

***AFFORDABLE HOUSING
RESOURCES, INC. AND
SUBSIDIARIES***

**CONSOLIDATED
FINANCIAL STATEMENTS**

DECEMBER 31, 2007 and 2006

AFFORDABLE HOUSING RESOURCES, INC. AND SUBSIDIARIES

TABLE OF CONTENTS

Independent Auditors' Report	1
Consolidated Financial Statements as of and for the Years Ended December 31, 2007 and 2006:	
Statements of Financial Position	2
Statements of Activities	3 - 4
Statements of Cash Flows	5
Statements of Functional Expenses	6 - 7
Notes to Consolidated Financial Statements	8 - 17
Additional Information:	
Supplemental Schedule of Financial Position – Neighborhood Reinvestment Capital Fund (Permanently Restricted Net Assets)	18
Supplemental Consolidating Statement of Financial Position as of December 31, 2007	19
Supplemental Consolidating Statement of Activities for the Year Ended December 31, 2007	20
Independent Auditors' Report on Compliance and on Internal Control Over Financial Reporting Required by <i>Government Auditing Standards</i>	21 - 22

MULLINS CLEMMONS & MAYES, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Affordable Housing Resources, Inc.:

We have audited the accompanying consolidated statements of financial position of Affordable Housing Resources, Inc. and subsidiaries (a nonprofit organization) as of December 31, 2007 and 2006 and the related consolidated statements of activities, cash flows and functional expenses for the years then ended. These consolidated financial statements are the responsibility of management of Affordable Housing Resources, Inc. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Affordable Housing Resources, Inc. and subsidiaries as of December 31, 2007 and 2006 and the changes in their net assets and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 13, 2008, on our consideration of Affordable Housing Resources, Inc. and subsidiary's internal control over financial reporting and our tests of their compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The supplemental schedules on pages 18 through 20 are presented for purposes of additional analysis and are not a required part of the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.



Brentwood, Tennessee
June 13, 2008

AFFORDABLE HOUSING RESOURCES, INC. AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2007 AND 2006**

	<u>2007</u>	<u>2006</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 988,145	\$ 1,408,813
Accounts receivable:		
The Resource Foundation	170,446	188,405
Other	15,623	393,455
Prepaid expenses and other assets	7,057	13,434
Notes receivable, net of allowance for uncollectible loans of \$273,025 in 2007 and \$211,459 in 2006	3,023,523	3,360,733
Receivable from Village Real Estate	29,331	23,242
Development in progress	32,635,019	15,939,396
Interest escrow account - 5th and Main Project	118,023	114,211
Contractor retainage fund - 5th and Main Project	2,345,820	363,750
Property, building and equipment, net	475,708	541,561
Escrow funds held	39,672	40,771
TOTAL ASSETS	<u>\$ 39,848,367</u>	<u>\$ 22,387,771</u>
<u>LIABILITIES AND NET ASSETS</u>		
Accounts payable	\$ 1,834,246	\$ 1,058,637
Accrued liabilities	121,975	254,661
Escrow funds	59,918	70,416
Short-term obligations	2,416,152	2,678,457
Long-term obligations	29,425,002	11,277,515
Liability under interest rate swap	400,135	-
Total liabilities	<u>34,257,428</u>	<u>15,339,686</u>
COMMITMENTS AND CONTINGENCIES	-	-
NET ASSETS:		
Unrestricted	638,110	1,813,932
Temporarily restricted	2,646,706	3,014,906
Permanently restricted	2,306,123	2,219,247
Total net assets	<u>5,590,939</u>	<u>7,048,085</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 39,848,367</u>	<u>\$ 22,387,771</u>

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

AFFORDABLE HOUSING RESOURCES, INC. AND SUBSIDIARIES

**CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
SUPPORT AND REVENUES:				
Public support:				
Financial institutions	\$ 28,700	\$ -	\$ -	\$ 28,700
Federal, state and other government grants	-	32,900	86,876	119,776
Other	58,720	30,550	-	89,270
Total public support	<u>87,420</u>	<u>63,450</u>	<u>86,876</u>	<u>237,746</u>
Revenues:				
Rental income	7,990	-	-	7,990
Counseling and mortgage fees	134,344	-	-	134,344
Loan servicing fees	65,833	-	-	65,833
Interest income	287,378	-	-	287,378
Gain on sale of rental property and housing units	(91,854)	-	-	(91,854)
Total revenues	<u>403,691</u>	<u>-</u>	<u>-</u>	<u>403,691</u>
Net assets released from restrictions due to satisfaction of program restrictions	<u>431,650</u>	<u>(431,650)</u>	<u>-</u>	<u>-</u>
Total support and revenues	<u>922,761</u>	<u>(368,200)</u>	<u>86,876</u>	<u>641,437</u>
EXPENSES:				
Program services:				
Low-income housing assistance	1,893,294	-	-	1,893,294
Supporting services:				
Management and general	205,289	-	-	205,289
Total expenses	<u>2,098,583</u>	<u>-</u>	<u>-</u>	<u>2,098,583</u>
CHANGE IN NET ASSETS	(1,175,822)	(368,200)	86,876	(1,457,146)
NET ASSETS:				
Beginning of year	<u>1,813,932</u>	<u>3,014,906</u>	<u>2,219,247</u>	<u>7,048,085</u>
End of year	<u>\$ 638,110</u>	<u>\$ 2,646,706</u>	<u>\$ 2,306,123</u>	<u>\$ 5,590,939</u>

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

AFFORDABLE HOUSING RESOURCES, INC. AND SUBSIDIARIES

**CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
SUPPORT AND REVENUES:				
Public support:				
Financial institutions	\$ 69,333	\$ -	\$ -	\$ 69,333
Federal, state and other government grants	-	229,266	220,000	449,266
Other	54,872	57,600	-	112,472
Total public support	<u>124,205</u>	<u>286,866</u>	<u>220,000</u>	<u>631,071</u>
Revenues:				
Rental income	14,200	-	-	14,200
Counseling and mortgage fees	99,371	-	-	99,371
Loan servicing fees	67,259	-	-	67,259
Interest income	263,451	-	-	263,451
Gain on sale of rental property and housing units	349,577	-	-	349,577
Total revenues	<u>793,858</u>	<u>-</u>	<u>-</u>	<u>793,858</u>
Net assets released from restrictions due to satisfaction of program restrictions	<u>572,566</u>	<u>(572,566)</u>	<u>-</u>	<u>-</u>
Total support and revenues	<u>1,490,629</u>	<u>(285,700)</u>	<u>220,000</u>	<u>1,424,929</u>
EXPENSES:				
Program services:				
Low-income housing assistance	1,609,873	-	-	1,609,873
Supporting services:				
Management and general	203,393	-	-	203,393
Total expenses	<u>1,813,266</u>	<u>-</u>	<u>-</u>	<u>1,813,266</u>
CHANGE IN NET ASSETS	(322,637)	(285,700)	220,000	(388,337)
NET ASSETS:				
Beginning of year	<u>2,136,569</u>	<u>3,300,606</u>	<u>1,999,247</u>	<u>7,436,422</u>
End of year	<u>\$ 1,813,932</u>	<u>\$ 3,014,906</u>	<u>\$ 2,219,247</u>	<u>\$ 7,048,085</u>

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

AFFORDABLE HOUSING RESOURCES, INC. AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006**

	<u>2007</u>	<u>2006</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (1,457,146)	\$ (388,337)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	31,931	31,823
Amortization of notes receivable	215,081	350,917
Provision for uncollectible notes receivable	60,000	60,000
Net changes in other assets and liabilities:		
Accounts receivable	395,791	(53,641)
Prepaid expenses and other assets	(3,022)	9,939
Development in progress and related assets	(18,638,852)	(4,715,486)
Accounts payable and accrued liabilities	1,043,058	315,085
Net cash used in operating activities	<u>(18,353,159)</u>	<u>(4,389,700)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Collection of notes receivable	557,256	626,054
Issuance of notes receivable	(501,216)	(535,337)
Purchases of property and equipment	<u>(8,731)</u>	<u>(9,037)</u>
Net cash provided by investing activities	<u>47,309</u>	<u>81,680</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from short-term obligations	1,187,582	4,726,898
Proceeds from long-term obligations	18,752,950	6,072,289
Principal payments on debt obligations	<u>(2,055,350)</u>	<u>(6,716,203)</u>
Net cash provided by financing activities	<u>17,885,182</u>	<u>4,082,984</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(420,668)	(225,036)
CASH AND CASH EQUIVALENTS, BEGINNING	<u>1,408,813</u>	<u>1,633,849</u>
CASH AND CASH EQUIVALENTS, ENDING	<u><u>\$ 988,145</u></u>	<u><u>\$ 1,408,813</u></u>

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

AFFORDABLE HOUSING RESOURCES, INC. AND SUBSIDIARIES

**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2007**

	Program Services	Supporting Services	
	Low-Income Housing Assistance	Management and General	Totals
Amortization of notes receivable	\$ 207,684	\$ -	\$ 207,684
Assistance to homebuyers	1,750	-	1,750
Automobile	24,055	-	24,055
Communications	19,140	3,378	22,518
Contract labor	164,712	29,067	193,779
Depreciation	26,296	4,640	30,936
Direct program expenses related to houses rented:			
Insurance	133	-	133
Interest	1,406	-	1,406
Depreciation	995	-	995
Utilities	-	-	-
Maintenance and repairs	20	-	20
Taxes	692	-	692
Equipment rental and maintenance	18,248	3,220	21,468
Insurance	16,608	2,931	19,539
Interest expense, including change in liability under interest rate swap agreement	424,483	-	424,483
Miscellaneous	30,257	5,340	35,597
Occupancy	35,055	6,186	41,241
Office expense	26,103	4,606	30,709
Payroll and related costs	685,707	121,007	806,714
Professional fees	82,302	14,524	96,826
Promotion	41,112	7,255	48,367
Provision for uncollectible notes receivable	60,000	-	60,000
Specific projects - Community Service	3,500	-	3,500
Training	5,269	-	5,269
Travel and food	17,767	3,135	20,902
Total expenses	<u>\$ 1,893,294</u>	<u>\$ 205,289</u>	<u>\$ 2,098,583</u>

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

AFFORDABLE HOUSING RESOURCES, INC. AND SUBSIDIARIES

**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>Program Services</u>	<u>Supporting Services</u>	
	<u>Low-Income Housing Assistance</u>	<u>Management and General</u>	<u>Totals</u>
Amortization of notes receivable	\$ 350,917	\$ -	\$ 350,917
Assistance to homebuyers	2,900	-	2,900
Automobile	26,487	-	26,487
Communications	16,342	2,884	19,226
Contract labor	74,784	13,197	87,981
Depreciation	25,781	4,550	30,331
Direct program expenses related to houses rented:			
Insurance	(1,985)	-	(1,985)
Interest	1,985	-	1,985
Depreciation	1,493	-	1,493
Utilities	-	-	-
Maintenance and repairs	156	-	156
Taxes	1,038	-	1,038
Equipment rental and maintenance	5,361	946	6,307
Insurance	26,121	4,610	30,731
Miscellaneous	30,190	5,328	35,518
Occupancy	94,229	16,629	110,858
Office expense	18,868	3,330	22,198
Payroll and related costs	692,262	122,164	814,426
Professional fees	78,284	13,815	92,099
Promotion	65,523	11,563	77,086
Provision for uncollectible notes receivable	60,000	-	60,000
Specific projects - Community Service	3,000	-	3,000
Training	11,334	-	11,334
Travel and food	24,803	4,377	29,180
Total expenses	<u>\$ 1,609,873</u>	<u>\$ 203,393</u>	<u>\$ 1,813,266</u>

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

AFFORDABLE HOUSING RESOURCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

NOTE 1 – THE ENTITY

Affordable Housing Resources, Inc. ("AHR") was chartered in 1989 as a Tennessee not-for-profit corporation. During 2001, AHR Development, Inc. ("AHRD") was chartered as a Tennessee not-for-profit corporation, with AHR as its sole member. Certain of the assets and liabilities of AHR were transferred to AHRD at its inception. During 2003, AHRD began doing business as The Home Company ("THC"). During 2006, two additional not-for-profit corporations, 5th & Main Commercial Owner, Inc. ("COI") and 5th & Main Residential Owner, Inc. ("ROI") were formed. AHR is the sole member of COI and ROI. These consolidated financial statements include the accounts of AHR, THC, COI and ROI, which are collectively referred to as the "Agency" in these consolidated financial statements.

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") and the Neighborhood Reinvestment Corporation, dba NeighborWorks® America.

The following program and supporting services are included in the accompanying consolidated 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. Homeownership programs include promoting homeownership 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

As mentioned in Note 1, these consolidated financial statements include the accounts of AHR, THC, COI and ROI. All intercompany balances and transactions have been eliminated.

Accounting Periods

All references to 2007 and 2006 in these consolidated financial statements refer to the years ended December 31, 2007 and 2006, respectively, unless otherwise noted.

AFFORDABLE HOUSING RESOURCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) **DECEMBER 31, 2007 AND 2006**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting

The financial records of the Agency are maintained on the accrual basis of accounting.

Contributions and Support

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

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 respective 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 consolidated statement of activities as net assets released from restrictions.

Permanently restricted net assets are those contributed with donor stipulations that the funds must be held in perpetuity with the use of income for unrestricted or temporarily restricted purposes. Contributions received from the Neighborhood Reinvestment Revolving Loan and Capital Projects Fund, which grants home ownership and improvement loans, are considered to be permanently restricted by the donor. The investment earnings on these funds are unrestricted.

The Agency also receives grant revenue from federal, state and local agencies, principally from MDHA. Grant revenue is recognized in the period that a liability is incurred for eligible expenditures under the terms of the grant.

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.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, cash in various bank accounts, and all highly liquid unrestricted investments with an original maturity of three months or less. The Agency may, at times, maintain bank accounts whose balances exceed federally insured limits. However, the Agency has not experienced any losses in such accounts, and believes it is not exposed to any significant credit risk related to cash and cash equivalents.

Development in Progress

All land, construction, and rehabilitation or renovation costs of housing units and commercial development projects are reported as development in progress until such time as the housing units are sold or the commercial developments are ready to be occupied.

AFFORDABLE HOUSING RESOURCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2007 AND 2006

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, Building and Equipment

Property, building 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 Directors, if cost is unknown. Expenditures for maintenance and repairs are charged to expense as incurred. Depreciation is computed by using the straight-line method over the estimated useful lives of the assets. See Note 4 for further details.

Deferred Revenue

Deferred revenue consists of grants received in advance of the eligible expenditures.

Donated Materials and Services

Donated materials are recognized as contributions at their estimated fair values at date of receipt. The value of donated services is not reflected in the consolidated financial statements because of the lack of an objective basis by which to measure such value.

Income Taxes

The Agency qualifies as a tax-exempt organization under section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes is included in the accompanying consolidated financial statements.

Provision for Uncollectible Notes

A note receivable is considered impaired when, based on current information, it is probable that all amounts 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.

Functional Allocation of Expenses

Expenses, which are directly related to a function, are charged to that function. Expenses that are related to more than one function are allocated to the applicable functions based upon various allocation methods in order to reflect the total cost of each function.

Estimates

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

AFFORDABLE HOUSING RESOURCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2007 AND 2006

NOTE 3 – NOTES RECEIVABLE

Loans to homebuyers are made for terms of 4 to 15 years, at annual interest rates ranging from 3% to 7.5%. There are also noninterest-bearing notes receivable, in the amounts of \$896,946 and \$1,044,487 in 2007 and 2006, 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. During 2007 and 2006, amortization of these notes amounted to \$215,081 and \$350,917, respectively.

Notes receivable (excluding the noninterest-bearing notes mentioned above) consisted of the following at December 31, 2007:

	<u>Waller</u>	<u>Home</u>	<u>MDHA</u>	<u>NRC & Section 8</u>	<u>Second Mortgages</u>	<u>First Mortgage</u>	<u>Total</u>
Total notes receivable	\$ 559,143	\$ 69,532	\$ 83,838	\$ 1,106,390	\$ 529,954	\$ 50,745	\$ 2,399,602
Number of loans	117	17	19	68	65	2	288
Loan delinquency status:							
Current and up to 90 days delinquent	\$ 534,519	\$ 52,914	\$ 55,937	\$ 1,080,547	\$ 503,205	\$ 50,745	\$ 2,277,867
Percent of total	95.6%	76.1%	66.7%	97.7%	95.0%	100.0%	94.9%
Over 90 days delinquent	\$ 24,624	\$ 16,618	\$ 27,901	\$ 25,843	\$ 26,749	\$ -	\$ 121,735
Percent of total	4.4%	23.9%	33.3%	2.3%	5.0%	0.0%	5.1%

Notes receivable are collateralized by the related real estate.

NOTE 4 – PROPERTY, BUILDING AND EQUIPMENT

Property, building and equipment consisted of the following as of December 31, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Rental property:		
Land	\$ -	\$ 10,000
Structures	-	42,397
Land	53,500	53,500
Building and improvements	530,222	530,222
Furniture, equipment and autos	120,560	116,173
Total cost	<u>704,282</u>	<u>752,292</u>
Accumulated depreciation	<u>(228,574)</u>	<u>(210,731)</u>
Net property, building and equipment	<u>\$ 475,708</u>	<u>\$ 541,561</u>

AFFORDABLE HOUSING RESOURCES, INC. AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**
DECEMBER 31, 2007 AND 2006**NOTE 5 – NOTES PAYABLE**

Notes payable consisted of the following as of December 31, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Note payable to a bank, maturing in June 2008, with an annual interest rate of prime rate + 2.25% (9.50% at December 31, 2007).	\$ 12,694,778	\$ -
Note payable to a bank, maturing in June 2013, with an annual interest rate of 30-Day LIBOR + 3.00% (7.97% at December 31, 2007).	4,125,000	-
Note payable to The Housing Fund, maturing in June 2008, with an annual interest rate of 8.00%.	3,500,000	3,500,000
Ten notes payable to nine banks, maturing from September 2008 to April 2016 and one note paid off during fiscal year 2007, with an annual interest rate of 4.50%.	2,450,000	2,550,000
Twenty-two notes payable to a bank, maturing from February 2008 to November 2008 and eleven notes paid off during fiscal year 2007, with an annual interest rate at prime minus 1.00% (6.25% at December 31, 2007).	1,646,483	1,497,575
Note payable to Fannie Mae, maturing in June 2009, with an annual interest rate of 3-Month LIBOR + 1.90% (7.12% at December 31, 2007).	1,500,000	1,500,000
Note payable to a bank, maturing in June 2046, with an annual interest rate of 0.50%.	1,133,298	-
Eighteen notes payable to a bank, maturing from February 2008 to September 2008 and ten notes paid off during fiscal year 2007, with an annual interest rate at prime minus 1.00% (6.25% at December 31, 2007).	872,029	1,089,206
Six notes payable to a bank, maturing from February 2008 to June 2008, with an annual interest rate at prime minus 0.50% (6.75% at December 31, 2007).	752,136	566,803
Two notes payable to two banks, maturing in October 2012 and June 2013, with an annual interest rate of 4.00%.	499,740	500,000

Continued on next page

AFFORDABLE HOUSING RESOURCES, INC. AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2007 AND 2006****NOTE 5 – NOTES PAYABLE (CONTINUED)**

	<u>2007</u>	<u>2006</u>
Note payable to a bank, maturing in December 2012, with an annual interest rate of 4.00%.	494,124	499,124
Note payable to a bank, maturing in September 2010, with an annual interest rate of 5.75%.	289,344	301,786
Note payable to a bank, maturing in January 2008, with an annual interest rate at prime (7.25% at December 31, 2007).	283,751	277,751
Two notes payable to Community Development Financial Institutions Fund, maturing in April 2023, non-interest bearing.	250,000	250,000
Note payable to Metropolitan Department of Housing Association, maturing in November 2022, non-interest bearing.	250,000	250,000
Note payable to a bank, maturing in June 2011, with an annual interest rate of 3.00%.	250,000	250,000
Note payable to a bank, maturing in February 2016, with an annual interest rate of 2.50%.	245,000	250,000
Two notes payable to a bank, maturing in December 2012 and December 2013, with an annual interest rate of 4.00%.	200,000	200,000
Note payable to a bank, maturing in February 2011, with an annual interest rate at prime (7.25% at December 31, 2007).	175,000	-
Two notes payable to Neighborhood Housing Services of America, maturing in March 2018 and May 2019, with an annual interest rate of 4.00%.	120,538	198,264
Note payable to Tennessee Housing Developmental Agency, maturing in June 2034, non-interest bearing.	52,989	56,047

Continued on next page

AFFORDABLE HOUSING RESOURCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2007 AND 2006

NOTE 5 – NOTES PAYABLE (CONTINUED)

	<u>2007</u>	<u>2006</u>
Three notes payable to The Housing Fund, maturing in July 2008 and two notes paid off during fiscal year 2007, with an annual interest rate of 5.00%.	36,974	106,000
Note payable to a bank, automatically renewed annually, with an annual interest rate of prime plus 0.50% (7.75% at December 31, 2007).	19,970	22,426
Note payable to Nashville Housing Fund, paid off during fiscal year 2007, with an annual interest rate of 5.00%.	-	90,990
Total debt	31,841,154	13,955,972
Short-term obligations	(2,416,152)	(2,678,457)
Long-term obligations	<u>\$ 29,425,002</u>	<u>\$ 11,277,515</u>

Most of the above notes are secured by deeds of trust on the related real estate and letters of credit.

During 2006, MDHA and AHR entered into a development agreement related to a certain area in Nashville, Tennessee (which is included in the East Bank Redevelopment District established by the Metropolitan Government of Nashville and Davidson County). AHR assigned its rights and delegated its duties under the development agreement to ROI and COI.

The development agreement provides for the development of the property into a mixed-use development containing 249 residential condominium units to be offered for sale, 84 residential condominium units to be offered as rental, approximately 67,000 square feet of commercial space and 455 parking spaces (collectively referred to as the "5th and Main Project").

ROI and COI have entered into agreements with certain lenders for future borrowings under notes payable totaling over \$32 million to provide funds for the development of the 5th and Main Project. Over \$17 million was outstanding on these notes at December 31, 2007.

The Agency has also provided a guarantee of MDHA's \$6 million note payable ("TIF bond") related to its participation in the 5th and Main Project. In addition to the guarantee, the Agency was required to initially deposit \$112,500 into an interest-bearing escrow account. Thereafter, the Agency is required to maintain an amount equal to 115% of the annual principal and interest payments on the outstanding balance of the TIF bond based on a 20-year amortization schedule at a fixed annual interest rate of 7.5%. Until Phase I, as defined in the agreement, of the 5th and Main Project is completed or April 30, 2008, whichever is later, the Agency agrees to pay the accrued interest on the TIF bond on a monthly basis. During this period, the TIF bond will bear interest at an annual rate of 2.25% over the 30-day LIBOR rate. After that date, the Agency has agreed to pay an amount equal to the difference, if any, between (1) an annual principal and interest payment on the TIF bond based on a 20-year amortization schedule at a fixed annual interest rate of 7.5% and, (2) the actual payment made against the loan by MDHA, as defined in the related financing agreement. The TIF bond matures on May 15, 2011, at which time all obligations under the guarantee will be satisfied.

AFFORDABLE HOUSING RESOURCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2007 AND 2006

NOTE 5 – NOTES PAYABLE (CONTINUED)

Following is schedule of future principal payments on long-term notes as of December 31, 2007:

<u>Year-End</u> <u>December 31,</u>	<u>Amount</u>
2008	\$ 20,427,230
2009	1,622,059
2010	555,211
2011	262,117
2012	856,393
Thereafter	8,118,144
Total	<u>\$ 31,841,154</u>

The fair value of the Company's notes payable approximate the carrying amounts.

NOTE 6 – INTEREST RATE SWAP AGREEMENT

On June 29, 2006, COI entered into an interest rate swap agreement ("swap") with a bank to hedge the variable interest rate risk caused by changes in the LIBOR rate of the construction loan (see Note 4). The swap effectively converts the LIBOR portion of the variable interest rate to a fixed annual rate of 9.05% on \$4,125,000 of the principal balance of the loan. The swap is scheduled to mature on June 28, 2013. The Company is exposed to credit losses in the event of nonperformance by the other parties to the interest rate swap agreements. However, the Company does not anticipate nonperformance by the counterparties.

Generally accepted accounting principles require derivative instruments, such as interest rate swap agreements, to be recognized at fair value as either assets or liabilities in the balance sheet. Accordingly, the negative \$400,135 value of the interest rate swap at December 31, 2007 is reported as a liability in the balance sheet. This reflects a \$400,135 increase in the liability (i.e. decrease in value of the swap) since the prior year.

This decrease in value is reported in the consolidated financial statements as a component of interest expense. The fair value has been measured based on estimates of the amount needed to settle the agreement as calculated by the counterparty to the swap agreement. Such calculations were based on changes in market conditions and/or assumptions underlying valuation models.

Management's current intent is to hold the swap until maturity. If held to its maturity, the swap will have no remaining fair value at maturity.

NOTE 7 – 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- and very low-income families into the Agency in 1997. The Agency and TRF share the same location and certain personnel. Operating expenses, applicable salaries and related personnel expenses are allocated on a pro-rata basis.

AFFORDABLE HOUSING RESOURCES, INC. AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**
DECEMBER 31, 2007 AND 2006**NOTE 7 – AFFILIATIONS (CONTINUED)**

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.

NOTE 8 – RESTRICTED NET ASSETS

Temporarily restricted net assets were released from donor restrictions as follows:

	<u>2007</u>	<u>2006</u>
NWA	\$ 114,400	\$ 147,765
HOME funds	281,595	318,194
Other grants	35,655	106,607
Total	<u>\$ 431,650</u>	<u>\$ 572,566</u>

Temporarily restricted net assets consisted of the following at December 31, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
HOME investment grants	\$ 484,487	\$ 484,487
HOME subrecipient grants for revolving construction fund	1,609,008	1,884,466
Revolving loans and available cash for low-income housing and down payment assistance	523,211	530,394
NWA expendable grants	-	81,500
FNMA grant	-	11,667
Other	30,000	22,392
Total	<u>\$ 2,646,706</u>	<u>\$ 3,014,906</u>

Permanently restricted net assets consisted of the following at December 31, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
NWA capital grants	<u>\$ 2,306,123</u>	<u>\$ 2,219,247</u>

AFFORDABLE HOUSING RESOURCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2007 AND 2006

NOTE 9 – EMPLOYEE BENEFIT PLAN

The Agency has a defined contribution employee benefit plan for eligible employees under provisions of section 403(b) of the Internal Revenue Code. 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 \$18,596 and \$20,590 in 2007 and 2006, respectively.

NOTE 10 - 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 affect on the Agency.

NOTE 11 – 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 ½% of the amounts collected in connection with these services.

None of the above loans are included in the consolidated financial statements.

NOTE 12 – SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Interest paid during 2007 and 2006 (net of capitalized interest of \$1,564,710 and \$582,320) amounted to \$111,262 and \$67,559, respectively.

ADDITIONAL INFORMATION

AFFORDABLE HOUSING RESOURCES, INC. AND SUBSIDIARIES**SUPPLEMENTAL SCHEDULES - NEIGHBORHOOD REINVESTMENT CAPITAL FUND
(PERMANENTLY RESTRICTED NET ASSETS)****SCHEDULES OF FINANCIAL POSITION AS OF DECEMBER 31, 2007 AND 2006**

	<u>2007</u>	<u>2006</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 939,733	\$ 987,928
Grant receivable	-	190,000
Loans receivable	1,106,390	996,319
Property, plant and equipment	260,000	45,000
TOTAL ASSETS	<u><u>\$ 2,306,123</u></u>	<u><u>\$ 2,219,247</u></u>
<u>LIABILITIES AND NET ASSETS</u>		
Net assets - permanently restricted	<u><u>\$ 2,306,123</u></u>	<u><u>\$ 2,219,247</u></u>

SCHEDULES OF ACTIVITIES FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
SUPPORT AND REVENUES:		
Capital grant - NRC	\$ 86,876	\$ 220,000
NET ASSETS, BEGINNING	<u>2,219,247</u>	<u>1,999,247</u>
NET ASSETS, ENDING	<u><u>\$ 2,306,123</u></u>	<u><u>\$ 2,219,247</u></u>

NOTES:

Investment income and interest on outstanding loans was earned on the net assets of the Neighborhood Reinvestment Capital Fund 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 the Capital Fund for that purpose.

AFFORDABLE HOUSING RESOURCES, INC. AND SUBSIDIARIES

**SUPPLEMENTAL CONSOLIDATING STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2007**

	Affordable Housing Resources, Inc.	AHR Development, Inc. (d/b/a The Home Company)	5th & Main Residential Owner, Inc.	5th & Main Commercial Owner, Inc.	Eliminations	Consolidated
ASSETS						
Cash and cash equivalents	\$ 673,925	\$ 299,093	\$ 15,033	\$ 94	\$ -	\$ 988,145
Accounts receivable:						
The Resource Foundation	88,102	82,344	-	-	-	170,446
Other	3,726,883	2,175,184	-	574,327	(6,460,771)	15,623
Prepaid expenses and other assets	4,744	2,313	-	-	-	7,057
Notes receivable	2,126,577	896,946	-	-	-	3,023,523
Receivable - Village Real Estate	-	-	29,331	-	-	29,331
Development in progress	-	-	-	-	-	-
and related assets	-	7,416,664	20,515,057	4,703,298	-	32,635,019
Interest escrow account - 5th and Main Project	-	-	118,023	-	-	118,023
Contractor retainage fund - 5th and Main Project	-	-	2,345,820	-	-	2,345,820
Property, building and equipment, net	475,458	250	-	-	-	475,708
Escrow funds held	39,672	-	-	-	-	39,672
TOTAL ASSETS	\$ 7,135,361	\$ 10,872,794	\$ 23,023,264	\$ 5,277,719	\$ (6,460,771)	\$ 39,848,367
LIABILITIES AND NET ASSETS						
Accounts payable	\$ 33,960	\$ 2,013,602	\$ 6,246,955	\$ 500	(6,460,771)	\$ 1,834,246
Accrued liabilities	112,848	9,127	-	-	-	121,975
Escrow funds	59,918	-	-	-	-	59,918
Short-term obligations	175,000	2,241,152	-	-	-	2,416,152
Long-term obligations	6,601,735	1,370,191	16,194,778	5,258,298	-	29,425,002
Liability under interest rate swap	-	-	-	400,135	-	400,135
Total liabilities	6,983,461	5,634,072	22,441,733	5,658,933	(6,460,771)	34,257,428
NET ASSETS	151,900	5,238,722	581,531	(381,214)	-	5,590,939
TOTAL LIABILITIES AND NET ASSETS	\$ 7,135,361	\$ 10,872,794	\$ 23,023,264	\$ 5,277,719	\$ (6,460,771)	\$ 39,848,367

AFFORDABLE HOUSING RESOURCES, INC. AND SUBSIDIARIES

**SUPPLEMENTAL CONSOLIDATING STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2007**

	Affordable Housing Resources, Inc.	AHR Development, Inc. (d/b/a The Home Company)	5th & Main Residential Owner, Inc.	5th & Main Commercial Owner, Inc.	Eliminations	Consolidated
SUPPORT AND REVENUES:						
Public support:						
Financial institutions	\$ 28,700	\$ -	\$ -	\$ -	\$ -	\$ 28,700
Federal, state and other government grants	32,900	-	86,876	-	-	119,776
Other	85,645	3,625	-	-	-	89,270
Total public support	147,245	3,625	86,876	-	-	237,746
Revenues:						
Rental income	-	7,990	-	-	-	7,990
Counseling and mortgage fees	134,344	-	-	-	-	134,344
Loan servicing fees	65,833	-	-	-	-	65,833
Interest income	250,858	1,173	16,297	19,050	-	287,378
Gain on sale of rental property and housing units	-	(91,854)	-	-	-	(91,854)
Total revenues	451,035	(82,691)	16,297	19,050	-	403,691
Total support and revenues	598,280	(79,066)	103,173	19,050	-	641,437
TOTAL EXPENSES	1,041,591	593,056	63,742	400,194	-	2,098,583
CHANGE IN NET ASSETS	\$ (443,311)	\$ (672,122)	\$ 39,431	\$ (381,144)	\$ -	\$ (1,457,146)