

AFFORDABLE HOUSING RESOURCES, INC.

**Financial Statements
and Supplemental Schedules**

December 31, 2017 and 2016

(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., which comprise the statements of financial position as of December 31, 2017 and 2016, and the related statements of activities, functional expenses 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 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, 2017 and 2016, 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 supplemental schedules, as listed in the accompanying table of contents, 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.

LBM, PC

Brentwood, Tennessee
June 28, 2018

AFFORDABLE HOUSING RESOURCES, INC.

Statements of Financial Position

December 31, 2017 and 2016

Assets

	<u>2017</u>	<u>2016</u>
Cash and cash equivalents	\$ 231,941	\$ 158,471
Restricted cash	3,575,945	865,559
Accounts receivable:		
The Resource Foundation	-	61,816
Other	88,175	36,640
Prepaid expenses and other assets	12,894	13,457
Notes receivable, net of allowance for uncollectible notes of \$286,946 and \$231,972 as of December 31, 2017 and 2016, respectively	5,372,913	4,380,087
Property, buildings and equipment, net	238,173	889,140
Property held for sale	<u>2,195,434</u>	<u>975,958</u>
Total assets	\$ <u>11,715,475</u>	\$ <u>7,381,128</u>

Liabilities and Net Assets (Deficit)

Accounts payable	\$ 211,885	\$ 30,914
Accrued liabilities	52,562	107,357
Agency payable	2,002,250	-
Notes payable	<u>2,051,388</u>	<u>2,958,643</u>
Liabilities before equity equivalent investments	4,318,085	3,096,914
Other liabilities - equity equivalent investments	<u>7,160,835</u>	<u>5,160,835</u>
Total liabilities	<u>11,478,920</u>	<u>8,257,749</u>
Net assets (deficit):		
Unrestricted	(2,503,828)	(3,759,804)
Temporarily restricted	2,168,948	2,168,948
Permanently restricted	<u>571,435</u>	<u>714,235</u>
Total net assets (deficit)	<u>236,555</u>	<u>(876,621)</u>
	\$ <u>11,715,475</u>	\$ <u>7,381,128</u>

See accompanying notes to the financial statements.

AFFORDABLE HOUSING RESOURCES, INC.

Statement of Activities

Year ended December 31, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support and revenues:				
Public support:				
Grants - NeighborWorks America	\$ 327,223	\$ -	\$ -	\$ 327,223
In-kind donations of property	924,000	-	-	924,000
Other contributions and grants	<u>194,252</u>	<u>-</u>	<u>-</u>	<u>194,252</u>
Total public support	<u>1,445,475</u>	<u>-</u>	<u>-</u>	<u>1,445,475</u>
Program revenue:				
Rental income	32,247	-	-	32,247
Counseling and mortgage fees	89,193	-	-	89,193
Loan servicing fees and interest	<u>210,728</u>	<u>-</u>	<u>-</u>	<u>210,728</u>
Total program revenue	<u>332,168</u>	<u>-</u>	<u>-</u>	<u>332,168</u>
Total public support and revenues	<u>1,777,643</u>	<u>-</u>	<u>-</u>	<u>1,777,643</u>
Expenses:				
Program services -				
Low-income housing assistance	773,944	-	-	773,944
Supporting services -				
Management and general	<u>187,211</u>	<u>-</u>	<u>-</u>	<u>187,211</u>
Total expenses	<u>961,155</u>	<u>-</u>	<u>-</u>	<u>961,155</u>
Change in net assets from operations	<u>816,488</u>	<u>-</u>	<u>-</u>	<u>816,488</u>
Other changes in net assets:				
Release from restriction	142,800	-	(142,800)	-
Gain on sale of property, buildings, and equipment	<u>296,688</u>	<u>-</u>	<u>-</u>	<u>296,688</u>
Total other changes in net assets	<u>439,488</u>	<u>-</u>	<u>(142,800)</u>	<u>296,688</u>
Change in net assets	<u>1,255,976</u>	<u>-</u>	<u>(142,800)</u>	<u>1,113,176</u>
Net assets (deficit) at beginning of year	<u>(3,759,804)</u>	<u>2,168,948</u>	<u>714,235</u>	<u>(876,621)</u>
Net assets (deficit) at end of year	<u>\$ (2,503,828)</u>	<u>\$ 2,168,948</u>	<u>\$ 571,435</u>	<u>\$ 236,555</u>

See accompanying notes to the financial statements.

AFFORDABLE HOUSING RESOURCES, INC.

Statement of Activities

Year ended December 31, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support and revenues:				
Public support:				
Grants - NeighborWorks America	\$ 160,353	\$ -	\$ -	\$ 160,353
In-kind donations of property	370,000	-	-	370,000
Other contributions and grants	<u>244,515</u>	<u>-</u>	<u>-</u>	<u>244,515</u>
Total public support	<u>774,868</u>	<u>-</u>	<u>-</u>	<u>774,868</u>
Program revenue:				
Rental income	79,490	-	-	79,490
Counseling and mortgage fees	45,663	-	-	45,663
Loan servicing fees and interest	<u>185,363</u>	<u>-</u>	<u>-</u>	<u>185,363</u>
Total program revenue	<u>310,516</u>	<u>-</u>	<u>-</u>	<u>310,516</u>
Total public support and revenues	<u>1,085,384</u>	<u>-</u>	<u>-</u>	<u>1,085,384</u>
Expenses:				
Program services -				
Low-income housing assistance	777,252	-	-	777,252
Supporting services -				
Management and general	<u>182,608</u>	<u>-</u>	<u>-</u>	<u>182,608</u>
Total expenses	<u>959,860</u>	<u>-</u>	<u>-</u>	<u>959,860</u>
Change in net assets from operations	<u>125,524</u>	<u>-</u>	<u>-</u>	<u>125,524</u>
Other changes in net assets:				
Gain on property held for sale	3,179	-	-	3,179
gain on sale of property, buildings, and equipment	42,236	-	-	42,236
Gain on extinguishment of debt	<u>529,414</u>	<u>-</u>	<u>-</u>	<u>529,414</u>
Change in net assets	<u>700,353</u>	<u>-</u>	<u>-</u>	<u>700,353</u>
Net assets (deficit) at beginning of year	<u>(4,460,157)</u>	<u>2,168,948</u>	<u>714,235</u>	<u>(1,576,974)</u>
Net assets (deficit) at end of year	<u>\$ (3,759,804)</u>	<u>\$ 2,168,948</u>	<u>\$ 714,235</u>	<u>\$ (876,621)</u>

See accompanying notes to the financial statements.

AFFORDABLE HOUSING RESOURCES, INC.

Statement of Functional Expenses

Year ended December 31, 2017

	<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	\$ 22,342	\$ 3,943	\$ 26,285
Amortization of notes receivable	11,280	-	11,280
Automobile	6,496	1,146	7,642
Contract labor	40,268	7,106	47,374
Depreciation	20,446	3,608	24,054
Repairs and maintenance	74,420	13,133	87,553
Direct expenses of developed properties	22,963	-	22,963
Insurance	15,117	2,668	17,785
Interest	4,765	841	5,606
Occupancy and rental	57,392	10,128	67,520
Office expenses	27,839	4,913	32,752
Payroll and related costs	342,579	128,953	471,532
Professional fees	26,299	4,641	30,940
Provision for uncollectible notes	60,000	-	60,000
Taxes, licenses and fees	20,575	3,631	24,206
Training	6,996	-	6,996
Travel and entertainment	8,214	1,449	9,663
Utilities	5,953	1,051	7,004
	<u>\$ 773,944</u>	<u>\$ 187,211</u>	<u>\$ 961,155</u>

AFFORDABLE HOUSING RESOURCES, INC.

Statement of Functional Expenses

Year ended December 31, 2016

	<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	\$ 10,745	\$ 1,896	\$ 12,641
Amortization of notes receivable	65,728	-	65,728
Automobile	6,203	1,095	7,298
Contract labor	54,896	9,687	64,583
Depreciation	29,018	5,121	34,139
Repairs and maintenance	36,552	6,450	43,002
Direct expenses of developed properties	6,822	-	6,822
Insurance	18,304	3,230	21,534
Interest	14,626	2,581	17,207
Occupancy and rental	52,691	9,298	61,989
Office expenses	22,349	3,944	26,293
Payroll and related costs	335,931	128,214	464,145
Professional fees	24,265	4,282	28,547
Provision for uncollectible notes	55,000	-	55,000
Taxes, licenses and fees	23,160	4,087	27,247
Training	5,527	-	5,527
Travel and entertainment	9,930	1,752	11,682
Utilities	5,505	971	6,476
	<u>\$ 777,252</u>	<u>\$ 182,608</u>	<u>\$ 959,860</u>

AFFORDABLE HOUSING RESOURCES, INC.

Statements of Cash Flows

Years ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Change in net assets	\$ <u>1,113,176</u>	\$ <u>700,353</u>
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	24,054	34,139
Amortization of notes receivable	11,280	65,728
Provision for uncollectible notes receivable, net of recoveries	(54,974)	(20,263)
Gain on extinguishment of debt	-	(529,414)
In-kind contributions	(924,000)	(370,000)
Gain on sale of property, buildings and equipment	-	(42,236)
Gain on sale of property held for sale	(296,688)	(3,179)
(Increase) decrease in operating assets:		
Accounts receivable	10,281	76,157
Prepaid expenses and other assets	563	(1,850)
Increase (decrease) in operating liabilities:		
Accounts payable	180,971	23,219
Accrued liabilities	(54,795)	(156,220)
Agency payable	<u>1,067,500</u>	<u>-</u>
Total adjustments	<u>(35,808)</u>	<u>(923,919)</u>
Net cash provided (used) by operating activities	<u>1,077,368</u>	<u>(223,566)</u>
Cash flows from investing activities:		
Proceeds from sale of property held for sale	-	60,879
Proceeds from sale of property, buildings, and equipment	936,141	101,284
Purchases of property, buildings and equipment	(15,504)	(10,529)
Purchases of property held for sale	(292,512)	(170,066)
Collection of notes receivable	-	404,857
Advances of notes receivable	<u>(14,382)</u>	<u>(437,132)</u>
Net cash provided (used) by investing activities	<u>613,743</u>	<u>(50,707)</u>
Cash flows from financing activities:		
Proceeds from note payable	86,156	-
Payments of notes payable	(993,411)	(696,084)
Proceeds from equity equivalent investments	<u>2,000,000</u>	<u>-</u>
Net cash provided (used) by financing activities	<u>1,092,745</u>	<u>(696,084)</u>
Increase (decrease) in cash	2,783,856	(970,357)
Cash, cash equivalents and restricted cash at beginning of year	<u>1,024,030</u>	<u>1,994,387</u>
Cash, cash equivalents and restricted cash at end of year	\$ <u>3,807,886</u>	\$ <u>1,024,030</u>
Reconciliation of cash, cash equivalents and restricted cash to the accompanying statement of financial position:		
	<u>2017</u>	<u>2016</u>
Cash and cash equivalents	\$ 231,941	\$ 158,471
Restricted cash	<u>3,575,945</u>	<u>865,559</u>
Total cash, cash equivalents and restricted cash	\$ <u>3,807,886</u>	\$ <u>1,024,030</u>

See accompanying notes to the financial statements.

AFFORDABLE HOUSING RESOURCES, INC.

Notes to the Financial Statements

December 31, 2017 and 2016

(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 ("NWA").

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.

AFFORDABLE HOUSING RESOURCES, INC.

Notes to the Financial Statements

December 31, 2017 and 2016

(a) Recently adopted accounting pronouncement

In November 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-18, *Statement of Cash Flows - Restricted Cash (a consensus of the FASB Emerging Issues Task Force)*. The new standard requires that the statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning of period and end of period amounts shown on the statement of cash flows. Organizations will also be required to disclose the nature of any restrictions. The provisions of ASU 2016-18 are effective for fiscal years beginning after December 15, 2018 with early adoption permitted. Management has elected to adopt the provisions of ASU 2016-18 as of January 1, 2017. The adoption has been applied retrospectively and has no material impact on the Company's financial statements.

(b) 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.

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 and other 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.

AFFORDABLE HOUSING RESOURCES, INC.

Notes to the Financial Statements

December 31, 2017 and 2016

(c) Cash and cash equivalents

The Agency considers all highly liquid investments with original maturities of less than three months to be cash equivalents. At December 31, 2017 and 2016, the Agency had cash and cash equivalents restricted for the following purposes:

	<u>2017</u>	<u>2016</u>
Investments in income producing properties	\$ 2,508,445	\$ 865,559
Neighborhood LIFT Program funds (Note 12)	<u>1,067,500</u>	<u>-</u>
Total cash restricted for specific programs	<u>\$ 3,575,945</u>	<u>\$ 865,559</u>

(d) 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, 2017 and 2016, no allowance for doubtful accounts was considered necessary.

(e) 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.

AFFORDABLE HOUSING RESOURCES, INC.

Notes to the Financial Statements

December 31, 2017 and 2016

(f) 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.

(g) 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, 2017 and 2016.

(h) Agency transactions

The Agency receives funds from NWA under the Neighborhood LIFT ("LIFT") program (Note 12). The Agency does not have any discretionary powers over these funds and must administer the programs according to the terms of the grant agreements. As a result, no revenue or expense is recorded (except for administrative fees earned), but instead the Agency records an asset (cash or notes receivable) and corresponding liability (agency payable). The agency payable is reduced as the related notes receivable are forgiven.

(i) 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.

(j) 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.

AFFORDABLE HOUSING RESOURCES, INC.

Notes to the Financial Statements

December 31, 2017 and 2016

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

(k) 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, 2017, 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.

(l) 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.

(m) 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.

(n) Reclassifications

Certain reclassifications have been made to the 2016 financial statements in order for them to conform to the 2017 presentation. These reclassifications have no effect on net assets or changes in net assets as previously reported.

(o) Events occurring after reporting date

Management of the Agency has evaluated events and transactions that occurred between December 31, 2017 and June 28, 2018 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.

AFFORDABLE HOUSING RESOURCES, INC.

Notes to the Financial Statements

December 31, 2017 and 2016

(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.

The Agency received approximately 18% of its total public support and revenues from NeighborWorks® America and 52% from in-kind donations during 2017.

(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%. The total of the notes receivable which are greater than 90 days old were approximately \$96,000 at December 31, 2016. There were no notes receivable greater than 90 days old as of December 31, 2017. The notes receivable are collateralized by real estate.

Notes receivable also include non-interest bearing notes in the amounts of \$1,550,574 and \$627,104 at December 31, 2017 and 2016, 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 2017 and 2016, amortization of these notes amounted to \$11,280 and \$65,728, respectively. Such notes receivable include \$934,750 at December 31, 2017 related to unforgiven grants under the LIFT program (Note 12).

(5) Property, buildings and equipment

A summary of property, buildings and equipment at December 31, 2017 and 2016 is as follows:

	<u>2017</u>	<u>2016</u>
Land	\$ 20,872	\$ 93,924
Buildings and improvements	234,164	949,029
Furniture and equipment	<u>30,263</u>	<u>27,426</u>
Total cost	285,299	1,070,379
Accumulated depreciation	<u>(47,126)</u>	<u>(181,239)</u>
Property, buildings and equipment, net	\$ <u>238,173</u>	\$ <u>889,140</u>

AFFORDABLE HOUSING RESOURCES, INC.

Notes to the Financial Statements

December 31, 2017 and 2016

(6) Notes payable

A summary of notes payable as of December 31, 2017 and 2016 is as follows:

	<u>2017</u>	<u>2016</u>
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.	28,874	32,287
Note payable to a bank, automatically renewed annually, with an annual interest rate of 6%.	17,424	17,424
Two notes payable to a bank, maturing in April 2018, with an interest rate of 5.5%.	86,156	-
Note payable to a bank repaid during 2017.	<u>-</u>	<u>692,896</u>
Total notes payable with defined maturities	632,454	1,242,607
Notes payable to banks with interest at an annual rate at the Prime Rate minus 4.00% (0.0% at December 31, 2017). These notes payable have no defined maturities (see below).	<u>1,418,934</u>	<u>1,716,036</u>
Total notes payable	\$ <u>2,051,388</u>	\$ <u>2,958,643</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.

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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. Additionally, management of the Agency determined that the imputation of interest on non-interest bearing notes payable was immaterial.

Following is a schedule of future principal payments on notes payable with defined maturities as of December 31, 2017:

<u>Year</u>	<u>Amount</u>
2018	\$ 105,580
2019	2,000
2020	2,000
2021	2,000
2022	252,000
2023 and later years	<u>268,874</u>
	<u>\$ 632,454</u>

No amount of principal due was in arrears at December 31, 2017 or 2016.

(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).

Substantially all of these obligations carry an interest rate of Prime minus 4%, effectively 0%, at December 31, 2017 and 2016.

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(8) Restrictions on net assets

Temporarily restricted net assets are available for the following purposes:

	<u>2017</u>	<u>2016</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>
	<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, 2017 and 2016.

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.

(9) 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 \$4,736 and \$4,180 in 2017 and 2016, respectively.

(10) Operating leases

The Agency utilizes office space under an operating lease. Rent expense under this lease totaled \$59,568 and \$54,168 during 2017 and 2016, respectively. Future minimum payments under this lease are expected to total approximately \$64,000 during 2018 and \$68,000 during 2019.

(11) Loan servicing

Down payment assistance loans were sold to Neighborhood Housing Services of America ("NHS") and are serviced by the Agency for NHS. 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.

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(12) Neighborhood LIFT program

The Agency participates in the Neighborhood LIFT program. The program is a collaboration between Wells Fargo Foundation, NWA and local non-profit organizations, including the Agency.

In 2017, the Agency entered into a \$3,500,000 grant agreement with NWA to assist low-to-moderate income persons with down payment assistance grants through the Neighborhood LIFT program. For each grant provided, the Agency receives a \$1,400 administrative fee. During 2017, NWA advanced \$2,100,000 from which \$945,000 in grants were provided to beneficiaries and the Agency earned \$87,500 in administrative fees which are included in "Grants - NeighborWorks America" in the accompanying statement of activities. Agency payable in the accompanying statement of financial position represents the total cash available for grant to beneficiaries plus the outstanding unamortized notes receivable from beneficiaries. During 2018, the Agency was advanced the remainder of the grant.

The grant agreement remains in effect for a three-year period ending June 30, 2020. Beneficiary funds repaid prior to being forgiven must be granted to other eligible beneficiaries.

(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) Supplemental disclosures of cash flow statement information

	<u>2017</u>	<u>2016</u>
Interest paid	\$ <u>5,606</u>	\$ <u>1,030</u>

During 2016, the Company consolidated the new First Mortgage loans and the related notes receivable, which created a non-cash payment of \$56,564 of notes receivable.

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**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, 2017 and 2016

	<u>2017</u>	<u>2016</u>
<u>Assets</u>		
Cash	\$ 141,440	\$ 409,907
Notes receivable	143,895	137,228
Development in progress / Property held for sale	<u>286,100</u>	<u>167,100</u>
Total Assets	\$ <u>571,435</u>	\$ <u>714,235</u>
<u>Liabilities and Net Assets</u>		
Net assets - permanently restricted	\$ <u>571,435</u>	\$ <u>714,235</u>

Schedules of Changes in Net Assets for the Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Change in net assets - released from restrictions	\$ (142,800)	\$ -
Net assets, beginning	<u>714,235</u>	<u>714,235</u>
Net assets, ending	\$ <u>571,435</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 were 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.