



Homeword
Sustainable Communities for All

HOMWORD, INC. AND AFFILIATES

AUDITED CONSOLIDATED
FINANCIAL STATEMENTS

For the Years Ended
June 30, 2017 and 2016

HOMESWORD, INC. AND AFFILIATES

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Peterson CPA Group, P.C.

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Homeward, Inc.
Missoula, Montana

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Homeward, Inc. (a nonprofit organization) and Affiliates, which comprise the consolidated statements of financial position as of June 30, 2017 and 2016 and the related consolidated statements of activities and cash flows for the years then ended and the related notes to the consolidated financial statements.

Management's Responsibility for the 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 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 consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 auditor's 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.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Homeward, Inc. and Affiliates as of June 30, 2017 and 2016, 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.

Other Matters

Prior Period Financial Statements

The June 30, 2016 consolidated financial statements were audited by other auditors whose report dated October 20, 2016 expressed an unmodified opinion on those statements.

Report on Supplementary Information

Other Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidated schedules of functional revenue and expenses on pages 33 and 34, the consolidating statements of financial position on pages 35 to 38, the consolidating statements of activities on pages 39 to 42, and the statements of cash flows for hW-Confluence, Inc. on page 43 are presented for the purposes of additional analysis and are 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 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.



Peterson CPA Group, P.C.
Missoula, Montana
November 21, 2017

FINANCIAL STATEMENTS

HOMEWORD, INC. AND AFFILIATES

Missoula, Montana

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As Of

	<u>June 30,</u> <u>2017</u>	<u>June 30,</u> <u>2016</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 580,763	\$ 980,081
Accounts Receivable, net	283,600	330,893
Prepays	4,775	3,707
TOTAL CURRENT ASSETS	<u>869,138</u>	<u>1,314,681</u>
NON-CURRENT ASSETS		
Restricted Cash	596,460	276,003
Developer Fee Receivable - tax credit partnerships, net	292,721	267,146
Interest Receivable - developer fee, net	113,965	104,538
Management Fee Receivable - tax credit partnerships, net	521,848	499,462
Property and Equipment, net	6,631,256	5,431,094
Investment in NSP Properties	-	14
TOTAL NON-CURRENT ASSETS	<u>8,156,250</u>	<u>6,578,257</u>
OTHER ASSETS		
Long-Term Loans Receivable - tax credit partnerships	10,444,191	10,207,807
Interest Receivable - tax credit partnerships	2,313,070	2,446,839
Miscellaneous Long-Term Assets	269	830
Investment in Tax Credit Partnerships and Other Entities	1,003,744	911,311
TOTAL OTHER ASSETS	<u>13,761,274</u>	<u>13,566,787</u>
TOTAL ASSETS	<u>\$ 22,786,662</u>	<u>\$ 21,459,725</u>

The accompanying notes to the consolidated financial statements are an integral part of these statements.

HOMEWORD, INC. AND AFFILIATES

Missoula, Montana

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION, Continued As Of

	<u>June 30,</u> <u>2017</u>	<u>June 30,</u> <u>2016</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable	\$ 89,745	\$ 71,392
Accrued Liabilities	126,417	105,511
Line of Credit	-	35,000
Funds Held in Trust	8,418	8,830
Deferred Revenue	5,921	3,949
Current Portion of Long-Term Debt	2,162,364	15,434
TOTAL CURRENT LIABILITIES	<u>2,392,865</u>	<u>240,116</u>
LONG-TERM LIABILITIES		
Other	41,747	31,550
Long-Term Debt, net of current portion	2,922,708	4,888,860
TOTAL LONG-TERM LIABILITIES	<u>2,964,455</u>	<u>4,920,410</u>
TOTAL LIABILITIES	<u>5,357,320</u>	<u>5,160,526</u>
UNRESTRICTED NET ASSETS		
Noncontrolling Interest in RSB	179,913	181,034
Undesignated	17,249,429	16,118,165
TOTAL NET ASSETS	<u>17,429,342</u>	<u>16,299,199</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 22,786,662</u></u>	<u><u>\$ 21,459,725</u></u>

The accompanying notes to the consolidated financial statements are an integral part of these statements.

HOMESWORD, INC. AND AFFILIATES

Missoula, Montana

CONSOLIDATED STATEMENTS OF ACTIVITIES

For the Years Ended

	<u>June 30,</u> <u>2017</u>	<u>June 30,</u> <u>2016</u>
UNRESTRICTED NET ASSETS		
OPERATING REVENUE		
Housing Development Grants and Fees	\$ 269,207	\$ 539,723
Interest	304,316	285,504
Services	270,690	285,812
Contributions	80,240	122,635
Other	23,428	6,892
Investment Income (Loss)	29,465	25,416
TOTAL OPERATING REVENUE	<u>977,346</u>	<u>1,265,982</u>
OPERATING EXPENSES		
Program		
Home Ownership Center	207,405	207,467
Property and Asset Management	987,359	815,302
Housing Development	333,718	342,905
Total Program	<u>1,528,482</u>	<u>1,365,674</u>
Supporting		
Management & General	72,173	76,900
Communication & Fund-raising	63,250	61,917
Total Supporting	<u>135,423</u>	<u>138,817</u>
TOTAL OPERATING EXPENSES	<u>1,663,905</u>	<u>1,504,491</u>
Change in Net Assets from Operations	(686,559)	(238,509)

The accompanying notes to the consolidated financial statements are an integral part of these statements.

HOMESWORD, INC. AND AFFILIATES

Missoula, Montana

CONSOLIDATED STATEMENTS OF ACTIVITIES, Continued For the Years Ended

	June 30, 2017	June 30, 2016
NON-OPERATING REVENUE		
Rents	443,225	426,206
Grants	1,043,053	1,391,302
Equity Income (Loss) from Affiliates	330,424	110,713
TOTAL NON-OPERATING REVENUE	<u>1,816,702</u>	<u>1,928,221</u>
CHANGE IN NET ASSETS	1,130,143	1,689,712
UNRESTRICTED NET ASSETS		
Beginning of Year	<u>16,299,199</u>	<u>14,609,487</u>
End of Year	<u><u>\$ 17,429,342</u></u>	<u><u>\$ 16,299,199</u></u>

The accompanying notes to the consolidated financial statements are an integral part of these statements.

HOMEWORD, INC. AND AFFILIATES

Missoula, Montana

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended

	<u>June 30,</u> <u>2017</u>	<u>June 30,</u> <u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in Net Assets	\$ 1,130,143	\$ 1,689,712
Adjustments to Reconcile Change in Net Assets to Net		
Cash Flows from Operating Activities:		
Depreciation	262,049	218,569
Changes in Operating Assets and Liabilities:		
Receivables	47,293	213,994
Prepays	(1,068)	113
Restricted Cash	(401,795)	(10,043)
Accounts Payable	16,588	3,882
Accrued Liabilities	20,906	(10,840)
Funds Held in Trust	(412)	2,345
Deferred Revenue	1,972	(2,395)
Total Adjustments	<u>(54,467)</u>	<u>415,625</u>
Net Cash Flows from Operating Activities	<u>\$ 1,075,676</u>	<u>\$ 2,105,337</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to Loans Receivable and Accrued Interest, net	\$ (1,068,511)	\$ (1,786,028)
Additions to Developer and Management Fees Receivable	(84,767)	126,742
Cash Paid for Building Improvements and Equipment	(63,517)	(714)
Cash Received from Investment in NSP Properties	14	123
Cash Paid for Miscellaneous Long-Term Assets	561	1,146
Additions in Other Long-Term Liabilities	(398)	(7,288)
Investment in Tax Credit Partnerships and Other Entities	(404,154)	94,416
Net Cash Flows from Investing Activities	<u>\$ (1,620,772)</u>	<u>\$ (1,571,603)</u>

The accompanying notes to the consolidated financial statements are an integral part of these statements.

HOMEWORD, INC. AND AFFILIATES

Missoula, Montana

CONSOLIDATED STATEMENTS OF CASH FLOWS, Continued For the Years Ended

	<u>June 30,</u> <u>2017</u>	<u>June 30,</u> <u>2016</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Cash Received from Loan Borrowings	\$ 196,202	\$ 35,000
Cash Paid for Loan Repayments	<u>(50,424)</u>	<u>(109,792)</u>
Net Cash Flows from Financing Activities	<u>\$ 145,778</u>	<u>\$ (74,792)</u>
Net Change in Cash and Cash Equivalents	\$ (399,318)	\$ 458,942
 Cash and Cash Equivalents		
Beginning of Year	<u>980,081</u>	<u>521,139</u>
End of Year	<u>\$ 580,763</u>	<u>\$ 980,081</u>
 SUPPLEMENTAL DISCLOSURE OF CASH PAYMENTS		
Cash Paid for Interest	<u>\$ 145,470</u>	<u>\$ 145,479</u>

The accompanying notes to the consolidated financial statements are an integral part of these statements.

HOMEWORD, INC. AND AFFILIATES

Missoula, Montana

CONSOLIDATED STATEMENTS OF CASH FLOWS, Continued For the Years Ended

	<u>June 30,</u> <u>2017</u>	<u>June 30,</u> <u>2016</u>
SUPPLEMENTAL DISCLOSURE OF NONCASH TRANSACTIONS		
OPERATING ACTIVITIES		
Acquisition of Reserve Accounts (restricted cash) from the Consolidation of Gold Dust, LLC	<u>\$ 81,338</u>	<u>\$ -</u>
INVESTING ACTIVITIES		
Long-term Notes Receivable and Accrued Interest from the Acquisition of Gold Dust, LLC	<u>\$ 965,896</u>	<u>\$ -</u>
Management Fee Receivable from the Acquisition of Gold Dust, LLC	<u>\$ 27,379</u>	<u>\$ -</u>
Investment in TCP's and Other Entities from the Acquisition of Gold Dust, LLC	<u>\$ 311,721</u>	<u>\$ -</u>
Additions of Property and Equipment from Gold Dust, LLC	<u>\$ 1,445,321</u>	<u>\$ -</u>
Other Long-Term Liabilities from the Acquisition of Gold Dust, LLC	<u>\$ 10,595</u>	<u>\$ -</u>

The accompanying notes to the consolidated financial statements are an integral part of these statements.

HOMEWORLD, INC. AND AFFILIATES

Missoula, Montana

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended June 30, 2017 and 2016

NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization and Reporting Unit and Principles of Consolidation

Homeworld, Inc. (Homeworld) is a 501(c)(3) nonprofit organization whose purpose is to help low-income families and individuals achieve self-sufficiency through affordable housing development, education, and counseling. Homeworld's activities range throughout the State of Montana. Homeworld is a Community Housing Development Organization as defined by the U.S. Department of Housing and Urban Development.

hW-Confluence, Inc. (Confluence) was formed in April 2010 as a title holding 501(c)(2) nonprofit corporation for the benefit of Homeworld. Confluence was formed for the sole purpose of holding and/or leasing certain commercial rental property developed utilizing New Markets Tax Credits and remitting all net rental income to Homeworld. Confluence's board of directors is the Executive Committee of Homeworld's board of directors. Homeworld's board of directors appoints Confluence's board of directors.

HW-RB SB Lending, LLC (RBSB) was formed in May 2012 for the purpose of providing loans to fund the construction of low-income housing projects jointly entered into by Homeworld and the Montana Homeownership Network doing business as NeighborWorks Montana (NeighborWorks). Homeworld owns 79% and NeighborWorks owns 21% of RBSB. This Limited Liability Company will terminate on December 31, 2062, unless terminated or dissolved sooner in accordance with its Articles of Organization or Operating Agreement.

hW-Phillips Street, LLC (Phillips) is a single member Montana Limited Liability Company formed in 2012. Homeworld is the sole member. The purpose of Phillips is to own and operate an 8-unit low-income housing property located at 1805 Phillips Street in Missoula, Montana. This Limited Liability Company will terminate on December 31, 2052, unless terminated or dissolved sooner in accordance with its Articles of Organization or Operating Agreement.

HOMESWORD, INC. AND AFFILIATES

Missoula, Montana

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended June 30, 2017 and 2016

NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

A. Organization and Reporting Unit and Principles of Consolidation, continued

Fireweed Court, LLC (Fireweed Court) is a single member Montana Limited Liability Company (LLC) formed in 2014. Homeword is the sole member. Homeword became the sole member once it acquired the ownership interest of the original Limited Partner when Fireweed Court Limited Partnership was converted to a LLC. The purpose of Fireweed Court is to own and operate a 12-unit low-income housing property located in Missoula, Montana. This LLC will terminate on December 31, 2045, unless terminated or dissolved sooner in accordance with its Articles of Organization or Operating Agreement.

Lenox Flats, LLC, (Lenox Flats) is a single member Montana Limited Liability Company (LLC) formed in 2014. Homeword is the sole member. Homeword became the sole member once it acquired the ownership interest of the original Limited Partner when Lenox Flats Limited Partnership was converted to a LLC. The purpose of Lenox Flats is to own and operate a 10-unit low-income housing property with commercial space leased to two tenants located in Missoula, Montana. This LLC will terminate on December 31, 2045, unless terminated or dissolved sooner in accordance with its Articles of Organization or Operating Agreement.

Gold Dust, LLC (Gold Dust) is a single member Montana Limited Liability Company (LLC) formed in 2016. Homeword is the sole member. Homeword became the sole member once it acquired the ownership interest of the original Limited Partner when Gold Dust Limited Partnership was converted to a LLC. The purpose of Gold Dust is to own and operate a 18-unit low-income housing property located in Missoula, Montana. This LLC will terminate on December 31, 2045, unless terminated or dissolved sooner in accordance with its Articles of Organization or Operating Agreement.

Confluence, RBSB, Phillips, Fireweed Court, Lenox Flats, and Gold Dust are consolidated into Homeword's financial statements and are collectively referred to as the "Organization". All significant inter-organization balances and transactions were eliminated in the consolidation process. The non-controlling interest in RBSB represents the equity interest of the minority member and is reflected separately in unrestricted net assets.

HOMESWORD, INC. AND AFFILIATES

Missoula, Montana

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended June 30, 2017 and 2016

NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

B. Basis of Accounting

The Organization's financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP) as codified by the Financial Accounting Standards Board.

C. Programs

After 23 years of operation, Homeword is regionally and nationally recognized for its innovative programming and housing development. Homeword works statewide from its office in Missoula, where its Regional HomeOwnership Center is located, with housing development projects in Missoula, Lewistown, Anaconda, Butte, Great Falls, Malta, Havre, Billings, Cut Bank, Bozeman, and Bigfork. Housing Development provides affordable housing options to individuals and families with lower-incomes through development of new or rehabilitated housing units. Through joint venture partnerships, Homeword will improve the social, health and economic outcomes for low-income Montanans and increase local capacity to address housing needs and issues of poverty across the State.

Since 1994, Homeword has developed or rehabilitated a total of 25 innovative affordable housing projects totaling 883 units in 11 Montana communities. Homeword develops projects where it serves as the sole general partner and partners with nonprofits and for profit companies when developing using new construction or preserving existing housing that is affordable. Homeword has developed one new construction property for another entity, a 16-unit project owned by the Housing Authority of Billings.

Homeword has several award-winning projects in its portfolio with recognition for design, green building and innovative financing. Homeword's HomeOwnership Center program is a leader in the state-wide NeighborWorks Montana network and received praise from the Department of Housing and Urban Development on best practices. Homeword is a 2014 recipient of JSEC small Employer of Choice award.

HOMEWORLD, INC. AND AFFILIATES

Missoula, Montana

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended June 30, 2017 and 2016

NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

C. Programs, continued

At June 30, 2017, the Organization operated the following programs:

Housing Development

Housing Development provides affordable housing options to individuals and families with lower-incomes through development of new or rehabilitated housing units. Housing Development is responsible for the formation of tax credits partnerships and other types of ownership entities utilizing financing that enables the development of rental and homeownership affordable housing. Costs include pre-development expenses associated with new and/or rehabilitated housing and construction management. Given its successful history of affordable housing development, Homeworld occasionally provides information to other nonprofits seeking to develop facilities to support their missions.

Property and Asset Management

Homeworld contracts daily property management activities with qualified third-party property management companies. Homeworld oversees the asset management of the developed properties including regulatory compliance and financial management once Housing Development has completed construction and development of the affordable properties.

HomeOwnership Center

Since 1997, Homeworld's walk-in HomeOwnership Center (HOC) has served over 12,500 individuals with over 50% of home buyer education participants purchasing a home. Homeworld served over 1,150 individuals in FY 2017, including the parents of over 150 children. In our financial literacy programs, 45% of program participants were living on \$21,407 or less per year (approximately 50% of Area Median Income for a single person) and 84% of them were women. Homeworld served over 930 individuals in FY 2016, with 71% of our participants living at or below 80% of the Area Median Income. Education and counseling are low cost or free to clients, child care and snacks are provided for participants, and Homeworld partners with other social service providers to complement their case management with financial counseling, literacy education, and counseling.

HOMEWORLD, INC. AND AFFILIATES

Missoula, Montana

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended June 30, 2017 and 2016

NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

C. Programs, continued

HomeOwnership Center, continued

Specifically, the HOC provides first-time homebuyer and financial education programs, renter education and counseling, one-on-one housing and financial counseling, foreclosure intervention/loss mitigation counseling, advocacy, and outreach. These programs benefit participants by empowering them to make healthy choices to achieve stability in their lives with limited resources. Homeworld is one of only three Regional Homeownership Centers in Montana and is the only HUD-approved Housing Counseling Agency offering a full continuum of housing counseling and educational services in western Montana.

D. Net Asset Classification

The Organization receives a significant amount of its funding under cost-reimbursement grants and contracts where the Organization is a direct recipient or sub-recipient of various federal and state funds. Contracts in which the funding agency receives commensurate value are classified as exchange transactions and are reported as unrestricted support.

Grants from governmental and nongovernmental organizations are classified as contributions if the resource provider does not receive commensurate value.

Donor-restricted funds are classified as temporarily restricted until the donor restriction expires (time restriction ends or purpose restriction accomplished), at which time they are accounted for as net assets released from restrictions and are reclassified to unrestricted net assets. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support. Donor-restricted contributions that neither expire by passage of time nor are fulfilled or otherwise are removed by actions of the Organization are classified as permanently restricted. There were no temporarily restricted or permanently restricted net assets as of June 30, 2017 or 2016.

HOMESWORD, INC. AND AFFILIATES

Missoula, Montana

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended June 30, 2017 and 2016

NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

E. Cash and Cash Equivalents

For purposes of the statement of cash flows, the Organization considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

From time to time, certain bank accounts that are subject to coverage by the Federal Deposit Insurance Corporation (FDIC) may exceed their insured limits. At June 30, 2017 and 2016 there were bank balances of approximately \$294,000 and \$297,000, respectively, that were not fully insured by the FDIC. The Organization does not believe it is exposed to any significant credit risk on its cash balances.

Monies have been set aside in separate accounts to be used for future operations totaling \$22,142 and \$84,765 at June 30, 2017 and 2016, respectively.

Restricted cash, some of which is required to be kept in separate bank accounts, includes monies held as a fiscal agent for an employer-assisted down payment program, security deposits, reserve accounts, and other monies that are restricted by agreements for certain types of expenditures. Restricted cash also includes proceeds from certain properties acquired, rehabilitated, and sold using a Neighborhood Stabilization Program grant.

F. Receivables

Receivables consist of amounts due from expenses paid on behalf of project developments and tax credit partnerships, management fees, and deferred developer fees and are stated at unpaid principal balances. Management assesses the collectability of these receivables annually by reviewing each receivable under current circumstances.

Management determined an allowance account of \$50,000 was appropriate for 2017 and 2016 after reviewing the various performance factors of each tax credit partnership in light of the current economic conditions and other relevant factors. This estimate is subject to change annually based on operating results of the various tax credit partnerships and their ability to pay the Organization based on the individual waterfall schedules in the partnership agreements and other factors. Because of the inherent uncertainties in estimating the allowance for uncollectible receivables, it is at least reasonably possible that the estimates used will change in the near term.

HOMEWORLD, INC. AND AFFILIATES

Missoula, Montana

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended June 30, 2017 and 2016

NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

G. Property and Equipment

Property and equipment are recorded at cost. Donated property and equipment are recorded at fair value on the date of the donation. There was no donated property or equipment in 2017 or 2016. Depreciation is provided using the straight-line method over the useful lives of the assets as follows for Homeworld:

Property	40 years
Equipment	3 - 7 years

The Affiliates use the straight-line method of depreciation; however, their useful lives for property range from 27.5 years to 39 years. The estimated useful life of the assets for depreciation purposes may be different than their actual economic useful lives. Repairs and maintenance are expensed and betterments that cost more than \$5,000 are generally capitalized for Homeworld and costs exceeding \$4,000 are generally capitalized for the Affiliates.

H. Long-Term Loans and Interest Receivable (Financing Receivables)

Long-term loan receivables are carried at unpaid principal balances and are tested annually for impairment. It is the Organization's policy to recognize impairment loss in the year a loan is determined to be impaired. Loans are considered impaired if the loan receivable plus accrued interest is less than the book value of the property.

Loans are placed on nonaccrual status when management believes the loans are impaired. There were no loans on nonaccrual status at June 30, 2017 and 2016.

Interest on the loans is recognized over the term of the loan and is calculated using the simple-interest method on outstanding principal amounts.

The long-term loans receivable and related accrued interest receivable from the various tax credit partnerships may not be collected in cash; however, at the end of the tax credit period, the Organization may take the properties back as settlement of the loans and accrued interest or otherwise acquire the Limited Partner's interest in the entity and continue to operate them as low- and moderate-income housing projects.

HOMESWORD, INC. AND AFFILIATES

Missoula, Montana

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended June 30, 2017 and 2016

NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

I. Investment in Tax Credit Partnerships and Other Entities

The Organization is the 0.01% managing general partner in six tax credit partnerships, co-general managing partner sharing the 0.01% interest in two additional tax credit partnerships, and the sole member of four single purpose entities engaged in operating former tax credit partnerships at June 30, 2017.

The Organization is the 0.01% managing general partner in six tax credit partnerships, co-general managing partner sharing the 0.01% interest in two additional tax credit partnerships, and the sole member of three single purpose entities engaged in operating former tax credit partnerships at June 30, 2016.

The Organization is a co-general partner in six additional tax credit projects, but does not retain management authority.

Management has determined that consolidation of these entities is not required under GAAP because the limited partners have substantial participating rights. The Organization's investments in these entities are initially recorded at cost and are adjusted annually for its share of the current year income or loss (equity method).

These tax credit partnerships are limited partnerships formed under the laws of the state of Montana for the purpose of developing, owning, and operating low-and moderate-income housing complexes. The tax credit partnerships qualify for low-income housing tax credits under the Internal Revenue Code Section 42 (the Code), which regulates the use of the buildings as to occupant eligibility and gross unit rents, among other things. The tax credit partnerships must maintain compliance with the Code for 15 consecutive years in order to remain qualified to receive tax credits for the benefit of the Limited Partners. The Organization also invests in other entities consistent with its mission to develop affordable housing in the State of Montana.

HOMESWORD, INC. AND AFFILIATES

Missoula, Montana

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended June 30, 2017 and 2016

NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

J. Funds Held In Trust

The Organization is the fiscal agent for an employer-assisted down payment program. These funds are maintained in a separate account totaling \$8,418 and \$8,830 at June 30, 2017 and 2016, respectively.

K. Contributed Services

Contributed services that create or enhance nonfinancial assets or are of a specialized nature are reported as revenue in the statements of activities. Contributed services that do not meet these criteria are not recorded.

L. New Markets Tax Credit

Homeward has arranged financing for certain commercial rental property known as the Confluence Project in Missoula, Montana through the use of New Markets Tax Credits pursuant to Internal Revenue Code Section 45(D) and debt financing from U.S. Bank, N.A., who formed certain special purpose entities to facilitate the New Markets Tax Credit financing as required under Internal Revenue Code regulations.

Confluence is the Qualified Active Low-Income Community Business (QALICB) and holds title to the property on behalf of Homeward. Confluence also has certain debt obligations to the U.S. Bank, N.A. and Homeward as part of the New Markets Tax Credit financing arrangements.

M. Expense Allocations

Program expenses are allocated based on a historical analysis of employee time. Administrative expenses are allocated to program services according to the portion of cost benefiting the program.

HOMEWORLD, INC. AND AFFILIATES

Missoula, Montana

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended June 30, 2017 and 2016

NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

N. Advertising Costs & Outreach

The Organization expenses the cost of advertising as incurred. Advertising expenses totaled \$19,869 and \$16,865 in 2017 and 2016, respectively, and are included in the Schedule of Functional Revenue and Expenses under Outreach.

O. Estimates

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities, and the reported amounts of revenue and expenses. Actual results could differ from those estimates.

P. Risks and Uncertainties

The Organizations face a number of risks including loss or damage to property and general liability. Commercial insurance policies are purchased for loss or damage to property and for general liability.

Q. Income Tax Status

Homeworld is exempt from income tax under provisions of Section 501(c)(3) of the Internal Revenue Code. This code enables the Organization to accept donations that qualify as charitable contributions to the donor. Income from certain activities not directly related to the Organization's tax-exempt purpose is subject to taxation as unrelated business income.

HOMESWORD, INC. AND AFFILIATES

Missoula, Montana

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended June 30, 2017 and 2016

NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Q. Income Tax Status, continued

Confluence is exempt from income tax under provisions of Section 501(c)(2) of the Internal Revenue Code. It maintains its tax-exempt status so long as it distributes all of its net income to Homeward. Unrelated business income from debt-financed rental property is allowed, but other sources of unrelated business income are limited to no more than 10% of Confluence's gross income. For the years ended June 30, 2017 and 2016, Confluence did not have any income tax related to unrelated business income.

RBSB is a Montana Limited Liability Company. Income or losses are passed through to the members in proportion to their respective ownership interests. Homeward's share of income or loss from RBSB is generally not taxable because it consists of either investment income or exempt-purpose income.

Phillips is a single member limited liability company owning and operating a low-income housing project. Phillips is a disregarded entity for income tax purposes and its income or loss is included in Homeward's.

Fireweed Court is a single member limited liability company owning and operating a low-income housing project. Fireweed Court is a disregarded entity for income tax purposes and its income or loss is included in Homeward's.

Lenox Flats is a single member limited liability company owning and operating a low-income housing project. Lenox Flats is a disregarded entity for income tax purposes and its income or loss is included in Homeward's.

Gold Dust is a single member limited liability company owning and operating a low-income housing project. Gold Dust is a disregarded entity for income tax purposes and its income or loss is included in Homeward's.

No provision for income tax has been recorded in the accompanying consolidated financial statements because no unrelated business income was recognized for 2017 or 2016.

HOMESWORD, INC. AND AFFILIATES

Missoula, Montana

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended June 30, 2017 and 2016

NOTE 2. LONG-TERM LOANS RECEIVABLE

Loans receivable are carried at unpaid principal balances, plus accrued interest. An allowance for loan losses is not considered necessary as management believes the loans are fully collectible at June 30, 2017 and 2016. No losses were recognized in 2017 or 2016. None of the loans have been restructured. No impairment has been recognized in 2017 or 2016. No loans have been placed on nonaccrual status. Loans receivable are considered past due if not repaid in accordance with existing terms. No loans were considered past due at June 30, 2017 or 2016.

Loan terms require interest to accrue over the life of the loan. Typically, the life of the loan is forty years and interest is calculated using the simple-interest method on outstanding principal amounts. These loans bear interest at rates ranging from 0.25% to 6.5%. Repayment of principal and interest is deferred until the borrowers (Tax Credit Partnerships) have sufficient net cash flows as defined in various loan agreements. Because of the uncertainty of future net cash flows, the loans receivable, including accrued interest, are classified as noncurrent.

The loans require the borrowers to maintain the low-income housing status for each property. A substantial portion of the loans were funded in prior years with grants to the Organization from several sources, including the U.S. Department of Housing and Urban Development's HOME Program (HOME). Under the terms of the HOME grants, loan repayments retain their status as federal funds and are subject to HOME regulations.

HOMEWORD, INC. AND AFFILIATES

Missoula, Montana

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended June 30, 2017 and 2016

NOTE 2. LONG-TERM LOANS RECEIVABLE, continued

Long-term loans receivable consisted of the following at:

	June 30, 2017	June 30, 2016
Acme Limited Partnership	\$ 763,400	\$ 763,400
Gold Dust Limited Partnership	-	652,960
Orchard Gardens Limited Partnership	1,577,237	1,577,237
Southern Lights Limited Partnership	660,900	660,900
Equinox Development Limited Partnership	2,309,122	2,309,122
Solstice Development Limited Partnership	1,436,845	1,436,845
hw-Solstice Investment Fund, LLC	1,316,674	1,272,588
Hillview	-	27,960
Sweet Grass Commons, LLLP - sponsor note	1,950,274	1,506,795
Soroptimist Village, LLLP	229,739	-
Larkspur Commons, LLLP	200,000	-
	<u>\$ 10,444,191</u>	<u>\$ 10,207,807</u>

The change in long-term loans receivable during 2017 and 2016 is as follows:

Long-Term Loans Receivable at June 30, 2015	\$ 8,664,156
Additions	1,547,918
Repayments	(4,267)
Long-Term Loans Receivable at June 30, 2016	<u>\$ 10,207,807</u>
Long-Term Loans Receivable at June 30, 2017	\$ 10,207,807
Additions	917,304
Repayments	(27,960)
Effect of change in ownership	(652,960)
Long-Term Loans Receivable at June 30, 2017	<u>\$ 10,444,191</u>

HOMEWORD, INC. AND AFFILIATES

Missoula, Montana

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended June 30, 2017 and 2016

NOTE 3. INVESTMENT IN TAX CREDIT PARTNERSHIPS AND OTHER ENTITIES

The Organization's investment in various tax credit partnerships and other entities totaled \$1,003,744 and \$911,311 at June 30, 2017 and 2016, respectively. The Organization accounts for these investments under the equity method.

NOTE 4. PROPERTY AND EQUIPMENT

Depreciation expense for the years ended June 30, 2017 and 2016 totaled \$262,049 and \$218,569, respectively. The property, equipment, furniture and fixtures, and related accumulated depreciation of Gold Dust were consolidated into Homeword in 2017. No cash was paid for these assets and the effect is represented in the "Additions" column.

Property and equipment at June 30 are as follows:

	<u>2015</u>	<u>Additions</u>	<u>Disposals</u>	<u>2016</u>
Land	\$ 806,658	\$ -	\$ -	\$ 806,658
Buildings	6,664,078	-	-	6,664,078
Equipment	31,801	-	-	31,801
Furniture and Fixtures	123,041	-	-	123,041
	<u>7,625,578</u>	-	-	<u>7,625,578</u>
Accumulated Depreciation	<u>(1,975,915)</u>	<u>(218,569)</u>	-	<u>(2,194,484)</u>
	<u>\$ 5,649,663</u>	<u>\$ (218,569)</u>	<u>\$ -</u>	<u>\$ 5,431,094</u>
	<u>2016</u>	<u>Additions</u>	<u>Disposals</u>	<u>2017</u>
Land	\$ 806,658	\$ 136,139	\$ -	\$ 942,797
Buildings	6,664,078	2,533,704	-	9,197,782
Equipment	31,801	-	-	31,801
Leasehold Improvements	-	16,890	-	16,890
Furniture and Fixtures	123,041	4,000	-	127,041
	<u>7,625,578</u>	<u>2,690,733</u>	-	<u>10,316,311</u>
Accumulated Depreciation	<u>(2,194,484)</u>	<u>(1,490,571)</u>	-	<u>(3,685,055)</u>
	<u>\$ 5,431,094</u>	<u>\$ 1,200,162</u>	<u>\$ -</u>	<u>\$ 6,631,256</u>

HOMEWORD, INC. AND AFFILIATES

Missoula, Montana

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended June 30, 2017 and 2016

NOTE 5. DEBT

Debt at June 30 consisted of the following:

	2017	2016
Note payable to USB CDE SUB-CDE, LXI, LLC; interest payable at 4.2388% and 3.951% annually at June 30, 2017 and 2016, respectively (LIBOR + 380 basis points), payable monthly; a principal reduction of \$740,990 is due October 1, 2017, with the remaining balance to be fully amortized by monthly payments thereafter with the balance due October 1, 2050; secured by real property.	\$ 1,800,000	\$ 1,800,000
Note payable to USB CDE SUB-CDE LXI, LLC; interest at 1.2182% annually payable monthly; a principal reduction of \$889,188 is due October 1, 2017, with the remaining balance to be fully amortized by monthly payments thereafter with the balance due October 1, 2050; secured by real property.	2,160,000	2,160,000
Note payable to the City of Billings, 0% stated interest rate, imputed interest of 6.5%, principal and interest payments of \$1,500 annually for fifteen years with a balloon payment due at maturity of July 1, 2023, unsecured.	22,188	22,202
Note payable to Montana Board of Housing; interest at 3%, monthly principal and interest payments of \$603, due July 2033; secured by real property.	92,217	96,613
Note payable to U.S. Bank, N.A, interest at 3.25% payable quarterly, principal is due on July 1, 2017, unsecured. **	500,000	500,000
Note payable to Missoula County; monthly interest at 3%; principal and interest payments of \$337; balloon payment is due at maturity on March 1, 2028; secured by real property.	72,387	74,232

** Subsequent to June 30, 2017, this note was renewed for three years and the limit was increased from \$500,000 to \$750,000 with interest at 3%.

HOMEWORD, INC. AND AFFILIATES

Missoula, Montana

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended June 30, 2017 and 2016

NOTE 5. DEBT, continued

	2017	2016
Note payable to the City of Missoula; interest at 1% payable monthly until June 1, 2028; then interest increases to 3% with principal and interest payments of \$551 commencing monthly through maturity of June 1, 2043; secured by real property.	80,000	80,000
Note payable to Montana Board of Housing, interest at 4.5%, monthly principal and interest payments of \$810 due through August 1, 2043; secured by real property.	149,193	152,135
Note payable to Montana Board of Housing, interest at 5.25%, monthly principal and interest payments of \$590 due through May 2019; secured by real property.	12,885	19,112
Note payable to First Security Bank of Missoula, interest at 4.5% until April 2018, then 1.00% over the Prime Rate published in the Wall Street Journal (3.75% at June 30, 2017) paid monthly, due March 2019; secured by ten Champion mobile homes.	196,202	0
	\$ 5,085,072	\$ 4,904,294
Less: current portion	(2,162,364)	(15,434)
Long-term portion	\$ 2,922,708	\$ 4,888,860

Annual debt maturities are as follows:

<u>June 30,</u>	
2018	\$ 2,162,364
2019	237,823
2020	37,283
2021	39,387
2022	41,617
Thereafter	2,566,598
	\$ 5,085,072

HOMESWORD, INC. AND AFFILIATES

Missoula, Montana

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended June 30, 2017 and 2016

NOTE 5. DEBT, continued

The note payable to the City of Billings represents a \$46,094 settlement agreement, which is recorded as long-term debt discounted to approximate present value using an imputed interest rate of 6.5%. The \$22,312 discount is amortized and reported in the statement of activities as interest expense.

Confluence entered into an interest rate swap transaction with U.S. Bank, NA regarding its note payable to USB CDE SUB-CDE LXI, LLC for \$1,800,000. This agreement expires September 1, 2017. Confluence paid \$24,724 and \$32,092 under this agreement in 2017 and 2016, respectively.

Interest expense totaled \$145,691 and \$145,333, at June 30, 2017 and 2016, respectively.

NOTE 6. RELATED PARTIES

The Organization signed a Master Lease with Confluence, a wholly owned subsidiary, in 2012 for office space that expires January 1, 2018. Homeward entered into a sublease agreement with Confluence that expires September 30, 2017 with an option to renew for an additional year. The Organization paid \$69,893 and \$63,591 in rent to Confluence for the years ended June 30, 2017 and 2016, respectively under the sublease agreement. These amounts are eliminated in the consolidated financial statements.

At June 30, 2017 and 2016, the Organization had loaned a total of \$10,444,191 and \$10,207,807, respectively, to tax credit partnerships for the purpose of constructing and managing certain low-income rental housing properties. Interest receivable from these loans totaled \$2,313,070 and \$2,446,839 at June 30, 2017 and 2016, respectively.

At June 30, 2017 and 2016, the Organization had additional receivables from these tax credit partnerships totaling \$1,212,134 and \$1,202,039, respectively, for deferred developer fees, management fees, and expenses paid by the Organization on behalf of these tax credit partnerships.

The Organization is a General Partner in various entities in which it has a significant ownership interest, but the Limited Partner(s) retains control. The Organization does not consolidate these entities into its financial statements accordingly.

Summarized financial information for these entities is presented on the following page and was obtained from audited financial statements. The entities have a December 31st year-end with the exception of Solstice Development Limited Partnership (Solstice) which has a June 30th year-end. Solstice is presented below using June 30, 2017 and 2016 audited financial statements.

HOMEWORD, INC. AND AFFILIATES

Missoula, Montana

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended June 30, 2017 and 2016

NOTE 6. RELATED PARTIES, continued

December 31, 2016					
Partnership	Total Assets	Total Liabilities	Partners' Capital	Total Revenue	Total Expenses
Acme Limited Partnership	\$ 2,569,352	\$ 2,083,683	\$ 485,669	\$ 154,378	\$ 305,237
Orchard Gardens Limited Partnership	\$ 5,133,652	\$ 3,482,346	\$ 1,651,306	\$ 270,067	\$ 517,346
Southern Lights Limited Partnership	\$ 4,067,305	\$ 1,160,697	\$ 2,906,608	\$ 332,106	\$ 295,398
Equinox Development Limited Partnership	\$ 6,114,351	\$ 3,019,511	\$ 3,094,840	\$ 213,494	\$ 503,462
Solstice Development Limited Partnership	\$ 6,882,871	\$ 4,109,664	\$ 2,773,207	\$ 338,701	\$ 476,081
Ouellette Place Limited Partnership	\$ 4,742,317	\$ 4,806,930	\$ (64,613)	\$ 251,664	\$ 289,879
Soroptimist Village LLLP	\$ 5,849,898	\$ 1,999,775	\$ 3,850,123	\$ 293,300	\$ 560,796
December 31, 2015					
Partnership	Total Assets	Total Liabilities	Partners' Capital	Total Revenue	Total Expenses
Acme Limited Partnership	\$ 2,603,549	\$ 1,967,021	\$ 636,528	\$ 131,067	\$ 292,900
Gold Dust Limited Partnership	\$ 1,655,268	\$ 1,053,728	\$ 601,540	\$ 120,233	\$ 224,868
Orchard Gardens Limited Partnership	\$ 5,254,902	\$ 3,356,318	\$ 1,898,584	\$ 263,382	\$ 474,280
Southern Lights Limited Partnership	\$ 4,964,864	\$ 1,532,779	\$ 3,432,085	\$ 143,096	\$ 310,258
Equinox Development Limited Partnership	\$ 6,344,343	\$ 2,959,535	\$ 3,384,808	\$ 200,906	\$ 495,714
Solstice Development Limited Partnership	\$ 7,136,193	\$ 4,225,606	\$ 2,910,587	\$ 317,534	\$ 479,018
Ouellette Place Limited Partnership	\$ 4,873,135	\$ 4,899,533	\$ (26,398)	\$ 236,650	\$ 280,176
Soroptimist Village LLLP	\$ 5,895,811	\$ 1,776,754	\$ 4,119,057	\$ 266,285	\$ 637,180

NOTE 7. RETIREMENT PLAN

The Organization maintains a simplified retirement account (Simple IRA) plan. The Organization matches up to three percent of the individuals' gross wages for qualified employees. Employer contributions to this plan totaled \$17,540 and \$17,908 for the years ended June 30, 2017 and 2016, respectively.

HOMESWORD, INC. AND AFFILIATES

Missoula, Montana

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended June 30, 2017 and 2016

NOTE 8. COMMITMENTS AND CONTINGENCIES

From time to time, the Organization may be involved in litigation arising in the ordinary course of development activities. While the ultimate outcome of these matters is not presently determinable, it is the opinion of management that the resolution of any outstanding matters will not have a material adverse effect on the financial position or results of operations of the Organization.

Ground Lease

The Organization built two single family homes on a single tract of land and it holds the land in a Ground Lease (similar to but not the same as a Land Trust). The homes were built and sold to income eligible households.

The Organization retains title to the land and shares in the equity of the homes with the purchasers for a price based on their ability to pay. When the individuals sell the homes, they must sell either to the Organization or to other eligible buyers. Proceeds from the eventual sale would be allocated between the owner and the Organization in proportion to their equity at the time of the sale. Each owner signed a 75-year lease agreement which provides for monthly lease fees equal to the real estate taxes, insurance, and a minimal administrative fee. For the years ended June 30, 2017 and 2016, the Organization waived the monthly lease fees.

Concentrations

The Organization has loaned approximately \$12.8 million, including accrued interest receivable, to 12 tax credit partnerships. Collection of these loans is predicated on the projects generating sufficient cash flows to repay the loans. Should cash flows be insufficient, the Organization may reacquire the properties in satisfaction of the loans. The Organization also has approximately \$1 million in receivables from various tax credit partnerships for deferred developer fees and management fees.

The Organization receives significant funding from various federal and state grants. Grant revenue comprised 37.3% and 43.6% of total revenue in 2017 and 2016, respectively. The Organization periodically receives significant federal grants from the Department of Housing and Urban Development.

Loans/Grants

Homesword entered into a \$45,000 unsecured promissory note with no interest with NeighborWorks Montana in 2009 financing the construction of a 35-unit property in Missoula, Montana that will be forgiven at maturity as long as Homesword does not sell the property. Homesword reported this transaction as grant revenue in 2009.

HOMEWORD, INC. AND AFFILIATES

Missoula, Montana

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended June 30, 2017 and 2016

NOTE 8. COMMITMENTS AND CONTINGENCIES, continued

Loans/Grants, continued

Homeword entered into a \$115,000 unsecured promissory note with no interest with NeighborWorks Montana in 2010 financing the construction of an 8-unit commercial building in Missoula, Montana that will be forgiven at maturity as long as Homeword does not sell the property. Homeword reported this transaction as grant revenue in 2010.

Leases

The Organization leases its Missoula, Montana offices from Confluence under a Master Lease agreement and subleases unused space to other organizations. The rent for Homeword's offices paid to Confluence totaling \$69,893 and \$63,591 in 2017 and 2016, respectively, is eliminated in consolidation. Future minimum expected rents are approximately \$70,000 for fiscal year 2017. The Master lease terminates January 1, 2018 and Homeword's sublease terminated September 30, 2017. This agreement was amended in October 2017 and extended through 2024 on similar terms.

NOTE 9. PROJECT DEVELOPMENTS

FY2017 saw the completion of two new construction projects, Sweetgrass Commons in Missoula at 27 units, and Larkspur Commons in Bozeman at 136 units. Sweetgrass was financed with 9% LIHTC's in a LLLP structure and Larkspur was financed with a 4% bond and tax credits through a LLLP structure. Homeword is also currently involved with three preservation/rehabilitation projects, all three near completion (two financed through 9% Low Income Housing Tax Credits and one conventional loan financing).

A 2017 HUD monitoring report to the City of Missoula included a statement about Sweetgrass Commons saying "Sweetgrass Commons is a marker of high quality and beautifully designed affordable housing. Of note is that Sweetgrass Commons is superior aesthetically than the neighboring newly constructed market rate multi-family property." Additionally, the Larkspur Commons project was awarded a Beautification Award by the City of Bozeman.

Homeword has two applications submitted to the Montana Board of Housing for 9% tax credits as of September 2017. The first, an adaptive re-use project of the former hospital in Livingston, Montana which is slated for 34 apartments. Homeword entered into an assignment of purchase and sale agreement with NeighborWorks Montana and plans to execute purchase of land and buildings upon award of tax credits. The second is a 4% bond / 9% LITHC combination project for new construction of a 136-unit apartment complex in Billings, Montana in co-development with a previous partner.

HOMEWORLD, INC. AND AFFILIATES

Missoula, Montana

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended June 30, 2017 and 2016

NOTE 9. PROJECT DEVELOPMENTS, continued

Homeworld has entered into a purchase and sale agreement to purchase a 72-unit senior HUD property in Anaconda, Montana for \$1 in exchange for assuming all debt.

Homeworld has contracted with Anaconda Deer Lodge County to deploy Neighborhood Stabilization Program (NSP) funds starting in 2010 to build single-family homes targeting those earning less than 50% AMI (required program targets). Program Income derived from the re-sale of the homes where NSP funds were structured as a soft second mortgage have come back to the County and Homeworld is working with them to amend their contract with the state Dept. of Commerce to expand their eligible uses to include multi-family housing. The County is the grantee with the State and Homeworld has served as Developer through contractual agreement. Homeworld is looking to shift away from involvement in the Program. Homeworld's intent is to coordinate with a local entity which has the capacity to carry out the program by contracting with the County to utilize the NSP Program Income on eligible projects.

NOTE 10. NON-CONTROLLING INTEREST

Changes in net assets related to the non-controlling interest in RBSB follow:

	<u>Homeworld</u>	<u>Noncontrolling Interest</u>	<u>Total</u>
Net Assets, July 1, 2015	\$ 651,752	\$ 179,737	\$ 831,489
Member Contributions	-	-	-
Distributions	-	-	-
Net income	24,119	1,297	25,416
Net Assets, June 30, 2016	\$ 675,871	\$ 181,034	\$ 856,905
Member Contributions	-	-	-
Distributions	(39,500)	(10,500)	(50,000)
Net Income	16,047	9,379	25,426
Net Assets, June 30, 2017	<u>\$ 652,418</u>	<u>\$ 179,913</u>	<u>\$ 832,331</u>

HOMESWORD, INC. AND AFFILIATES

Missoula, Montana

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended June 30, 2017 and 2016

NOTE 11. LOBBYING EXPENDITURES

The Organization has elected to be governed by Section 501(h) of the Internal Revenue Code. Section 501(h) limits the Organizations lobbying expenditures to total spending ceilings based on a percentage of the Organization's total exempt purpose expenditures. There is an overall ceiling of \$1 million per year. The Organization incurred lobbying expenses totaling \$41 in 2017 and \$-0- in 2016.

NOTE 12. FUND-RAISING ACTIVITIES

The Organization has a dedicated staff member for Fundraising – the Fundraising & Marketing Manager – who is charged with overseeing the Donor Program and all outreach and communications. The Organization receives grant funds from private and public sources as well as individual donor contributions and corporate sponsorships. All of these contributions assist Homeward in serving residents of affordable properties or clients utilizing the HomeOwnership Center. The Organization has been building on its fundraising activities to increase the amount of unrestricted income available to provide housing and education/counseling services. Fund-raising activities are reported on the Consolidated Schedule of Functional Revenue and Expenses under Communications and Fund-raising and totaled \$63,250 and \$61,917 in 2017 and 2016, respectively. Fund raising expenses were 3.80% and 4.12% of total expenses in 2017 and 2016, respectively.

NOTE 13. RECLASSIFICATIONS

Certain reclassifications have been made to the June 30, 2016 consolidated financial statement presentation to correspond to the June 30, 2017 format. Net assets and the changes in net assets are unchanged due to these reclassifications.

HOMWORD, INC. AND AFFILIATES

Missoula, Montana

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended June 30, 2017 and 2016

NOTE 14. SUBSEQUENT EVENTS

Management has evaluated subsequent events through November 21, 2017, the date which the financial statements were evaluated for issue.

In August 2017, Homeword created Creekside Apartments, LLC (Creekside) as a single member Montana Limited Liability Company (LLC). Homeword is the sole member of the LLC. The purpose of Creekside is to own and operate a 161-unit Section 42 low-income housing property through the final nine years of the extended compliance period. The property was purchased for approximately \$14 million on August 31, 2017 using tax-exempt bond financing provided by First Security Bank and an equity loan from NeighborWorks Montana. The tax-exempt bond financing will require ongoing overlap between Section 42 and Section 142 compliance. This LLC will terminate on December 31, 2066, unless terminated or dissolved sooner in accordance with its Articles of Organization or Operating Agreement.

The New Markets Tax Credit (NMTC) structure and agreements between hW-Confluence, Inc., and U.S. Bank NA terminated on October 3, 2017. hW-Confluence, Inc., secured debt financing that is collateralized by the building and assignment of rents in the amount of \$1,750,000 from U.S. Bank NA in order to make substantial partial principal payments on two QLICB loans due October 1, 2017 (USB CDE SUB-CDE, LXI, LLC for \$740,990 and \$889,188). Surplus funding will finance hW-Confluence, Inc. operations and reimburse Homeword for its funding of previous tenant improvements

An obligation of the NMTC termination is that Homeword will exercise a Put option and become the sole member of HW Solstice Investment Fund, LLC. As the sole member, the remaining balances receivable on the QLICB notes to hW-Confluence, Inc will become related party.

Homeword expects to continue sub-leasing office space under terms of a new master lease agreement addendum with hW Confluence, Inc., through 2024.

SUPPLEMENTAL SCHEDULES

HOMEWORD, INC. AND AFFILIATES
Missoula, Montana

SCHEDULE 1
CONSOLIDATED SCHEDULES OF FUNCTIONAL REVENUE AND EXPENSES

For the Year Ended June 30, 2017

	Program Services			Supporting Services		Total
	Home Ownership Center	Property and Asset Management	Housing Development	Management & General	Communications & Fund-raising	
Unrestricted Revenues						
Grants	\$ 61,290	\$ -	\$ 981,763	\$ -	\$ -	\$ 1,043,053
Interest	-	303,862	-	454	-	304,316
Services	98,405	115,850	56,435	-	-	270,690
Contributions	17,979	-	-	-	62,261	80,240
Housing Development	-	53,308	215,899	-	-	269,207
Rents	-	443,225	-	-	-	443,225
Other	1,000	19,689	2,739	-	-	23,428
Investment Income	-	29,465	-	-	-	29,465
Equity Loss from Affiliates	-	14,787	315,637	-	-	330,424
Total Unrestricted Revenues	\$ 178,674	\$ 980,186	\$ 1,572,473	\$ 454	\$ 62,261	\$ 2,794,048
Expenses						
Salaries and Benefits	\$ 187,228	\$ 196,805	\$ 281,412	\$ 37,626	\$ 55,036	\$ 758,107
Contract Services	2,816	3,359	6,115	17,743	-	30,033
Rent and Utilities	(3,658)	68,760	5,732	2,922	-	73,756
Supplies	2,351	126,134	6,009	1,722	-	136,216
Travel and Training	4,825	626	16,307	1,636	-	23,394
Insurance	-	35,179	3,659	617	-	39,455
Printing and Copying	1,652	1,060	1,864	1,613	-	6,189
Outreach	6,017	1,960	3,678	-	8,214	19,869
Dues and Publications	391	1,135	1,073	433	-	3,032
Depreciation	-	261,842	-	207	-	262,049
Technology Purchases	877	820	1,812	4,339	-	7,848
Administrative Support	1,231	73,082	460	2,262	-	77,035
Interest	-	145,691	-	-	-	145,691
Other	3,675	70,906	5,597	1,053	-	81,231
Total Expenses	\$ 207,405	\$ 987,359	\$ 333,718	\$ 72,173	\$ 63,250	\$ 1,663,905
	12.46%	59.34%	20.06%	4.34%	3.80%	100.00%

See Independent Auditor's Report

HOMEWORD, INC. AND AFFILIATES
Missoula, Montana

SCHEDULE 1
CONSOLIDATED SCHEDULES OF FUNCTIONAL REVENUE AND EXPENSES,
Continued

For the Year Ended June 30, 2016

	Program Services			Supporting Services		Total
	Home Ownership Center	Property and Asset Management	Housing Development	Management & General	Communications & Fund-raising	
Unrestricted Revenues						
Grants	\$ 32,102	\$ 40	\$ 1,359,120	\$ 40	\$ -	\$ 1,391,302
Interest	-	285,213	-	291	-	285,504
Services	151,061	21,241	113,510	-	-	285,812
Contributions	15,846	1,000	49,000	-	56,789	122,635
Housing Development	-	-	539,723	-	-	539,723
Rents	-	426,206	-	-	-	426,206
Other	1,250	1,753	921	2,968	-	6,892
Investment Income	-	25,416	-	-	-	25,416
Equity Loss from Affiliates	-	(175,893)	286,606	-	-	110,713
Total Unrestricted Revenues	\$ 200,259	\$ 584,976	\$ 2,348,880	\$ 3,299	\$ 56,789	\$ 3,194,203
Expenses						
Salaries and Benefits	\$ 182,758	\$ 188,191	\$ 280,066	\$ 41,278	\$ 53,447	\$ 745,740
Contract Services	2,993	2,406	3,685	13,536	-	22,620
Rent and Utilities	6,722	21,521	7,264	3,784	-	39,291
Supplies	2,250	115,746	5,416	2,057	-	125,469
Travel and Training	1,653	1,283	22,160	1,567	-	26,663
Insurance	-	17,909	3,592	1,006	-	22,507
Printing and Copying	1,369	900	1,850	1,265	-	5,384
Outreach	4,080	1,518	2,797	-	8,470	16,865
Dues and Publications	503	1,219	1,262	502	-	3,486
Depreciation	-	215,871	-	2,698	-	218,569
Technology Purchases	543	469	844	1,874	-	3,730
Administrative Support	1,012	45,572	592	3,728	-	50,904
Interest	-	145,333	-	-	-	145,333
Other	3,584	57,364	13,377	3,605	-	77,930
Total Expenses	\$ 207,467	\$ 815,302	\$ 342,905	\$ 76,900	\$ 61,917	\$ 1,504,491
	13.79%	54.19%	22.79%	5.11%	4.12%	100.00%

See Independent Auditor's Report

HOMEWORD, INC. AND AFFILIATES
Missoula, Montana

SCHEDULE 2
CONSOLIDATING STATEMENTS OF FINANCIAL POSITION

As of June 30, 2017

	<u>Homeword</u>	<u>Confluence</u>	<u>RBSB</u>	<u>Phillips</u>
ASSETS				
CURRENT ASSETS				
Cash	\$ 421,258	\$ 36,505	\$ 1,966	\$ 10,198
Accounts Receivable, net	333,743	1,879	-	30
Prepays	1,457	517	-	321
TOTAL CURRENT ASSETS	<u>756,458</u>	<u>38,901</u>	<u>1,966</u>	<u>10,549</u>
NON-CURRENT ASSETS				
Restricted Cash	239,117	124,042	-	35,083
Developer Fee Receivable - tax credit partnerships, net	292,721	-	-	-
Interest Receivable - developer fee, net	113,965	-	-	-
Management Fee Receivable - tax credit partnerships, net	596,850	-	-	-
Property and Equipment, net	40,000	3,415,769	-	443,306
Investment in NSP Properties	-	-	-	-
TOTAL NON-CURRENT ASSETS	<u>1,282,653</u>	<u>3,539,811</u>	<u>-</u>	<u>478,389</u>
OTHER ASSETS				
Long-Term Receivable - tax credit partnerships	12,598,318	-	-	-
Interest Receivable - tax credit partnerships	3,277,366	-	-	-
Miscellaneous Long-Term Assets	-	-	-	-
Investment in Tax Credit Partnerships and Other Entities	420,453	-	830,365	-
TOTAL OTHER ASSETS	<u>16,296,137</u>	<u>-</u>	<u>830,365</u>	<u>-</u>
TOTAL ASSETS	<u>\$ 18,335,248</u>	<u>\$ 3,578,712</u>	<u>\$ 832,331</u>	<u>\$ 488,938</u>
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Accounts Payable	\$ 26,080	\$ 113,977	\$ -	\$ 2,372
Accrued Liabilities	88,327	47,661	-	1,885
Funds Held in Trust	8,418	-	-	-
Deferred Revenue	-	-	-	516
Current Portion of Long-Term Debt	506,457	1,646,268	-	3,078
TOTAL CURRENT LIABILITIES	<u>629,282</u>	<u>1,807,906</u>	<u>-</u>	<u>7,851</u>
LONG-TERM LIABILITIES				
Other	-	14,043	-	47,914
Long-Term Debt	456,537	2,313,732	-	508,502
TOTAL LONG-TERM LIABILITIES	<u>456,537</u>	<u>2,327,775</u>	<u>-</u>	<u>556,416</u>
TOTAL LIABILITIES	<u>1,085,819</u>	<u>4,135,681</u>	<u>-</u>	<u>564,267</u>
NET ASSETS				
Unrestricted				
Noncontrolling Interest in RBSB	-	-	832,331	-
Board Designated	-	-	-	-
Undesignated	17,249,429	(556,969)	-	(75,329)
TOTAL NET ASSETS	<u>17,249,429</u>	<u>(556,969)</u>	<u>832,331</u>	<u>(75,329)</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 18,335,248</u>	<u>\$ 3,578,712</u>	<u>\$ 832,331</u>	<u>\$ 488,938</u>

See Independent Auditor's Report

HOMEWORD, INC. AND AFFILIATES
Missoula, Montana

SCHEDULE 2
CONSOLIDATING STATEMENTS OF FINANCIAL POSITION, Continued

As of June 30, 2017

	Fireweed Court	Lenox Flats	Gold Dust	Eliminations	Consolidated Balance
ASSETS					
CURRENT ASSETS					
Cash	\$ 28,367	\$ 37,576	\$ 44,893	\$ -	\$ 580,763
Accounts Receivable, net	1,091	871	2,236	(56,250)	283,600
Prepays	578	769	1,133	-	4,775
TOTAL CURRENT ASSETS	30,036	39,216	48,262	(56,250)	869,138
NON-CURRENT ASSETS					
Restricted Cash	56,833	60,047	81,338	-	596,460
Developer Fee Receivable - tax credit partnerships, net	-	-	-	-	292,721
Interest Receivable - developer fee, net	-	-	-	-	113,965
Management Fee Receivable - tax credit partnerships, net	-	-	-	(75,002)	521,848
Property and Equipment, net	554,007	779,480	1,398,694	-	6,631,256
Investment in NSP Properties	-	-	-	-	-
TOTAL NON-CURRENT ASSETS	610,840	839,527	1,480,032	(75,002)	8,156,250
OTHER ASSETS					
Long-Term Receivable - tax credit partnerships	-	-	-	(2,154,127)	10,444,191
Interest Receivable - tax credit partnerships	-	-	-	(964,296)	2,313,070
Miscellaneous Long-Term Assets	-	269	-	-	269
Investment in Tax Credit Partnerships and Other Entities	-	-	-	(247,074)	1,003,744
TOTAL OTHER ASSETS	-	269	-	(3,365,497)	13,761,274
TOTAL ASSETS	\$ 640,876	\$ 879,012	\$ 1,528,294	\$ (3,496,749)	\$ 22,786,662
LIABILITIES AND NET ASSETS					
CURRENT LIABILITIES					
Accounts Payable	\$ 1,278	\$ 1,332	\$ 956	\$ (56,250)	\$ 89,745
Accrued Liabilities	1,632	5,071	2,441	(20,600)	126,417
Funds Held in Trust	-	-	-	-	8,418
Deferred Revenue	1,206	2,260	1,939	-	5,921
Current Portion of Long-Term Debt	6,561	-	-	-	2,162,364
TOTAL CURRENT LIABILITIES	10,677	8,663	5,336	(76,850)	2,392,865
LONG-TERM LIABILITIES					
Other	133,431	417,534	447,523	(1,018,698)	41,747
Long-Term Debt	539,736	609,764	648,564	(2,154,127)	2,922,708
TOTAL LONG-TERM LIABILITIES	673,167	1,027,298	1,096,087	(3,172,825)	2,964,455
TOTAL LIABILITIES	683,844	1,035,961	1,101,423	(3,249,675)	5,357,320
NET ASSETS					
Unrestricted					
Noncontrolling Interest in RBSB	-	-	-	(652,418)	179,913
Board Designated	-	-	-	-	-
Undesignated	(42,968)	(156,949)	426,871	405,344	17,249,429
TOTAL NET ASSETS	(42,968)	(156,949)	426,871	(247,074)	17,429,342
TOTAL LIABILITIES AND NET ASSETS	\$ 640,876	\$ 879,012	\$ 1,528,294	\$ (3,496,749)	\$ 22,786,662

See Independent Auditor's Report

HOMEWORD, INC. AND AFFILIATES
Missoula, Montana

SCHEDULE 2
CONSOLIDATING STATEMENTS OF FINANCIAL POSITION, Continued

As of June 30, 2016

	<u>Homeword</u>	<u>Confluence</u>	<u>RBSB</u>	<u>Phillips</u>
ASSETS				
CURRENT ASSETS				
Cash	\$ 814,886	\$ 64,124	\$ 26,540	\$ 12,380
Accounts Receivable, net	377,945	-	-	3,229
Prepays	1,456	478	-	289
TOTAL CURRENT ASSETS	<u>1,194,287</u>	<u>64,602</u>	<u>26,540</u>	<u>15,898</u>
NON-CURRENT ASSETS				
Restricted Cash	8,830	127,145	-	33,462
Developer Fee Receivable - tax credit partnerships, net	267,146	-	-	-
Interest Receivable - developer fee, net	104,538	-	-	-
Management Fee Receivable - tax credit partnerships, net	522,781	-	-	-
Property and Equipment, net	40,207	3,495,663	-	456,847
Investment in NSP Properties	14	-	-	-
TOTAL NON-CURRENT ASSETS	<u>943,516</u>	<u>3,622,808</u>	<u>-</u>	<u>490,309</u>
OTHER ASSETS				
Long-Term Receivable - tax credit partnerships	11,715,215	-	-	-
Interest Receivable - tax credit partnerships	2,987,037	-	-	-
Miscellaneous Long-Term Assets	-	-	-	-
Investment in Tax Credit Partnerships and Other Entities	191,610	-	830,365	-
TOTAL OTHER ASSETS	<u>14,893,862</u>	<u>-</u>	<u>830,365</u>	<u>-</u>
TOTAL ASSETS	<u>\$ 17,031,665</u>	<u>\$ 3,687,410</u>	<u>\$ 856,905</u>	<u>\$ 506,207</u>
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Accounts Payable	\$ 20,299	\$ 99,768	\$ -	\$ 718
Accrued Liabilities	76,324	35,905	-	-
Funds Held in Trust	8,830	-	-	-
Deferred Revenue	-	1,136	-	2,181
Current Portion of Long-Term Debt	6,266	-	-	2,942
TOTAL CURRENT LIABILITIES	<u>146,719</u>	<u>136,809</u>	<u>-</u>	<u>5,841</u>
LONG-TERM LIABILITIES				
Other	-	16,109	-	40,721
Long-Term Debt	766,781	3,960,000	-	513,426
TOTAL LONG-TERM LIABILITIES	<u>766,781</u>	<u>3,976,109</u>	<u>-</u>	<u>554,147</u>
TOTAL LIABILITIES	<u>913,500</u>	<u>4,112,918</u>	<u>-</u>	<u>559,988</u>
NET ASSETS				
Unrestricted				
Noncontrolling Interest in RBSB	-	-	856,905	-
Board Designated	-	-	-	-
Undesignated	16,118,165	(425,508)	-	(53,781)
TOTAL NET ASSETS	<u>16,118,165</u>	<u>(425,508)</u>	<u>856,905</u>	<u>(53,781)</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 17,031,665</u>	<u>\$ 3,687,410</u>	<u>\$ 856,905</u>	<u>\$ 506,207</u>

See Independent Auditor's Report

HOMEWORD, INC. AND AFFILIATES
Missoula, Montana

SCHEDULE 2
CONSOLIDATING STATEMENTS OF FINANCIAL POSITION, Continued

As of June 30, 2016

	Fireweed Court	Lenox Flats	Eliminations	Consolidated Balance
ASSETS				
CURRENT ASSETS				
Cash	\$ 33,516	\$ 28,635	\$ -	\$ 980,081
Accounts Receivable, net	1,808	4,161	(56,250)	330,893
Prepays	2,676	939	(2,131)	3,707
TOTAL CURRENT ASSETS	38,000	33,735	(58,381)	1,314,681
NON-CURRENT ASSETS				
Restricted Cash	52,670	53,896	-	276,003
Developer Fee Receivable - tax credit partnerships, net	-	-	-	267,146
Interest Receivable - developer fee, net	-	-	-	104,538
Management Fee Receivable - tax credit partnerships, net	-	-	(23,319)	499,462
Property and Equipment, net	595,978	842,399	-	5,431,094
Investment in NSP Properties	-	-	-	14
TOTAL NON-CURRENT ASSETS	648,648	896,295	(23,319)	6,578,257
OTHER ASSETS				
Long-Term Receivable - tax credit partnerships	-	-	(1,507,408)	10,207,807
Interest Receivable - tax credit partnerships	-	-	(540,198)	2,446,839
Miscellaneous Long-Term Assets	-	830	-	830
Investment in Tax Credit Partnerships and Other Entities	-	-	(110,664)	911,311
TOTAL OTHER ASSETS	-	830	(2,158,270)	13,566,787
TOTAL ASSETS	\$ 686,648	\$ 930,860	\$ (2,239,970)	\$ 21,459,725
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Accounts Payable	\$ 1,244	\$ 5,613	\$ (56,250)	\$ 71,392
Accrued Liabilities	1,570	4,662	(12,950)	105,511
Funds Held in Trust	-	-	-	8,830
Deferred Revenue	472	160	-	3,949
Current Portion of Long-Term Debt	6,226	-	-	15,434
TOTAL CURRENT LIABILITIES	9,512	10,435	(69,200)	240,116
LONG-TERM LIABILITIES				
Other	146,795	380,623	(552,698)	31,550
Long-Term Debt	546,297	609,764	(1,507,408)	4,888,860
TOTAL LONG-TERM LIABILITIES	693,092	990,387	(2,060,106)	4,920,410
TOTAL LIABILITIES	702,604	1,000,822	(2,129,306)	5,160,526
NET ASSETS				
Unrestricted				
Noncontrolling Interest in RBSB	-	-	(675,871)	181,034
Board Designated	-	-	-	-
Undesignated	(15,956)	(69,962)	565,207	16,118,165
TOTAL NET ASSETS	(15,956)	(69,962)	(110,664)	16,299,199
TOTAL LIABILITIES AND NET ASSETS	\$ 686,648	\$ 930,860	\$ (2,239,970)	\$ 21,459,725

See Independent Auditor's Report

HOMEWORD, INC. AND AFFILIATES
Missoula, Montana

SCHEDULE 3
CONSOLIDATING STATEMENTS OF ACTIVITIES

For the Year Ended June 30, 2017

	<u>Homeword</u>	<u>Confluence</u>	<u>RBSB</u>	<u>Phillips</u>
UNRESTRICTED NET ASSETS				
OPERATING REVENUE				
Housing Development Grants and Fees	\$ 269,207	\$ -	\$ -	\$ -
Interest	365,333	50	-	10
Services	289,012	-	-	-
Contributions	80,240	-	-	-
Other	8,309	-	-	2,126
Investment Income (Loss)	<u>20,086</u>	<u>-</u>	<u>25,426</u>	<u>-</u>
TOTAL OPERATING REVENUE	1,032,187	50	25,426	2,136
OPERATING EXPENSES				
Program				
Home Ownership Center	229,772	-	-	-
Property and Asset Management	230,374	329,441	-	74,816
Housing Development	<u>355,853</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Program	815,999	329,441	-	74,816
Supporting				
Management & General	84,753	-	-	-
Communications & Fund-raising	<u>63,250</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Supporting	<u>148,003</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL OPERATING EXPENSES	<u>964,002</u>	<u>329,441</u>	<u>-</u>	<u>74,816</u>
Change in Net Assets from Operations	68,185	(329,391)	25,426	(72,680)
NON-OPERATING REVENUE				
Rents	-	197,930	-	51,132
Grants	1,043,053	-	-	-
Contributions	-	-	-	-
Other	-	-	-	-
Equity Income (Loss) from Affiliates	<u>20,026</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL NON-OPERATING REVENUE	<u>1,063,079</u>	<u>197,930</u>	<u>-</u>	<u>51,132</u>
CHANGE IN NET ASSETS	1,131,264	(131,461)	25,426	(21,548)
UNRESTRICTED NET ASSETS				
Beginning of Year	16,118,165	(425,508)	856,905	(53,781)
Distributions to Members	-	-	(50,000)	-
Member Contributions	-	-	-	-
End of Year	<u>\$ 17,249,429</u>	<u>\$ (556,969)</u>	<u>\$ 832,331</u>	<u>\$ (75,329)</u>

See Independent Auditor's Report

HOMEWORD, INC. AND AFFILIATES
Missoula, Montana

SCHEDULE 3
CONSOLIDATING STATEMENTS OF ACTIVITIES, Continued

For the Year Ended June 30, 2017

	Fireweed Court	Lenox Flats	Gold Dust	Eliminations	Consolidated Total
UNRESTRICTED NET ASSETS					
OPERATING REVENUE					
Housing Development Grants and Fees	\$ -	\$ -	\$ -	\$ -	\$ 269,207
Interest	14	14	23	(61,128)	304,316
Services	-	-	-	(18,322)	270,690
Contributions	-	-	-	-	80,240
Other	119	1,188	11,686	-	23,428
Investment Income (Loss)	-	-	-	(16,047)	29,465
TOTAL OPERATING REVENUE	133	1,202	11,709	(95,497)	977,346
OPERATING EXPENSES					
Program					
Home Ownership Center	-	-	-	(22,367)	207,405
Property and Asset Management	119,328	191,328	134,333	(92,261)	987,359
Housing Development	-	-	-	(22,135)	333,718
Total Program	119,328	191,328	134,333	(136,763)	1,528,482
Supporting					
Management & General	-	-	-	(12,580)	72,173
Communication & Fund-raising	-	-	-	-	63,250
Total Supporting	-	-	-	(12,580)	135,423
TOTAL OPERATING EXPENSES	119,328	191,328	134,333	(149,343)	1,663,905
Change in Net Assets from Operations	(119,195)	(190,126)	(122,624)	53,846	(686,559)
NON-OPERATING REVENUE					
Rents	92,183	103,139	68,734	(69,893)	443,225
Grants	-	-	-	-	1,043,053
Contributions	-	-	-	-	-
Other	-	-	-	-	-
Equity Income (Loss) from Affiliates	-	-	-	310,398	330,424
TOTAL NON-OPERATING REVENUE	92,183	103,139	68,734	240,505	1,816,702
CHANGE IN NET ASSETS	(27,012)	(86,987)	(53,890)	294,351	1,130,143
UNRESTRICTED NET ASSETS					
Beginning of Year	(15,956)	(69,962)	-	(110,664)	16,299,199
Distributions to Members	-	-	-	50,000	-
Member Contributions	-	-	480,761	(480,761)	-
End of Year	<u>\$ (42,968)</u>	<u>\$ (156,949)</u>	<u>\$ 426,871</u>	<u>\$ (247,074)</u>	<u>\$ 17,429,342</u>

See Independent Auditor's Report

HOMEWORD, INC. AND AFFILIATES
Missoula, Montana

SCHEDULE 3
CONSOLIDATING STATEMENTS OF ACTIVITIES, Continued

For the Year Ended June 30, 2016

	Homeword	Confluence	RBSB	Phillips
UNRESTRICTED NET ASSETS				
OPERATING REVENUE				
Housing Development Grants and Fees	\$ 539,723	\$ -	\$ -	\$ -
Interest	332,106	92	-	10
Services	298,244	-	-	-
Contributions	122,635	-	-	-
Other	4,689	-	-	931
Investment Income (Loss)	20,069	-	25,416	-
TOTAL OPERATING REVENUE	1,317,466	92	25,416	941
OPERATING EXPENSES				
Program				
Home Ownership Center	219,123	-	-	-
Property and Asset Management	221,908	302,145	-	77,370
Housing Development	354,352	-	-	-
Total Program	795,383	302,145	-	77,370
Supporting				
Management & General	88,346	-	-	-
Communications & Fund-raising	61,917	-	-	-
Total Supporting	150,263	-	-	-
TOTAL OPERATING EXPENSES	945,646	302,145	-	77,370
Change in Net Assets from Operations	371,820	(302,053)	25,416	(76,429)
NON-OPERATING REVENUE				
Rents	-	233,555	-	50,291
Grants	1,391,302	-	-	-
Contributions	-	-	-	-
Other	-	-	-	-
Equity Income (Loss) from Affiliates	(69,853)	-	-	-
TOTAL NON-OPERATING REVENUE	1,321,449	233,555	-	50,291
CHANGE IN NET ASSETS	1,693,269	(68,498)	25,416	(26,138)
UNRESTRICTED NET ASSETS				
Beginning of Year	14,424,896	(357,010)	831,489	(27,643)
Distributions to Members	-	-	-	-
Member Contributions	-	-	-	-
End of Year	\$ 16,118,165	\$ (425,508)	\$ 856,905	\$ (53,781)

See Independent Auditor's Report

HOMEWORD, INC. AND AFFILIATES
Missoula, Montana

SCHEDULE 3
CONSOLIDATING STATEMENTS OF ACTIVITIES, Continued

For the Year Ended June 30, 2016

	Fireweed Court	Lenox Flats	Eliminations	Consolidated Total
UNRESTRICTED NET ASSETS				
OPERATING REVENUE				
Housing Development Grants and Fees	\$ -	\$ -	\$ -	\$ 539,723
Interest	12	-	(46,716)	285,504
Services	-	-	(12,432)	285,812
Contributions	-	-	-	122,635
Other	630	642	-	6,892
Investment Income (Loss)	-	-	(20,069)	25,416
TOTAL OPERATING REVENUE	642	642	(79,217)	1,265,982
OPERATING EXPENSES				
Program				
Home Ownership Center	-	-	(11,656)	207,467
Property and Asset Management	117,452	175,714	(79,287)	815,302
Housing Development	-	-	(11,447)	342,905
Total Program	117,452	175,714	(102,390)	1,365,674
Supporting				
Management & General	-	-	(11,446)	76,900
Communication & Fund-raising	-	-	-	61,917
Total Supporting	-	-	(11,446)	138,817
TOTAL OPERATING EXPENSES	117,452	175,714	(113,836)	1,504,491
Change in Net Assets from Operations	(116,810)	(175,072)	34,619	(238,509)
NON-OPERATING REVENUE				
Rents	96,191	109,760	(63,591)	426,206
Grants	-	-	-	1,391,302
Contributions	-	-	-	-
Other	-	-	-	-
Equity Income (Loss) from Affiliates	-	-	180,566	110,713
TOTAL NON-OPERATING REVENUE	96,191	109,760	116,975	1,928,221
CHANGE IN NET ASSETS	(20,619)	(65,312)	151,594	1,689,712
UNRESTRICTED NET ASSETS				
Beginning of Year	4,663	(4,650)	(262,258)	14,609,487
Distributions to Members	-	-	-	-
Member Contributions	-	-	-	-
End of Year	\$ (15,956)	\$ (69,962)	\$ (110,664)	\$ 16,299,199

See Independent Auditor's Report

hW-Confluence, Inc.
Missoula, Montana

SCHEDULE 4
STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2017 and 2016

	<u>June 30,</u> <u>2017</u>	<u>June 30,</u> <u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in Net Assets	\$ (131,461)	\$ (68,497)
Adjustments to Reconcile Change in Net Assets to Net		
Cash Flows from Operating Activities:		
Depreciation	96,784	96,222
Changes in Operating Assets and Liabilities:		
Accounts Receivable	(1,879)	1,768
Prepays	(39)	(21)
Restricted Cash	3,103	1,270
Accounts Payable	14,209	5,757
Accrued Liabilities	10,621	(2,926)
Other Long-Term Liabilities	(2,066)	(1,360)
	<u>120,733</u>	<u>100,710</u>
Total Adjustments		
Net Cash Flows from Operating Activities	<u>\$ (10,728)</u>	<u>\$ 32,213</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Cash paid for Building Improvements and Equipment	<u>\$ (16,891)</u>	<u>\$ -</u>
Net Cash Flows from Investing Activities	<u>\$ (16,891)</u>	<u>\$ -</u>
Cash and Cash Equivalents		
Beginning of Year	<u>64,124</u>	<u>31,911</u>
End of Year	<u>\$ 36,505</u>	<u>\$ 64,124</u>
SUPPLEMENTAL DISCLOSURE OF CASH PAYMENTS		
Cash Paid for Interest	<u>\$ 133,660</u>	<u>\$ 134,247</u>

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