

**INDEPENDENT AUDITORS' REPORT AND
FINANCIAL STATEMENTS FOR
AHP SERVICING, LLC
FOR THE YEAR ENDED DECEMBER 31, 2018**



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INDEPENDENT AUDITORS' REPORT

To the Members
AHP Servicing, LLC
Chicago, Illinois

Report on the Financial Statements

We have audited the accompanying financial statements of AHP Servicing, LLC, which comprise the balance sheet as of December 31, 2018, and the related statements of operations, changes in members' equity, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

INDEPENDENT AUDITORS' REPORT

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of AHP Servicing, LLC as of December 31, 2018, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

R. Chey, May 4, 2019

Englewood, Colorado
March 29, 2019

AHP SERVICING, LLC
BALANCE SHEET
DECEMBER 31, 2018

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$	3,229,453
Escrow cash		9,190
Mortgage loans held for sale		501,604
Prepaid expenses		149,597
Accounts and servicing receivables, related party		402,500
Total current assets		<u>4,292,344</u>

OTHER ASSETS

Property and equipment, net		224,309
Deferred offering costs		56,801
Deposits		25,893
Total other assets		<u>307,003</u>

TOTAL ASSETS	\$	<u>4,599,347</u>
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LIABILITIES AND MEMBERS' EQUITY

CURRENT LIABILITIES

Accounts payable and accrued expenses	\$	619,730
Escrow liability		9,190
Total liabilities		<u>628,920</u>

MEMBERS' EQUITY		<u>3,970,427</u>
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TOTAL LIABILITIES AND MEMBERS' EQUITY	\$	<u>4,599,347</u>
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AHP SERVICING, LLC
STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2018

REVENUE

Asset management fees	\$	1,128,984
Loan servicing fees		216,055
Total revenue		<u>1,345,039</u>

EXPENSES

Salaries and benefits		1,598,465
Occupancy, equipment and communication		170,455
General and administrative		189,419
Professional services		240,389
Advertising and marketing		83,863
Depreciation and amortization		52,610
Interest expense		22,954
Total expenses		<u>2,358,155</u>

NET LOSS

\$ (1,013,116)

AHP SERVICING, LLC
STATEMENT OF CHANGES IN MEMBERS' EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2018

Balance, January 1, 2018	\$	171,716
Member contributions		4,911,827
Member distributions		(100,000)
Net loss		<u>(1,013,116)</u>
Balance, December 31, 2018	\$	<u><u>3,970,427</u></u>

AHP SERVICING, LLC
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2018

CASH FLOWS FROM OPERATING ACTIVITIES	
Net loss	\$ (1,013,116)
Non-cash items-	
Depreciation and amortization	52,610
Decrease in-	
Escrow cash	(9,190)
Accounts and servicing receivables, related party	(402,500)
Prepaid expenses	(104,304)
Deposits	(25,893)
Deferred offering costs	(56,801)
Increase in-	
Accounts payable and accrued expenses	616,428
Escrow liability	9,190
Net cash used in operating activities	<u>(933,576)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases of property and equipment	(152,928)
Purchases of mortgage loans held for sale	(501,604)
Net cash used in investing activities	<u>(654,532)</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Member contributions	4,911,827
Member distributions	(100,000)
Repayment of line of credit	(200,000)
Net cash provided by financing activities	<u>4,611,827</u>
INCREASE IN CASH AND CASH EQUIVALENTS	3,023,719
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>205,734</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 3,229,453</u></u>
SUPPLEMENTAL INFORMATION	
Cash paid for interest	<u><u>\$ 22,954</u></u>

AHP SERVICING, LLC

NOTES TO FINANCIAL STATEMENTS

A. NATURE OF OPERATIONS

AHP Servicing, LLC (the “Company”), is a limited liability company organized June 27, 2017 under the laws of the state of Delaware. The Company was organized to develop and market a specialty mortgage servicing business as well as to invest in and service pools of defaulted mortgage loans (loans that are secured by a mortgage on real estate and delinquent on payments).

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements of the Company are prepared on the accrual basis of accounting.

Basis of Presentation

The accounting and reporting policies of the Company conform to accounting principles generally accepted in the United States of America (“GAAP”).

The Company adopted the calendar year as its basis of fiscal reporting.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents and Concentration of Cash Balance

The Company considers all highly liquid securities with an original maturity of less than three months to be cash and cash equivalents. The Company’s cash and cash equivalents in bank deposit accounts, at times, may exceed federally insured limits.

Escrow Cash

The Company maintains segregated bank accounts in trust for escrow balances for mortgagors. The balances of these accounts totaled \$9,190 at December 31, 2018.

Mortgage Loans Held for Sale

Mortgage loans purchased and held for sale in the secondary market are carried at the lower of aggregate cost or fair value, as determined using quoted prices for similar assets, adjusted for specific attributes of that loan, which would be used by other market participants.

Asset Management Fees

The Company performs asset management services for certain mortgage loans held by a related party. Asset management fees are based on a monthly loan fee in accordance with the underlying agreement, and are recognized into revenue on a monthly basis.

AHP SERVICING, LLC

NOTES TO FINANCIAL STATEMENTS

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loan Servicing Fees

Loan servicing fees represent revenue earned for servicing loans for various investors. Loan servicing fees are based on a monthly servicing fee per loan and event-based fees and are recognized into revenue on a monthly basis. Loan servicing expenses are charged to operations as incurred.

Property and Equipment

Property and equipment are recorded at cost when purchased. Depreciation is recorded for property and equipment using the straight-line method over the estimated useful lives of the assets. The Company reviews the recoverability of all long-lived assets, including the related useful lives, whenever events or changes in circumstances indicate that the carrying amount of a long-lived asset might not be recoverable. The balance at December 31, 2018 consisted of computers, capitalized software, and office equipment with estimated useful lives of 3-5 years. The Company's property and equipment consisted of the following as of December 31, 2018:

	Useful lives (years)	Amounts
	<u> </u>	<u> </u>
Property and equipment, at cost		
Computers	3	\$ 53,693
Capitalized Software	3	210,099
Furniture, Fixtures & Equipment	5	15,040
Total property and equipment, at cost		<u>278,832</u>
Accumulated depreciation and amortization		
Computers		(18,910)
Capitalized Software		(34,013)
Furniture, Fixtures & Equipment		(1,600)
Total accumulated depreciation and amortization		<u>(54,523)</u>
Total property and equipment, net		<u>\$ 224,309</u>

Depreciation and amortization expense totaled \$52,610 for the year ended December 31, 2018.

Capitalized Internal Software

The Company accounts for its internally developed software in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 350-40, *Intangibles – Goodwill and Other, Subtopic Internal Use Software* (ASC 350-40). Per ASC 350-40, direct costs incurred during the preliminary project stage are expensed as incurred. Once the capitalization criteria of ASC 350-40 have been met, external direct costs of materials and services consumed in developing or obtaining internal use computer software and the payroll and payroll related costs for employees who are directly associated with and who devote time to the internal use software are capitalized. The Company capitalized internally developed software costs totaling \$113,109 during the year ended December 31, 2018.

AHP SERVICING, LLC

NOTES TO FINANCIAL STATEMENTS

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Servicing Receivables

Servicing receivables represent funds advanced by the Company on behalf of customers and investors to cover delinquent balances for property taxes, insurance premiums, and other out-of-pocket costs. Servicing receivables are made in accordance with the servicing agreements and in certain cases are recoverable upon collection of future borrower payments, from the payment of accounts receivable, or from the proceeds resulting from the foreclosure of the underlying loans. The Company periodically reviews servicing receivables for collectability and amounts are written off when they are deemed uncollectible. No allowance has been recorded at December 31, 2018 as management has determined that all amounts are fully collectible.

Deferred Offering Costs

The Company complies with the requirements of FASB ASC-340-10-S99-1 and Securities and Exchange Commission ("SEC") Staff Accounting Bulletin (SAB) Topic 5A – "Expenses of Offering." Deferred Offering Costs consist principally of legal fees incurred in connection with the Offering discussed in Note E. Prior to the completion of the Offering, these costs are capitalized as deferred offering costs on the balance sheet. The deferred offering costs will be charged to members' equity upon the completion of the Proposed Offering or expensed if the Proposed Offering is not completed.

Stock-Based Compensation

During 2018, the Company's management granted common stock to key employees. Grant-date fair value is determined using a third party valuation. Compensation cost for service-based equity awards is recognized on a straight line basis over the requisite service period, which is generally the vesting period.

Income Taxes

The Company has elected to be taxed as a partnership under the Internal Revenue Code. Accordingly, no federal or state income tax provisions have been recorded in the financial statements as all items of income and expense generated by the Company are reported on the members' income tax returns. The Company has no federal or state tax examinations in process as of December 31, 2018.

Risks and Uncertainties

The Company's primary business activity is the servicing of mortgage loans. The mortgage loan industry is directly affected by the housing market and interest rates. This makes the Company susceptible to economic changes in the housing markets and changes in interest rates.

AHP SERVICING, LLC

NOTES TO FINANCIAL STATEMENTS

C. ACCOUNTS AND SERVICING RECEIVABLES

The following summarizes accounts and servicing receivables at December 31, 2018:

	<u>Amounts</u>
Accounts receivable	\$ 90,940
Servicing receivable	228,962
Due from related party	<u>82,598</u>
	<u>\$ 402,500</u>

The Company periodically evaluates the carrying value of accounts and servicing receivable balances with delinquent balances written-off based on specific credit evaluations and circumstances of the debtor. No allowance for doubtful accounts has been established at December 31, 2018, as management has determined that all amounts are fully collectible.

D. LINES OF CREDIT

During 2017, the Company obtained an unsecured line of credit with an availability of \$200,000, an interest rate of 3.5% per annum, and a maturity date of September 25, 2018. The line of credit was repaid during the year ended December 31, 2018.

During 2018, the Company obtained an unsecured line of credit from a related party with an availability of \$1,000,000, at an interest rate of 20% per annum, and a maturity date of January 19, 2020. There was no outstanding balance on the line of credit at December 31, 2018. Interest expense for the year ended December 31, 2018 totaled \$22,954.

E. MEMBERS' EQUITY

The debts, obligations, and liabilities of the Company, whether arising in contract, tort, or otherwise, are solely the debts, obligations, and liabilities of the Company, and no member of the Company is obligated personally for any such debt, obligation, or liability.

The Company's Proposed Offering (the Offering) under Regulation A was qualified by the SEC on November 7, 2018. Under the Offering the Company is offering for sale up to 5,000,000 shares of Series A Preferred Stock at a price of \$10 per share.

The Company allows for accredited and non-accredited investors in Series A Preferred Stock. The SEC has specific requirements that need to be met to be considered an accredited investor. Non-accredited investors have a limitation on how much can be invested in the Offering.

The Board of Directors has exclusive control over all aspects of the Company's business. As a result, owners of Series A Preferred Stock have no right to participate in the management of the Company and do not have any voting rights. As of December 31, 2018, purchases of Class A Preferred Stock totaled \$4,136,777 and net member contributions totaled \$4,911,827.

AHP SERVICING, LLC

NOTES TO FINANCIAL STATEMENTS

F. STOCK-BASED COMPENSATION

During 2018, the Company granted 21,010 shares of common stock to key employees of the Company, which vest over a three year period. Compensation cost is recognized over the requisite service period, generally defined as the vesting period. Compensation is recognized on a straight-line basis over the requisite service period for the entire award. The Company did not recognize compensation expense during the year ended December 31, 2018.

G. RELATED PARTY TRANSACTIONS

The Company has a servicing agreement with American Homeowner Preservation 2015A+, LLC (AHP 2015A+). Both the Company and AHP 2015A+ are subsidiaries of Neighborhoods United, LLC.

The Company performs asset management services and subservicing for AHP 2015A+. The total amount due from AHP 2015A+ for activities was \$315,556 and is included in accounts and servicing receivables, related party on the balance sheet at December 31, 2018. Total amount due to AHP 2015A+ was \$382,495 and is included in accounts payable and accrued expenses on the balance sheet as of December 31, 2018. Total fees recognized as revenue from activities performed for AHP 2015A+ was \$1,345,039 for the year ended December 31, 2018.

Due from AHP 2015A+ represents amounts receivable to the Company for payments made on behalf of related companies under common management that enter into similar transactions with the same counterparty. As of December 31, 2018, due from AHP 2015A+ balance totaled \$82,598, which is included in accounts and servicing receivables, related party on the balance sheet at December 31, 2018.

In the event related companies are unable to fulfill their obligations with the counterparty, the Company may be required to perform to the extent the related companies have outstanding obligations.

H. COMMITMENTS AND CONTINGENCIES

Operating Leases

The Company leases office space under an operating lease agreement, which expires in November 30, 2021. Rent expense under the lease agreement totaled \$127,737 for the year ended December 31, 2018, and is included in occupancy, equipment and communication on the statement of operations. Future minimum rental payments under the operating lease are as follows as December 31, 2018:

Year Ending December 31,	Amounts
2019	\$ 150,670
2020	155,190
2021	159,456
	<u>\$ 465,315</u>

AHP SERVICING, LLC
NOTES TO FINANCIAL STATEMENTS

I. FAIR VALUE MEASUREMENTS

Due to the short term nature, the Company's value of cash and cash equivalents, short term receivables and short term payables approximate their fair value at December 31, 2018.

J. SUBSEQUENT EVENTS

On January 25, 2019, the Company executed a mortgage loan sale agreement to purchase \$850,000 in residential mortgage loans.

Management has evaluated subsequent events through March 29, 2019, the date the financial statements were available to be issued.