampton County Loan Funds	217,104	199,274
Lehigh County	3,418	0
Easton Loan Funds	53,875	50,000
Investment in 10th Street Project	<u>0</u>	<u>132224</u>
Total Permanently Restricted Net Assets	\$ <u>2,314,084</u>	\$ <u>2 191 821</u>

NEIGHBORHOOD HOUSING SERVICES OF THE LEHIGH VALLEY, INC.
(A Not-for Profit Corporation)

YEAR ENDED DECEMBER 31, 2017 AND
EIGHTEEN MONTHS ENDED DECEMBER 31, 2016

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11 Permanently Restricted Net Assets (continued)

Releases from restrictions related to permanently restricted net assets relate to forgiveness of loan funds. The funds received with permanent restrictions indicate that the funds are only to be used for loans and any repayment of the loans is to be re-loaned to new borrowers. However, some of the notes are written with debt forgiveness provisions if residency requirements are met. Once compliance with the residency terms are met, the debt is forgiven and will not be repaid. Therefore, the permanent loan pool available is reduced.

At December 31, 2017 the NeighborWorks America investment in NHS consisted of the following:

Cash	\$ 440,371
Receivables from other funds	33,000
Outstanding loans receivables	1,234,548
Charged-off loans	125,870
Investment in buildings and Real estate	<u>205,898</u>
	<u>\$2,039,687</u>

NOTE 12 Transactions with Affiliates and Related Parties

Neighborhood Housing Services of the Lehigh Valley, Inc. (NHS) is the parent of Neighborhood Turnabout Corp., which is the general partner of Quality Neighborhoods, Ltd. (the "Partnership"). Neighborhood Housing Services of the Lehigh Valley, Inc. received a development fee in the amount of \$250,000, all of which has been paid. NHS immediately reinvested the development fee in the property.

The Partnership Agreement provides for various obligations of the general partners, including their obligation to provide funds for any development and operating deficits. Neighborhood Housing Services of the Lehigh Valley, Inc. has guaranteed the performance of the general partner's obligation.

NOTE 13 Restricted Deposits

Restricted deposits are comprised of the following:

	Year Ended <u>12/31/17</u>	18 months Ended <u>12/31/16</u>
Escrows and reserves required by PHFA For Quality Neighborhoods, Ltd.:		
Real Estate Tax Escrow	\$ 0	\$ 10,095
Insurance Escrow	0	21,369
Replacement Reserve	<u>0</u>	<u>116,865</u>
	<u>\$ 0</u>	<u>\$]48!322</u>

NEIGHBORHOOD HOUSING SERVICES OF THE LEHIGH VALLEY, INC.
(A Not-for Profit Corporation)

**YEAR ENDED DECEMBER 31, 2017 AND
EIGHTEEN MONTHS ENDED DECEMBER 31, 2016**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 14 Retirement Plan

The Organization sponsors a 403(b) retirement plan (the "Plan") that covers all eligible employees. All employees that work at least 1,000 hours during the year are eligible to participate in the Plan if they have accrued at least one year of service time. The Organization makes a 3% safe harbor contribution. For the year ended December 31, 2017 and the eighteen-month period ended December 31, 2016, employer contributions totaled \$0 and \$5,224, respectively.

NOTE 15 Functional Expenses

Expenses incurred during the year ended December 31, 2017 for other than permanently restricted funds were:

	NHS Pro grams	Management & General	Fundraisin	Total	NTC	NL
Salaries	\$ 76,120	\$ 8,955	\$ 4,478	\$ 89,553	\$	\$ 25,438
Payroll Taxes	7,018	826	413	8,257		2,711
Retirement & Hospital	344	40	20	404		4,605
Utilities	2,998	353	176	3,527		16,009
Telephone	3,087	363	182	3,632		0
Insurance	7,570	891	445	8,906		27,201
Office Labor	4,259	501	250	5,010		0
Training	5,773	679	340	6,792		0
Dues	850	100	50	1,000		0
Local Travel	2,295	270	135	2,700		0
Advertising	268	31	16	315		0
Conferences/Workshops	0	0	0	0		0
Legal	208	25	12	245		10,163
Accountant	11,050	1,300	650	13,000		9,460
Payroll Processing	1,005	118	59	1,182		0
Consultant Fees	255	30	15	300		0
Real Estate Taxes	228	27	13	268		23,101
Maintenance Expense	0	0	0	0		39,229
Equipment Repairs	0	0	0	0		0
Office Maintenance	14,891	1,752	876	17,519		0
Bank Charges	842	99	50	991		0
Loan Processing	5,005	589	294	5,888		0
Other Admin. Expense	0	0	0	0		28,092
Management Fee	0	0	0	0		13,356
Safe Act Compliance	0	0	0	0		0
Miscellaneous	6,390	752	376	7,518		0
Security	0	0	0	0		0
Loan Forgiveness	0	0	0	0		0
Loan Write-Offs and Allowance	0	0	0	0		0
Depreciation	3,409	401	201	4,011		62,005
Interest	0	0	0	0		0
Total Expenses	\$ 153,865	\$ 18,104	\$ 9,051	\$181,018	\$"=====	\$ 261,370

NEIGHBORHOOD HOUSING SERVICES OF THE LEHIGH VALLEY, INC.
(A Not-for Profit Corporation)

YEAR ENDED DECEMBER 31, 2017 AND
EIGHTEEN MONTHS ENDED DECEMBER 31, 2016

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 15 Functional Expenses (continued)

Expenses incurred during the eighteen-month period ended December 31, 2016 for other than permanently restricted funds were:

	NHS Pro grams	Management & General	Fundraisin	Total	NTC	NL
Salaries	\$ 160,028	\$ 18,827	\$ 9,413	\$188,268	\$	\$ 43,540
Payroll Taxes	15,229	1,792	895	17,916		4,220
Retirement & Hospital	4,497	529	264	5,290		8,022
Utilities	4,260	501	251	5,012		24,728
Telephone	4,394	517	258	5,169		
Insurance	6,622	779	389	7,790		35,540
Office Supplies	10,682	1,257	628	12,567		
Postage	1,187	140	70	1,397		
Dues	243	29	14	286		
Local Travel	8,980	1,055	534	10,569		
Advertising	596	70	35	701		
Conferences/Workshops	2,383	280	140	2,803		
Legal	238	28	14	280		1,862
Accountant	11,828	1,392	695	13,915		6,805
Payroll Processing	2,800	329	165	3,294		
Consultant Fees	14,123	1,662	830	16,615		
Real Estate Taxes						44,622
Maintenance Expense						32,228
Equipment Repairs	961	113	56	1,130		
Office Maintenance	510	60	30	600		
Bank Charges	669	79	39	787		
Loan Processing	4,310	507	254	5,071		
Other Admin. Expense						9,289
Management Fee						21,335
Safe Act Compliance	883	104	52	1,039		
Miscellaneous	6,173	726	363	7,262		
Security	681	80	40	801		
Loan Forgiveness	50,329			50,329		
Loan Write-Offs and Allowance	13,110			13,110		
Depreciation	5,211	613	306	6,130		101,469
Interest	<u>3,949</u>	<u>465</u>	<u>232</u>	<u>4,646</u>		<u>13,822</u>
Total Expenses	<u>\$ 334,876</u>	<u>\$ 31,934</u>	<u>\$ 15,967</u>	<u>\$382,777</u>	<u>\$</u>	<u>\$ 347,482</u>

NOTE 16 Reclassification of Prior Year

Certain amounts in the prior year financial statements have been reclassified to conform to the current period's presentation.

NOTE 17 Subsequent Events

During March 2018 the NHSLV Board of Directors began to explore the possibility of merging its activities with another organization with a similar mission.

Management has evaluated subsequent events through April 27, 2018, which is the date the financial statements were available to be issued. No subsequent events have occurred that required recognition or disclosure.

*Supplementary
Information*





**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 the Lehigh Valley, Inc.
239 North 10th Street
Allentown, PA 18102

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 the Lehigh Valley, Inc. (a not-for-profit corporation), which comprise the consolidated statement of financial position as of the December 31, 2017, and the related consolidated statements of activities, changes in net assets, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated April 27, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Neighborhood Housing Services of the Lehigh Valley, Inc.'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 the Lehigh Valley, 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 consolidated 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, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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PHONE: 484-223-0096

361 WEST MAIN STREET
NEW HOLLAND, PA 17557
PHONE: 717-354-4276

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 the Lehigh Valley, Inc.'s consolidated financial statements are free from 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 consolidated 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.

GBB & Company, LLP

Allentown, PA
April 27, 2018

Neighborhood Housing Services of the Lehigh Valley, Inc.
(A Not-for-profit Corporation)
Consolidating Statement of Financial Position
December 31, 2017

	NHSoLV Inc.	Neighborhood Turnabout Corporation	Quality Neighborhoods LTD	Eliminations	Totals
ASSETS					
Cash	\$ 528,672	\$ 0	\$ 246,017	\$ 0	\$ 774,689
Restricted Deposits (Note 12)	0	0	0	0	0
Custodial Funds Held on Deposit	0	0	0	0	0
Loans Receivable					
Less Allowance for Uncollectibles (Note 2)	1,496,228	0	0	0	1,496,228
Grants and Accounts Receivable	33,000	0	8,346	0	41,346
Prepaid Expenses	0	0	0	0	0
Pre-Development Costs and Operational Support					
Affordable Housing Program (Note 4)	0	0	0	0	0
Investment in Limited Partnership	I	309,230	0	(309,231)	0
Land, Building, and Equipment, net of accumulated depreciation (Note 3)	59,524	0	0	0	59,524
Deferred Financing Costs	0	0	0	0	0
Mortgage Receivable	0	0	0	0	0
Total Assets	\$ 2,117,425	\$ 309,230	\$ 254,363	\$ (309,231)	\$ 2,371,787
LIABILITIES					
Accounts Payable	\$ 5,086	\$ 0	\$ 3,829	\$ 0	\$ 8,915
Accrued Expenses	0	0	0	0	0
Custodial Funds	0	0	0	0	0
Development Advances Payable	0	0	0	0	0
Pass-through Mortgage Payable (Note 7)	161,623	0	0	0	161,623
Mortgage Payable (Note 5)	0	0	0	0	0
Total Liabilities	166,709	0	31,829	0	170,538
NET ASSETS					
Unrestricted					
Controlling Interest	(603,501)	309,230	250,534	(309,231)	(352,968)
Expended on Land, Building, and Equipment	67,928	0	0	0	67,928
Temporarily Restricted (Note 9)	172,205	0	0	0	172,205
Permanently Restricted (Note 10)	2,314,084	0	0	0	2,314,084
Total Net Assets	1,950,716	309,230	250,534	(309,231)	2,120,124
Total Liabilities And Net Assets	\$ 2,117,425	\$ 309,230	\$ 254,363	\$ (309,231)	\$ 2,137,187

See Independent Auditors' Report

Neighborhood Housing Services of the Lehigh Valley, Inc.
(A Not-for-profit Corporation)
Consolidating Statement of Activities and Changes in Net Assets
For the Year Ended December 31, 2017

	Neighborhood Housing Services of the Lehigh Valley Inc	Neighborhood Turnabout Corporation	Quality Neighborhoods LTD	Eliminations	Totals
Changes in Unrestricted Net Assets:					
Revenues Gains and Other Support:					
Program Revenues	\$ 143,176	\$ 0	\$ 0	\$ 0	\$ 143,176
Fees	0	0	0	0	0
Interest	59,649	6	613	(6)	60,262
Miscellaneous	0	0	11,849	0	11,849
Rental Income	0	9,442	157,053	(9,442)	157,053
Gain on Sale of Assets	0	0	1,036,066	(464,041)	572,025
Forgiveness of Debt Income, net	0	322,021	0	(322,021)	0
Net Assets Released from Restrictions:					
Satisfaction of Program Restrictions	5,073	0	0	0	5,073
Total Revenues, Gains, and Other Support	207,898	331,469	1,205,581	(795,510)	949,438
Expenses and Losses:					
Program	153,865	0	232,619	0	386,484
Management and General	18,102	0	28,751	0	46,853
Fund-raising	9,051	0	0	0	9,051
Loss on Sale of Building	69,902	0	0	0	69,902
Bad Debts	727,958	0	0	(331,469)	396,489
Total Expenses and Losses	978,878	0	261,370	(331,469)	908,779
(Decrease) Increase in Unrestricted Net Assets	(770,980)	331,469	944,211	(464,041)	40,659
Changes in Temporarily Restricted Net Assets:					
Lehigh County HOOP	0	0	0	0	0
Century Fund Loans	0	0	0	0	0
Organizational Underwriting	0	0	0	0	0
Live Near Your Work	0	0	0	0	0
Net Assets Released from Restrictions	(5,073)	0	0	0	(5,073)
(Decrease) in Temporarily Restricted Net Assets	(5,073)	0	0	0	(5,073)
Changes in Permanently Restricted Net Assets:					
Loan Pool Contributions	122,075	0	0	0	122,075
Interest Income	188	0	0	0	188
Net Assets Released from Restrictions:					
Satisfaction of Program Restrictions	0	0	0	0	0
Increase in Permanently Restricted Net Assets	122,263	0	0	0	122,263
Change in Net Assets	(653,790)	331,469	944,211	(464,041)	157,849
Net Assets, Beginning of Year	2,604,506	(22,239)	(693,677)	154,810	2,043,400
Net Assets, End of Year	\$ 1,950,716	\$ 309,230	\$ 250,534	\$ (309,231)	\$2,201,249

Neighborhood Housing Services of the Lehigh Valley, Inc.
(A Not-for-profit Corporation)
Consolidating Statement of Cash Flows
For the Year Ended December 31, 2017

	Neighborhood Housing Services of the Lehigh Valley, Inc.	Neighborhood Turnabout Corporation	Quality Neighborhoods, LTD	Eliminations	Totals
<u>Operating Flows from Operating Activities</u>					
Change in net assets	\$ (653,790)	\$ 331,469	\$ 944,211	\$ (464,041)	\$ 157,849
Adjustments to reconcile changes in Net Assets to Net Cash Used by Operating Activities					
Depreciation and Amortization	4,011	0	62,005	0	66,016
Loss (Gain) on sale of assets	69,902	0	(1,036,066)	0	(966,164)
Loan Write-offs and Allowances	736,000	0	0	464,041	1,200,041
Unrealized (Gain) on Limited Partnership Investment	0	(9,448)	0	0	(9,448)
(Increase) Decrease in Grants and Accounts Receivable	17,000	0	(743)	0	16,257
(Increase) Decrease in Net Revolving Loans Receivable	161,830	0	0	0	161,830
(Increase) Decrease in Prepaid Expenses	0	0	8,677	0	8,677
Increase (Decrease) in Accounts Payable	4,187	0	(45,208)	0	(41,021)
Increase (Decrease) in Accrued Expenses	(130,317)	0	0	0	(130,317)
Increase (Decrease) in Custodial Funds	0	0	6,521	0	6,521
Net Cash Provided (Used) by Operating Activities	208,823	322,021	(60,603)	0	470,241
<u>Investing Flows from Investing Activities</u>					
(Increase) Decrease in Restricted Deposits	0	0	72,774	0	72,774
Forgiveness of Debt, net	0	(322,021)	0	0	(322,021)
Proceeds from sale of assets	10,489	0	313,943	0	324,432
Capital Expenditures	0	0	(6,550)	0	(6,550)
Net Cash Provided (Used) by Investing Activities	10,489	(322,021)	380,167	0	68,635
<u>Cash Flows from Financing Activities</u>					
Principal payments on mortgage	(49,765)	0	(74,825)	0	(124,590)
Net Increase in Cash and Cash Equivalents	169,547	0	244,739	0	414,286
Cash and cash equivalents, Beginning of Year	359,125	0	1,278	0	360,403
Cash and cash equivalents, End of Year	\$ 528,672	\$ 0	\$ 246,017	\$ 0	\$ 774,689
<u>Supplemental Cash Flow Information</u>					
Cash paid for interest	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0



COMMUNICATION WITH THOSE CHARGE WITH GOVERNANCE

Board of Directors
Neighborhood Housing Services of the Lehigh Valley, Inc.
239 N. 10th Street
Allentown, PA 18102

In planning and performing our audit of the financial statements of Neighborhood Housing Services of the Lehigh Valley (NHS) as of and for the year ended December 31, 2017, in accordance with auditing standards generally accepted in the United States of America, we considered NHS' internal control over financial reporting (internal control) as a basis for designing 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 the Organization'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 discussed below, we identified a deficiency in internal control that we consider to be significant.

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.

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. We consider the following deficiency in NHS' internal control to be significant.

- Cash receipts are processed in many cases under single control. The Board of Directors should consider whether, subject to the cost restraints of a small organization, there is a way to separate the cash receipts function or institute a method of dual custody.

This communication is intended solely for the information and use of management, the Board of Directors, and others within the Organization, and is not intended to be, and should not be, used by anyone other than these specified parties.

GBB & Company, LLP

Allentown, PA
April 27, 2018

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NEW HOLLAND, PA 17557
PHONE: 717-354-4276



COMMUNICATION WITH THOSE CHARGE WITH GOVERNANCE

Board of Directors
Neighborhood Housing Services of the Lehigh Valley, Inc.
239 N. 10th Street
Allentown, PA 18102

We have audited the consolidated financial statements of Neighborhood Housing Services of the Lehigh Valley, Inc. for the year ended December 31, 2017, and have issued our report thereon dated April 27, 2018. The consolidated financial statements include Neighborhood Housing Services of the Lehigh Valley, Inc., Quality Neighborhoods, Ltd., and Neighborhood Turnabout Corporation. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated January 3, 2018. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the organization are described in Note I to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended December 31, 2017. We noted no transactions entered into by the organization during the period for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

Management's estimate of the allowance for doubtful accounts is based on historical collection and loss levels, and an analysis on the collectibility of individual accounts. Management's estimate of useful lives of depreciable assets is based on the expected period of time the assets will remain productive. We evaluated key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

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NEW HOLLAND, PA 17557
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Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncollected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated April 27, 2018.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the organization's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the organization's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Board of Directors and management of Neighborhood Housing Services of the Lehigh Valley, Inc. and is not intended to be and should not be used by anyone other than these specified parties.

GBB & Company, LLP

Allentown, PA
May 3, 2018