

AFFORDABLE HOUSING RESOURCES, INC.

**Financial Statements
and Supplemental Schedules**

December 31, 2015 and 2014

(With Independent Auditors' Report Thereon)

AFFORDABLE HOUSING RESOURCES, INC.

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INDEPENDENT AUDITORS' REPORT

The Board of Trustees of
Affordable Housing Resources, Inc.:

Report on the Financial Statements

We have audited the accompanying financial statements of Affordable Housing Resources, Inc. (the "Agency"), which comprise the statements of financial position as of December 31, 2015 and 2014, and the related statements of activities and cash flows for the years 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 the 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 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 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Affordable Housing Resources, Inc. as of December 31, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The statements of functional expenses on pages 7 and 8 and the supplemental schedules are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

A handwritten signature in black ink that reads "LBMc, PC". The letters are stylized and cursive.

Brentwood, Tennessee
June 17, 2016

AFFORDABLE HOUSING RESOURCES, INC.

Statements of Financial Position

December 31, 2015 and 2014

Assets

	<u>2015</u>	<u>2014</u>
Cash	\$ 1,994,387	\$ 2,919,372
Accounts receivable:		
The Resource Foundation	61,816	61,816
Other	112,797	88,828
Prepaid expenses and other assets	11,607	15,921
Notes receivable, net of allowance for uncollectible loans of \$252,235 and \$202,648 as of December 31, 2015 and 2014, respectively	3,863,863	3,341,451
Property, buildings and equipment, net	971,798	1,008,832
Property held for sale	<u>493,592</u>	<u>407,892</u>
Total assets	\$ <u>7,509,860</u>	\$ <u>7,844,112</u>

Liabilities and Net Assets (Deficit)

Accounts payable	\$ 7,695	\$ 13,678
Accrued liabilities	263,577	319,058
Notes payable	<u>3,754,727</u>	<u>3,962,213</u>
Liabilities before equity equivalent investments	4,025,999	4,294,949
Other liabilities - equity equivalent investments	<u>5,060,835</u>	<u>5,060,835</u>
Total liabilities	<u>9,086,834</u>	<u>9,355,784</u>
Net assets (deficit):		
Unrestricted	(4,460,157)	(4,394,855)
Temporarily restricted	2,168,948	2,168,948
Permanently restricted	<u>714,235</u>	<u>714,235</u>
Total net assets (deficit)	<u>(1,576,974)</u>	<u>(1,511,672)</u>
	\$ <u>7,509,860</u>	\$ <u>7,844,112</u>

See accompanying notes to the financial statements.

AFFORDABLE HOUSING RESOURCES, INC.

Statement of Activities

Year ended December 31, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support and revenues:				
Public support:				
Grants - NeighborWorks America	\$ 164,586	\$ -	\$ -	\$ 164,586
Other	<u>370,878</u>	<u>-</u>	<u>-</u>	<u>370,878</u>
Total public support	<u>535,464</u>	<u>-</u>	<u>-</u>	<u>535,464</u>
Program revenue:				
Rental income	93,265	-	-	93,265
Counseling and mortgage fees	47,711	-	-	47,711
Loan servicing fees and interest	155,728	-	-	155,728
Hardest hit program	<u>3,980</u>	<u>-</u>	<u>-</u>	<u>3,980</u>
Total revenues	<u>300,684</u>	<u>-</u>	<u>-</u>	<u>300,684</u>
Total public support and revenues	<u>836,148</u>	<u>-</u>	<u>-</u>	<u>836,148</u>
Expenses:				
Program services -				
Low-income housing assistance	737,312	-	-	737,312
Supporting services -				
Management and general	<u>193,573</u>	<u>-</u>	<u>-</u>	<u>193,573</u>
Total expenses	<u>930,885</u>	<u>-</u>	<u>-</u>	<u>930,885</u>
Change in net assets from operations	<u>(94,737)</u>	<u>-</u>	<u>-</u>	<u>(94,737)</u>
Other changes in net assets -				
Gain on property held for sale	<u>29,435</u>	<u>-</u>	<u>-</u>	<u>29,435</u>
Decrease in net assets	<u>(65,302)</u>	<u>-</u>	<u>-</u>	<u>(65,302)</u>
Net assets (deficit) at beginning of year	<u>(4,394,855)</u>	<u>2,168,948</u>	<u>714,235</u>	<u>(1,511,672)</u>
Net assets (deficit) at end of year	<u>\$ (4,460,157)</u>	<u>\$ 2,168,948</u>	<u>\$ 714,235</u>	<u>\$ (1,576,974)</u>

See accompanying notes to the financial statements.

AFFORDABLE HOUSING RESOURCES, INC.

Statement of Activities

Year ended December 31, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support and revenue:				
Public support:				
Grants - NeighborWorks America	\$ 98,715	\$ -	\$ -	\$ 98,715
Other	<u>223,190</u>	<u>-</u>	<u>-</u>	<u>223,190</u>
Total public support	<u>321,905</u>	<u>-</u>	<u>-</u>	<u>321,905</u>
Program revenue:				
Rental income	93,705	-	-	93,705
Counseling and mortgage fees	18,446	-	-	18,446
Loan servicing fees and interest	102,895	-	-	102,895
Hardest hit program	<u>419,600</u>	<u>-</u>	<u>-</u>	<u>419,600</u>
Total program revenue	<u>634,646</u>	<u>-</u>	<u>-</u>	<u>634,646</u>
Total public support and revenues	<u>956,551</u>	<u>-</u>	<u>-</u>	<u>956,551</u>
Expenses:				
Program services -				
Low-income housing assistance	792,930	-	-	792,930
Supporting services -				
Management and general	<u>203,317</u>	<u>-</u>	<u>-</u>	<u>203,317</u>
Total expenses	<u>996,247</u>	<u>-</u>	<u>-</u>	<u>996,247</u>
Change in net assets from operations	(39,696)	-	-	(39,696)
Other changes in net assets:				
Other income	<u>14,999</u>	<u>-</u>	<u>-</u>	<u>14,999</u>
Decrease in net assets	(24,697)	-	-	(24,697)
Net assets (deficit) at beginning of year	<u>(4,370,158)</u>	<u>2,168,948</u>	<u>714,235</u>	<u>(1,486,975)</u>
Net assets (deficit) at end of year	<u>\$ (4,394,855)</u>	<u>\$ 2,168,948</u>	<u>\$ 714,235</u>	<u>\$ (1,511,672)</u>

See accompanying notes to the financial statements.

AFFORDABLE HOUSING RESOURCES, INC.

Statements of Cash Flows

Years ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities:		
Change in net assets	\$ <u>(65,302)</u>	\$ <u>(24,697)</u>
Adjustments to reconcile change in net assets to cash flows provided (used) by operating activities:		
Depreciation	37,034	37,162
Amortization of notes receivable	-	27,370
Provision for uncollectible notes receivable	49,587	13,013
In-kind contributions	(56,265)	-
Gain on property held for sale	(29,435)	-
(Increase) decrease in operating assets:		
Accounts receivable	(23,969)	138,206
Prepaid expenses and other assets	4,314	(2,519)
Increase (decrease) in operating liabilities:		
Accounts payable	(5,983)	(12,968)
Accrued liabilities	<u>(55,481)</u>	<u>(23,670)</u>
Total adjustments	<u>(80,198)</u>	<u>176,594</u>
Net cash provided (used) by operating activities	<u>(145,500)</u>	<u>151,897</u>
Cash flows from investing activities:		
Purchases of property, buildings and equipment	-	(14,044)
Collection of notes receivable	377,826	342,149
Advances of notes receivable	<u>(949,825)</u>	<u>(52,625)</u>
Net cash provided (used) by investing activities	<u>(571,999)</u>	<u>275,480</u>
Cash flows from financing activities:		
Proceeds from equity equivalent investments	-	2,000,000
Payments of notes payable	<u>(207,486)</u>	<u>(345,018)</u>
Net cash provided (used) by financing activities	<u>(207,486)</u>	<u>1,654,982</u>
Increase (decrease) in cash	(924,985)	2,082,359
Cash at beginning of year	<u>2,919,372</u>	<u>837,013</u>
Cash at end of year	\$ <u><u>1,994,387</u></u>	\$ <u><u>2,919,372</u></u>

See accompanying notes to the financial statements.

AFFORDABLE HOUSING RESOURCES, INC.

Statement of Functional Expenses

Year ended December 31, 2015

	<u>Program Services</u>	<u>Supporting Services</u>	<u>Totals</u>
	<u>Low-Income Housing Assistance</u>	<u>Management and General</u>	
Advertising and communication	\$ 23,661	\$ 4,176	\$ 27,837
Automobile	5,874	1,036	6,910
Contract labor	121,721	21,480	143,201
Depreciation	31,479	5,555	37,034
Repairs and maintenance	27,365	4,829	32,194
Direct expenses of developed properties	4,940	-	4,940
Insurance	20,131	3,552	23,683
Interest	17,252	3,045	20,297
Occupancy and rental	51,468	9,083	60,551
Office expenses	26,021	4,592	30,613
Payroll and related costs	296,270	123,808	420,078
Professional fees	25,917	4,573	30,490
Provision for uncollectible notes	30,000	-	30,000
Taxes, licenses and fees	26,266	4,635	30,901
Training	10,765	-	10,765
Travel and entertainment	13,554	2,392	15,946
Utilities	<u>4,628</u>	<u>817</u>	<u>5,445</u>
	<u>\$ 737,312</u>	<u>\$ 193,573</u>	<u>\$ 930,885</u>

AFFORDABLE HOUSING RESOURCES, INC.

Statement of Functional Expenses

Year ended December 31, 2014

	<u>Program Services</u>	<u>Supporting Services</u>	<u>Totals</u>
	<u>Low-Income Housing Assistance</u>	<u>Management and General</u>	
Advertising and communication	\$ 22,519	\$ 3,974	\$ 26,493
Amortization of notes receivable	27,370	-	27,370
Automobile	8,721	1,539	10,260
Contract labor	140,711	24,831	165,542
Depreciation	31,588	5,574	37,162
Repairs and maintenance	21,671	3,824	25,495
Direct expenses of developed properties	8,834	-	8,834
Insurance	24,004	4,236	28,240
Interest	39,381	6,950	46,331
Occupancy and rental	49,533	8,741	58,274
Office expenses	27,184	4,797	31,981
Payroll and related costs	296,633	123,848	420,481
Professional fees	54,052	9,539	63,591
Taxes, licenses and fees	15,846	2,796	18,642
Training	9,762	-	9,762
Travel and entertainment	11,577	2,043	13,620
Utilities	<u>3,544</u>	<u>625</u>	<u>4,169</u>
	<u>\$ 792,930</u>	<u>\$ 203,317</u>	<u>\$ 996,247</u>

AFFORDABLE HOUSING RESOURCES, INC.

Notes to the Financial Statements

December 31, 2015 and 2014

(1) Nature of activities

Affordable Housing Resources, Inc. (the "Agency") was chartered in 1989 as a Tennessee not-for-profit corporation. The purpose of the Agency is to "create affordable housing and strong neighborhoods" by increasing home ownership opportunities for families and individuals who are unable to obtain assistance through traditional public and private funding sources in the greater Nashville area. The Agency is supported principally by service fees, sale of single-family homes, private and public contributions and grants from the U.S. Department of Housing and Urban Development (through the Metropolitan Development and Housing Agency - "MDHA"), the Tennessee Housing Development Agency ("THDA") and the Neighborhood Reinvestment Corporation, dba NeighborWorks® America.

The following program and supporting services are included in the accompanying financial statements:

Low-Income Housing Assistance - includes various lending and development programs. The loan products include down payment and closing cost assistance loans and construction financing for single-family properties. Home-ownership programs include promoting home-ownership opportunities in Nashville, Tennessee, development of quality new affordable housing, acquisition and rehabilitation of single family properties, land acquisition and development, consumer home buyer education to prepare new homeowners, and developing community leadership programs.

Management and General - includes the functions necessary to ensure an adequate working environment and costs not identifiable with a single program or fund-raising activity, including costs associated with providing coordination and articulation of the Agency's program strategy, business management, general record keeping, budgeting and related purposes.

(2) Summary of significant accounting policies

The financial statements of the Agency are presented on the accrual basis. The significant accounting policies followed are described below.

(a) Basis of presentation

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Agency and changes therein are classified and reported as follows:

Unrestricted net assets - Net assets not subject to donor-imposed restrictions.

Notes to the Financial Statements

December 31, 2015 and 2014

Temporarily restricted net assets - Net assets subject to donor-imposed restrictions which may or will be met either by actions of the Agency and/or the passage of time. Such restrictions result primarily from the restricted use of assets for land acquisition and development, home construction, home purchase assistance loans or purchases of property for rental or resale to qualified low-income applicants.

Permanently restricted net assets - Net assets subject to permanent donor-imposed restrictions.

Contributions received from the Neighborhood Reinvestment Revolving Loan and Capital Projects Fund, which grants home ownership and improvement loans, and HOME funds received from MDHA are considered to be permanently restricted by the donor. The investment earnings on these funds are unrestricted.

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When the restriction is fulfilled (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted and reported in the statement of activities as net assets released from restrictions.

(b) Accounts receivable and provision for uncollectible items

The Agency reports accounts receivable, net of an allowance for doubtful accounts, at the amount which represents management's estimate of the amount that ultimately will be realized. The Agency reviews the adequacy of its allowance for uncollectible accounts on an ongoing basis, using historical payment trends, as well as review of specific accounts, and makes adjustments in the allowance as necessary. As of December 31, 2015 and 2014, no allowance for doubtful accounts was considered necessary.

Notes to the Financial Statements

December 31, 2015 and 2014

(c) Notes receivable and provision for uncollectible items

The Agency holds various notes receivable under previous programs in conjunction with its defined mission. These notes are secured by the properties for which the loans were originally provided to purchase or assist with the down payment. Additionally, certain of these notes are, in substance, grants that are forgiven over defined periods of time as long as the program participant continues to own the property. These notes receivable are amortized over the term of the note in accordance with these agreements. Notes receivable are considered impaired when, based on current information, it is probable that all amounts or a portion of principal and interest due will not be collected according to the terms of the note agreement. Generally, a note receivable is considered impaired when the individual debtor cannot be located or has declared bankruptcy. The allowance for uncollectible notes is established by charges to program services expense and is maintained at an amount which management believes will be adequate to absorb losses on existing loans. Uncollectible loans are charged to the allowance account in the period in which such a determination is made.

(d) Property, buildings and equipment

Property, buildings and equipment additions, major renewals and betterments are recorded at cost at the date of purchase, at fair value at the date of gift if the value is readily determinable, or other reasonable basis, as determined by the Board of Trustees, if cost is unknown. Depreciation is computed by using the straight-line method over the estimated useful lives of the assets. When property is retired or sold, the cost and the related accumulated depreciation are removed from the accounts, and the resulting gain or loss is included in unrestricted net assets.

(e) Property held for sale

Property held for sale is recorded at the lower of cost or fair market value. The Agency's management has approved a plan to sell its existing housing and commercial development properties. As a result, the assets have been classified as property held for sale at December 31, 2015 and 2014.

(f) Long-lived assets

Management evaluates the recoverability of the investment in long-lived assets on an ongoing basis and recognizes any impairment in the year of determination. It is reasonably possible that relevant conditions could change in the near term and necessitate a change in management's estimate of the recoverability of these assets.

Notes to the Financial Statements

December 31, 2015 and 2014

(g) Revenue recognition

Contributions and other public support are generally recognized at the time of receipt. Fees for services are earned and reported as revenue when those services are performed by the Agency.

The Agency reports any gifts of equipment or materials as unrestricted support unless explicit donor restrictions specify how the assets must be used. Gifts of long-lived assets with explicit restrictions as to how the assets are to be used or funds restricted for the acquisition of long-lived assets are reported as restricted support. Expirations of donor restrictions are recognized when the donated or acquired long-lived assets are placed in service.

Fees for loan origination, processing and servicing are earned and reported as revenues when those services are performed by the Agency.

(h) Income taxes

The Agency is exempt from federal income taxes under the provisions of Internal Revenue Code ("IRC") Section 501(c)(3), and, accordingly, no provision for income taxes is included in the financial statements.

As of December 31, 2015, the Agency has accrued no interest and no penalties related to uncertain tax positions. It is the Agency's policy to recognize interest and/or penalties related to income tax matters in income tax expense.

The Agency files a U.S. Federal information tax return. The Agency is currently open to audit under the statute of limitations by the Internal Revenue Service for the years subsequent to December 31, 2011.

(i) Functional allocation of expenses

Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are charged to programs and supporting services based upon various allocation methods. General and administrative expenses include those expenses that are not directly identifiable with any other specific functions but provide for the overall support and direction of the Agency.

(j) Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure 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.

Notes to the Financial Statements

December 31, 2015 and 2014

(k) Events occurring after reporting date

Management of the Agency has evaluated events and transactions that occurred between December 31, 2015 and June 17, 2016 which is the date the financial statements were available to be issued for possible recognition or disclosure in the financial statements. No such events or transactions were noted requiring recognition or disclosure in the financial statements.

(3) Credit risk and other concentrations

The Agency periodically maintains cash on deposit at banks in excess of federally insured amounts. The Agency has not experienced any losses in such accounts and management believes the Agency is not exposed to any significant credit risk related to cash.

(4) Notes receivable

Loans to homebuyers are made for terms of 4 to 15 years, at annual interest rates ranging from 4.5% to 7.5%. Notes receivable, net of bad debt reserve, totaled \$3,863,863 and \$3,341,451 at December 31, 2015 and 2014, respectively. The total of the notes receivable which are greater than 90 days old were approximately \$117,000 and \$148,000 at December 31, 2015 and 2014, respectively. The notes receivable are collateralized by real estate.

Notes receivable also include non-interest bearing notes, in the amounts of \$732,928 and \$752,258 at December 31, 2015 and 2014, respectively, that are, in substance, grants that are forgiven over a period up to 15 years, as long as the homeowner continues to own the property or pays the note when the property sells. The notes are secured by liens on the homeowner's property. During 2014, amortization of these notes amounted to \$27,370. No amortization was incurred related to these notes during 2015.

(5) Property, buildings and equipment

A summary of property, buildings and equipment at December 31, 2015 and 2014 is as follows:

	<u>2015</u>	<u>2014</u>
Land	\$ 105,000	\$ 105,000
Buildings and improvements	996,867	996,867
Furniture, equipment and autos	<u>27,426</u>	<u>27,426</u>
Total cost	1,129,293	1,129,293
Accumulated depreciation	<u>(157,495)</u>	<u>(120,461)</u>
Property, buildings and equipment, net	\$ <u>971,798</u>	\$ <u>1,008,832</u>

AFFORDABLE HOUSING RESOURCES, INC.

Notes to the Financial Statements

December 31, 2015 and 2014

(6) Notes payable

A summary of notes payable as of December 31, 2015 and 2014 is as follows:

	<u>2015</u>	<u>2014</u>
Note payable to a bank, maturing in August 2017, monthly payments of \$3,500, plus interest at an annual rate at the Prime Rate minus 4.00% (0.0% at December 31, 2015).	\$ 734,896	\$ 776,896
Note payable to a foundation, principal in arrears, with an annual interest rate of 4.5%.	400,000	400,000
Two notes payable to the Community Development Financial Institutions Fund, maturing in April 2023, non-interest bearing.	250,000	250,000
Note payable to MDHA, maturing in November 2022, non-interest bearing.	250,000	250,000
Note payable to THDA, maturing in June 2034, non-interest bearing.	34,422	37,562
Note payable to a bank, automatically renewed annually, with an annual interest rate of 6%.	17,512	17,512
Note payable to a bank, maturing in May 2018, with an annual interest rate of 1.25%	<u>100,000</u>	<u>100,000</u>
Total notes payable with defined maturities	1,786,830	1,831,970
Notes payable to banks with interest at an annual rate at the Prime Rate minus 4.00% (0.0% at December 31, 2015). These notes payable have no defined maturities (see below).	<u>1,967,897</u>	<u>2,130,243</u>
Total notes payable	\$ <u>3,754,727</u>	\$ <u>3,962,213</u>

Notes payable without defined maturities are collateralized by certain notes receivable held by the Agency (the "Collateral Notes"). The notes payable are due only when principal payment on the Collateral Notes has been received or the homes acting as security interest for the Collateral Notes have been sold.

AFFORDABLE HOUSING RESOURCES, INC.

Notes to the Financial Statements

December 31, 2015 and 2014

With the exception of the notes payable without defined maturities discussed above, most of the above notes are secured by deeds of trust on the related real estate.

Following is a schedule of future principal payments on notes payable with defined maturities as of December 31, 2015:

<u>Year</u>	<u>Amount</u>
2016	\$ 461,512
2017	694,896
2018	2,000
2019	102,000
2020	2,000
2021 and later years	<u>524,422</u>
	<u>\$ 1,786,830</u>

Current portions of principal of notes payable include approximately \$400,000 of principal due in arrears at December 31, 2015 and 2014.

(7) Equity equivalent investments

The Agency carries certain obligations to banks that are classified as Equity Equivalent ("EQ2") funds. These obligations are shown under Other Liabilities on the statements of financial position in order to represent more clearly the nature of the payable and to adhere to industry practice. The EQ2 is defined by having six attributes as follows (1) the EQ2 investment is carried as an investment on the investor's balance sheet in accordance with GAAP; (2) the EQ2 investment is a general obligation of the Agency that is not secured by any of the Agency's assets; (3) the EQ2 investment is fully subordinated to the right of repayment of all the Agency's other creditors; (4) the EQ2 investment does not give the investor the right to accelerate payment unless the Agency ceases its normal operations; (5) the EQ2 investment carries an interest rate that is not tied to any income received by the Agency; and (6) the EQ2 investment has a rolling term, and therefore, an indeterminate maturity (also known as an evergreen provision). The Agency's total obligation under the equity equivalent investments was \$5,060,835 as of December 31, 2015 and 2014. Substantially all of these obligations carry an interest rate of Prime minus 4%, effectively 0%, at December 31, 2015 and 2014.

During 2014, the Agency received an additional \$2,000,000 EQ2 investment from a bank. This obligation is a ten year note; however, beginning on the seventh anniversary of the maturity date and on each anniversary thereafter, unless the Organization ceases to be financially sound (as defined in the loan agreements) or ceases to carry out a community development mission, the maturity date is automatically extended by one year. This investment is to be used for single-family housing in Nashville, Tennessee allowing the bank to qualify for a Community Investment Tax Credit. This note had an outstanding balance of \$2,000,000 as of December 31, 2015 and 2014 which is included in the total balance of \$5,060,835 at December 31, 2015 and 2014 noted above.

AFFORDABLE HOUSING RESOURCES, INC.

Notes to the Financial Statements

December 31, 2015 and 2014

(8) Accrued liabilities

A summary of accrued liabilities as of December 31, 2015 and 2014 is as follows:

	<u>2015</u>	<u>2014</u>
Accrued payroll	\$ 80,629	\$ 156,130
Accrued interest	115,051	98,393
Other accruals	<u>67,897</u>	<u>64,535</u>
	<u>\$ 263,577</u>	<u>\$ 319,058</u>

(9) Restrictions on net assets

Temporarily restricted net assets are available for the following purposes:

	<u>2015</u>	<u>2014</u>
HOME investment grants	\$ 484,487	\$ 484,487
HOME subrecipient grants for revolving construction fund	1,336,773	1,336,773
Revolving loans and available cash for low-income housing and down payment assistance	<u>347,688</u>	<u>347,688</u>
Total	<u>\$ 2,168,948</u>	<u>\$ 2,168,948</u>

Permanently restricted net assets consisted entirely of Neighborhood Reinvestment Revolving Loan and Capital Projects Fund grants at December 31, 2015 and 2014.

Temporarily and permanently restricted net assets include funds utilized for the purchase or construction of low-income housing as restricted by donors. Certain grants do not address if or when restrictions expire or are released upon forgiveness of loan balances or losses incurred from the disposition of such properties. The Agency has maintained the restrictions that existed on the original grants unless otherwise indicated by the donors.

(10) Employee benefit plan

The Agency has a defined contribution employee benefit plan for eligible employees under provisions of section 403(b) of the IRC. Eligible employees may elect to contribute a percentage of their compensation, subject to certain limitations, to the plan on a pre-tax basis. The Agency will match one-half of each employee's contributions, up to a maximum matching contribution of 3% of the employee's eligible compensation. The Agency expensed employer contributions of \$4,683 and \$6,298 in 2015 and 2014, respectively.

Notes to the Financial Statements

December 31, 2015 and 2014

(11) Operating leases

The Agency utilizes office space under an operating lease. Rent expense under this lease totaled \$52,848 and \$51,314 during 2015 and 2014, respectively. Future minimum payments under this lease are expected to total approximately \$54,000 during 2016.

(12) Loan servicing

Down payment assistance loans were sold to Neighborhood Housing Services of America ("NHSA") and are serviced by the Agency for NHSA. The Agency has entered into a Master Participation Agreement with several financial institutions to provide loan origination services and loan servicing for qualified first mortgage loans. The Agency receives a servicing fee equal to 1/2% of the amounts collected in connection with these services. None of the above loans are included in the financial statements.

(13) Commitments and contingencies

The disbursement of funds received under federal and state governmental grant programs generally requires compliance with the terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Agency. In management's opinion, any such disallowed claims will not have a material effect on the Agency.

(14) Affiliations

The Agency is affiliated with The Resource Foundation, Inc. ("TRF"), a Tennessee not-for-profit corporation, which merged its affordable rental housing development projects to low-income and very low-income families into the Agency in 1997. The Agency and TRF previously shared certain personnel. Operating expenses, applicable salaries and related personnel expenses were allocated on a pro-rata basis. The Agency was owed other receivables from this affiliate amounting to \$61,816 at December 31, 2015 and 2014.

Effective July 19, 1999, the Agency was chartered by the Washington D.C.-based Neighborhood Reinvestment Corporation dba NeighborWorks® America ("NWA") as a certified NeighborWorks Homeownership Center. NWA is a congressionally chartered, public nonprofit corporation with more than 200 chartered NeighborWorks organizations serving more than 1,000 communities throughout the United States. NWA provides technical assistance, training and grants to assist the Agency in achieving its neighborhood revitalization programs.

AFFORDABLE HOUSING RESOURCES, INC.

Notes to the Financial Statements

December 31, 2015 and 2014

(15) Supplemental disclosures of cash flow statement information

	<u>2015</u>	<u>2014</u>
Interest paid	\$ <u>3,639</u>	\$ <u>26,352</u>

During 2015, the Company received in-kind contributions of property held for sale totaling \$56,625.

During 2014, the Company acquired approximately \$2,299,000 of notes receivable in exchange for notes payable in the same amount.

(16) Management's plans for future operations

These financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. At December 31, 2015, the Agency has a net asset deficiency of \$1,576,974 and had a decrease in net assets of \$65,302 during 2015. However, the Agency's net asset deficiency is primarily the result of approximately \$7,000,000 in equity equivalent investments and notes payable with rolling terms or indeterminate maturities that are not anticipated to require current resources. The Agency has also implemented new programs during 2015, obtained grants that are providing additional sources of revenue and continuing to work with lenders to obtain additional sources of loan pools to provide resources for future lending. Management believes that cash flows from operations will be sufficient to meets its current obligations for 2016.

AFFORDABLE HOUSING RESOURCES, INC.

**Schedules of Financial Position and Changes in Net Assets - Neighborhood Reinvestment
Revolving Loan and Capital Projects Fund (Permanently Restricted Net Assets)**

Schedules of Financial Position as of December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
<u>Assets</u>		
Cash	\$ 409,979	\$ 332,021
Notes receivable	197,156	275,114
Development in progress / Property held for sale	<u>107,100</u>	<u>107,100</u>
Total Assets	\$ <u>714,235</u>	\$ <u>714,235</u>
<u>Liabilities and Net Assets</u>		
Net assets - original capital funds	\$ 714,235	\$ 1,915,266
Cumulative losses on capital funds:		
Predevelopment funds not recaptured	-	(250,000)
Bad debt losses	-	(274,538)
5th and Main receivership	<u>-</u>	<u>(676,493)</u>
Net assets - permanently restricted	\$ <u>714,235</u>	\$ <u>714,235</u>

Schedules of Changes in Net Assets for the Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Change in net assets	\$ -	\$ -
Net assets, beginning	<u>714,235</u>	<u>714,235</u>
Net assets, ending	\$ <u>714,235</u>	\$ <u>714,235</u>

Notes:

Investment income and interest on outstanding loans was earned on the net assets of the Neighborhood Reinvestment Capital Fund ("NRC") and was available for unrestricted use by the Agency. All of these amounts were transferred to the unrestricted funds during those years. There were no proceeds from capital projects in excess of the amount of funds necessary to maintain the net assets at a level disclosed in the Capital Funds Agreement with NRC. Accordingly, no funds were transferred from NRC for that purpose.

Reductions in net assets from the original capital funds for cumulative losses represent management's estimate of amounts that are no longer restricted per the terms of the Capital Funds Agreement due to the nature of the losses incurred. The Agency was formally released from these permanent restrictions during 2015.