AFFORDABLE HOUSING RESOURCES, INC.

Financial Statements
and Supplemental Schedules

December 31, 2019 and 2018

(With Independent Auditors' Report Thereon)

LBMC MAKE A GOOD BUSINESS BETTER

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, 2019 and 2018, 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, 2019 and 2018, 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 audits were 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.

LBMC, PC

Brentwood, Tennessee
June 24, 2020

AFFORDABLE HOUSING RESOURCES, INC.

Statements of Financial Position

December 31, 2019 and 2018

Assets

	2019	2018
Cash and cash equivalents	$ 8,036	$ 117,284
Restricted cash and cash equivalents	3,253,108	3,950,912
Restricted certificates of deposit	709,134	690,000
Accounts receivable	79,831	168,251
Prepaid expenses and other assets	24,326	19,177
Investment in joint venture	250,000	-
Notes receivable, net of allowance for uncollectible notes of $520,869 and $412,483 as of December 31, 2019 and 2018, respectively	11,019,659	8,952,136
Property, buildings and equipment, net	400,787	48,696
Property held for sale	3,103,322	2,635,577
Total assets	$ 18,848,203	$ 16,582,033

Liabilities and Net Assets

	2019	2018
Accounts payable	$ 113,483	$ 48,456
Accrued liabilities	42,850	58,617
Agency payable	1,995,800	2,625,800
Notes payable	2,017,260	2,203,256
Liabilities before equity equivalent investments	4,169,393	4,936,129
Other liabilities - equity equivalent obligations	13,008,835	11,200,835
Total liabilities	17,178,228	16,136,964
Net assets:		
Without donor restrictions	(956,121)	(2,181,027)
With donor restrictions	2,626,096	2,626,096
Total net assets	1,669,975	445,069
	$ 18,848,203	$ 16,582,033

See accompanying notes to the financial statements.

AFFORDABLE HOUSING RESOURCES, INC.

Statement of Activities

Year ended December 31, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenues:			
Public support:			
Grants - NeighborWorks America	$ 365,760	$ -	$ 365,760
In-kind donations of property	879,032	-	879,032
Other contributions and grants	215,569	-	215,569
Total public support	1,460,361	-	1,460,361
Program revenue:			
Rental income	8,670	-	8,670
Counseling and mortgage fees	376,439	-	376,439
Loan interest income	270,097	-	270,097
Other interest income	41,637	-	41,637
Total program revenue	696,843	-	696,843
Total public support and revenues	2,157,204	-	2,157,204
Expenses:			
Program services -			
Low-income housing assistance	994,238	-	994,238
Supporting services -			
Management and general	225,555	-	225,555
Total expenses	1,219,793	-	1,219,793
Change in net assets from operations	937,411	-	937,411
Other changes in net assets:			
Gain on sale of property, buildings, and equipment and property held for sale	287,495	-	287,495
Total other changes in net assets	287,495	-	287,495
Change in net assets	1,224,906	-	1,224,906
Net assets (deficit) at beginning of year	(2,181,027)	2,626,096	445,069
Net assets (deficit) at end of year	$ (956,121)	$ 2,626,096	$ 1,669,975

See accompanying notes to the financial statements.

AFFORDABLE HOUSING RESOURCES, INC.

Statement of Activities

Year ended December 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenues:			
Public support:			
Grants - NeighborWorks America	$ 435,200	$ -	$ 435,200
Other contributions and grants	118,073	-	118,073
Total public support	553,273	-	553,273
Program revenue:			
Counseling and mortgage fees	277,642	-	277,642
Loan interest income	257,804	-	257,804
Other interest income	12,813	-	12,813
Total program revenue	548,259	-	548,259
Total public support and revenues	1,101,532	-	1,101,532
Expenses:			
Program services -			
Low-income housing assistance	915,876	-	915,876
Supporting services -			
Management and general	185,630	-	185,630
Total expenses	1,101,506	-	1,101,506
Change in net assets from operations	26	-	26
Other changes in net assets:			
Release from restriction	114,287	(114,287)	-
Gain on sale of property, buildings, and equipment and property held for sale	208,488	-	208,488
Total other changes in net assets	322,775	(114,287)	208,488
Change in net assets	322,801	(114,287)	208,514
Net assets (deficit) at beginning of year	(2,503,828)	2,740,383	236,555
Net assets (deficit) at end of year	$ (2,181,027)	$ 2,626,096	$ 445,069

See accompanying notes to the financial statements.

AFFORDABLE HOUSING RESOURCES, INC.

Statement of Functional Expenses

Year ended December 31, 2019

	Program Services	Supporting Services	Totals
	Low-Income Housing Assistance	Management and General	
Advertising and communication	$ 45,078	$ 9,233	$ 54,311
Automobile	8,913	1,826	10,739
Contract labor	68,524	14,035	82,559
Depreciation	14,446	1,970	16,416
Repairs and maintenance	23,205	4,753	27,958
Direct expenses of developed properties	86,812	-	86,812
Insurance	17,780	2,424	20,204
Interest	55,769	-	55,769
Occupancy and rental	63,969	13,102	77,071
Office expenses	37,166	7,612	44,778
Payroll and related costs	377,951	154,374	532,325
Professional fees	42,921	8,791	51,712
Provision for uncollectible notes	108,000	-	108,000
Taxes, licenses and fees	2,348	481	2,829
Training	7,406	-	7,406
Travel and entertainment	32,322	6,620	38,942
Utilities	1,628	334	1,962
	$ 994,238	$ 225,555	$ 1,219,793

AFFORDABLE HOUSING RESOURCES, INC.

Statement of Functional Expenses

Year ended December 31, 2018

	Program Services	Supporting Services	Totals
	Low-Income Housing Assistance	Management and General	
Advertising and communication	$ 35,725	$ 5,338	$ 41,063
Amortization of notes receivable	18,650	-	18,650
Automobile	8,542	1,276	9,818
Contract labor	67,001	10,012	77,013
Depreciation	11,502	1,719	13,221
Repairs and maintenance	28,696	4,288	32,984
Direct expenses of developed properties	38,897	-	38,897
Insurance	15,378	2,298	17,676
Interest	26,813	4,006	30,819
Occupancy and rental	62,218	9,297	71,515
Office expenses	33,158	4,955	38,113
Payroll and related costs	378,126	132,903	511,029
Professional fees	48,970	7,317	56,287
Provision for uncollectible notes	120,000	-	120,000
Taxes, licenses and fees	6,877	1,028	7,905
Training	7,339	-	7,339
Travel and entertainment	7,984	1,193	9,177
	$ 915,876	$ 185,630	$ 1,101,506

AFFORDABLE HOUSING RESOURCES, INC.

Statements of Cash Flows

Years ended December 31, 2019 and 2018

	2019	2018
Cash flows from operating activities:		
Change in net assets	$ 1,224,906	$ 208,514
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	16,416	13,221
Amortization of notes receivable	-	18,650
Provision for uncollectible notes receivable, net of recoveries	108,000	125,537
In-kind contributions of property	(879,032)	-
Gain on sale of property, buildings and equipment	-	(62,653)
Gain on sale of property held for sale	(287,495)	(145,835)
(Increase) decrease in operating assets:		
Accounts receivable	88,420	(80,076)
Prepaid expenses and other assets	(5,149)	(6,283)
Increase (decrease) in operating liabilities:		
Accounts payable	65,027	(163,429)
Accrued liabilities	(15,767)	6,055
Agency payable	-	1,189,300
Total adjustments	(909,580)	894,487
Net cash provided by operating activities	315,326	1,103,001
Cash flows from investing activities:		
Proceeds from sale of property held for sale	2,147,432	272,606
Proceeds from sale of property, buildings, and equipment	-	594,012
Purchases of property, buildings and equipment	(28,500)	(30,000)
Purchases of property held for sale	(1,788,657)	(892,017)
Purchase of investment in joint venture	(250,000)	-
Purchases of certificates of deposit and reinvested interest	(19,134)	(690,000)
Advances of notes receivable	(3,148,316)	(4,472,518)
Collections from notes receivable	342,793	183,358
Net cash used by investing activities	(2,744,382)	(5,034,559)
Cash flows from financing activities:		
Proceeds from note payable	270,034	343,994
Payments of notes payable	(456,030)	(192,126)
Proceeds from equity equivalent obligation	1,808,000	4,040,000
Net cash provided by financing activities	1,622,004	4,191,868
Increase (decrease) in cash	(807,052)	260,310
Cash, cash equivalents and restricted cash and cash equivalents at beginning of year	4,068,196	3,807,886
Cash, cash equivalents and restricted cash and cash equivalents at end of year	$ 3,261,144	$ 4,068,196

Reconciliation of cash, cash equivalents and restricted cash to the accompanying statements of financial position:

	2019	2018
Cash and cash equivalents	$ 8,036	$ 117,284
Restricted cash and cash equivalents	3,253,108	3,950,912
Total	$ 3,261,144	$ 4,068,196

See accompanying notes to the financial statements.

(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.

(a) Recently adopted accounting pronouncement

During the year, the Agency also adopted the provisions of FASB ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* ("Topic 958"). This accounting standard is meant to help not-for-profit entities evaluate whether transactions should be accounted for as contributions or as exchange transactions and, if the transaction is identified as a contribution, whether it is conditional or unconditional. ASU 2018-08 clarifies how an organization determines whether a resource provider is receiving commensurate value in return for a grant. If the resource provider does receive commensurate value from the grant recipient, the transaction is an exchange transaction and would follow the guidance under Topic 606. If no commensurate value is received by the grant maker, the transfer is a contribution. ASU 2018-08 stresses that the value received by the general public as a result of the grant is not considered to be commensurate value received by the provider of the grant. Results for reporting the year ending December 31, 2019 are presented under FASB ASU 2018-08. The information as of December 31, 2018 has not been restated and continues to be reported under the accounting standards in effect in those reporting periods. There was no material impact to the financial statements as a result of adoption. Accordingly, no adjustment to opening net assets was recorded.

(b) Cash and cash equivalents and restricted cash, cash equivalents and certificates of deposit

The Agency considers all highly liquid investments with original maturities of less than three months to be cash equivalents.

Additionally, at December 31, 2019 and 2018, the Agency had cash, cash equivalents and certificates of deposit restricted for future investments in income producing properties and mortgage loans.

(c) 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, 2019 and 2018, no allowance for doubtful accounts was considered necessary.

(d) Notes receivable and provision for uncollectible items

The Agency holds various notes receivable under 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 and are due to the Agency upon sale of the related property. 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.

(e) 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 on 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 changes in net assets.

(f) 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, 2019 and 2018.

(g) Joint venture

During 2019, the Agency entered into an unincorporated joint venture agreement with a third party to develop single bedroom low-income housing units. Subject to the agreement, the other joint venture partner transferred land to be used for development of the project to the joint venture and the Agency invested $250,000 cash in exchange for a 50% ownership interest. Under the terms of the joint venture, the Agency is responsible for managing the project and obtaining financing. The Agency obtained a construction line of credit with a bank for up to $2,000,000 to fund development costs that is available through May 2021. The line of credit is secured by the underlying constructed property. Approximately $43,000 was outstanding on the line of credit at December 31, 2019. Once the development project is complete and all housing units are sold, the related line of credit or other loans will be repaid and the joint venture parties will be reimbursed for any additional cash contributions made to the project prior to distribution of any remaining profits, which shall be shared equally between the Agency and the other joint venture partner.

(h) Net assets

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:

Net Assets Without Donor Restrictions - Net assets not subject to donor-imposed restrictions.

Net Assets With Donor Restrictions - Net assets subject to donor or certain grantor imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Contributions received from the Neighborhood Reinvestment Revolving Loan and Capital Projects Fund, which grants home ownership and improvement loans, and HOME Investment Partnerships Program ("HOME") funds received from MDHA are considered to be net assets with donor restrictions. The investment and other earnings on these funds are net assets without donor restrictions.

All contributions are considered to be available with no donor restrictions 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 support with donor restrictions that increase those net asset classes. When the restriction is fulfilled (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets are reclassified to those without donor restrictions and reported in the statement of activities as net assets released from restrictions. Contributions restricted by donors are recorded as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized.

(i) Agency transactions

The Agency receives funds from NWA under the Neighborhood LIFT ("LIFT") program (Note 12) and from financial institutions under similar programs. 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.

(j) 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.

(k) Revenue recognition

Contributions and other public support are generally recognized at the time of receipt as there are no performance obligations that are required to be satisfied. Fees for services, processing and servicing fees, are earned and reported as revenue when those services are performed by the Agency as the performance obligation is considered satisfied at that time.

The Agency reports any gifts of equipment or materials as unrestricted support unless explicit donor restrictions specify how the assets must be used and no performance obligations exist. 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 as the performance obligation is considered to be met at that point in time.

(l) 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, 2019 and 2018, 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.

(m) 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, including time spent on various functions by employees. 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.

(n) 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.

(o) Events occurring after reporting date

Management of the Agency has evaluated events and transactions that occurred between December 31, 2019 and June 24, 2020 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.

(p) New accounting pronouncements, not yet adopted

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers* (Topic 606), ("ASU 2014-09") which will eliminate the transaction and industry-specific revenue recognition guidance under current GAAP and replace it with a principles-based approach. ASU 2014-09 affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards. The core principle of the guidance in ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 may be applied retrospectively to each period (full retrospective) or retrospectively with the cumulative effect recognized as of the date of initial application (modified retrospective). ASU 2014-09, as amended, is effective for the Agency beginning January 1, 2020. Management of the Agency is currently evaluating the impact adoption of ASU 2014-09 will have on its financial statements and disclosures, if any.

The FASB's new lease accounting standard, ASU No. 2016-02, *Leases,* which was issued in February 2016, will generally require on-balance sheet recognition for all leases with terms that exceed twelve months. The new lease accounting model will continue to reflect two types of leases. Under the new rules, a lessee would account for most existing capital leases as finance leases (that is, recognizing amortization of the right-of-use ("ROU") asset, as well as separately recognizing interest on the lease liability in the statement of operations). Most existing operating leases will remain as operating leases (that is, recognizing a single total lease expense). Both finance leases and operating leases will result in the lessee recognizing a ROU asset and a lease liability. The guidance is effective for the Agency beginning January 1, 2022.

(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 17% of its total public support and revenues from NeighborWorks® America and 41% from in-kind donations during 2019. The Agency received approximately 40% of its total public support and revenues from NeighborWorks® America during 2018.

(4) Liquidity and Availability

A summary of the Agency's financial assets as of December 31, 2019 and 2018, reduced by amounts not available for general use because of donor-imposed restrictions, within one year of the statement of financial position date is as follows:

	2019	2018
Cash and cash equivalents	$ 8,036	$ 117,284
Accounts receivable	79,831	168,251
Financial assets available to meet cash needs for general expenditures within one year	$ 87,867	$ 285,535

As part of our liquidity management plan, we invest cash in excess of daily requirements in short-term investments, CDs, and money market funds.

(5) 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 were no material notes receivable with payments greater than 90 days past due as of December 31, 2019 and 2018. The notes receivable are collateralized by real estate.

Notes receivable also include non-interest bearing notes 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. As these notes are forgiven, the note receivable is reduced with a corresponding decrease in the balance of the Agency Payable liability. The balance of these notes receivable and the corresponding agency payable liability totaled $1,995,800 and $2,625,800 at December 31, 2019 and 2018, respectively. During 2019 and 2018, approximately $630,000 and $576,000 of agency payables were amortized against the corresponding notes receivable balances.

(6) Property, buildings and equipment

A summary of property, buildings and equipment at December 31, 2019 and 2018 is as follows:

	2019	2018
Land	$ 110,000	$ -
Buildings and improvements	246,059	16,053
Furniture and equipment	88,764	60,263
Total cost	444,823	76,316
Accumulated depreciation	(44,036)	(27,620)
Property, buildings and equipment, net	$ 400,787	$ 48,696

(7) Notes payable

A summary of notes payable as of December 31, 2019 and 2018 is as follows:

	2019	2018
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.	24,088	26,532
Note payable to a bank, automatically renewed annually, with an annual interest rate of 6%.	17,424	17,424
Various construction lines of credit requiring monthly interest payments at variable rates (0% - 5.50% as of December 31, 2019) with total maximum borrowings of approximately $3,000,000 at December 31, 2019. Total borrowings under the lines of credit of approximately $359,000 are to be used for construction of single-family homes. All lines of credit generally are for one year terms and mature between September and November 2020 and are secured by the constructed property and real estate.	358,667	343,994
Total notes payable with defined maturities	900,179	887,950
Notes payable to banks with interest at an annual rate of the Prime Rate minus 4.00% (1% at December 31, 2019). These notes payable have no defined maturities (see below).	1,117,081	1,315,306
Total notes payable	$ 2,017,260	$ 2,203,256

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.

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 required future principal payments on notes payable with defined maturities as of December 31, 2019:

Year	Amount
2020	$ 378,091
2021	2,000
2022	252,000
2023	252,000
2024	2,000
2025 and later years	14,088
	$ 900,179

No amount of principal due was in arrears at December 31, 2019 or 2018.

(8) Equity equivalent obligations

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).

These obligations either carry a zero interest rate or an interest rate of Prime minus 4%, effectively 1%, at December 31, 2019 and 2018.

(9) Net assets with donor restrictions

Net assets with donor restrictions are available for the following purposes or periods:

		2019		2018
Subject to expenditure for specified purposes:				
Housing and low-income down payment assistance	$	2,168,948	$	2,168,948
Held in perpetuity and not subject to a spending policy or appropriation:				
Neighborhood Reinvestment Revolving Loan and Capital Projects Fund		457,148		457,148
Total net assets with donor restrictions	$	2,626,096	$	2,626,096

Net assets with donor restrictions 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 $12,549 and $5,128 in 2019 and 2018, respectively.

(11) Operating leases

The Agency utilizes office space under an operating lease. Rent expense under this lease totaled $68,076 and $63,828 during 2019 and 2018, respectively. Future minimum payment under this lease is expected to total approximately $68,000 over the next three years.

(12) Neighborhood LIFT and similar programs

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. Grants under the LIFT program are used to assist low-to-moderate income persons through down payment assistance grants. Under the LIFT program, grants to beneficiaries are forgiven over a period of five years and any recaptured funds not forgiven must be granted to other eligible beneficiaries during the the program which remains in effect for a three-year period ending June 30, 2020. Agency payable in the accompanying statements of financial position represents the total cash available for grant to beneficiaries plus the outstanding unamortized notes receivable from beneficiaries under the LIFT program.

The Agency has also entered into other agreements with financial institutions for down payment assistance programs similar to the LIFT program. Under these assistance programs, grants to beneficiaries are generally due on the future sale of the related property.

The Agency receives administrative fees for each grant under the programs which are included in "Counseling and mortgage fees" in the accompanying statements of activities.

(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

	2019	2018
Interest paid	$ 55,758	$ 30,649

(15) Subsequent event - infectious disease

As of the date this report was available to be issued, the United States, as well as many other countries around the world, was experiencing an emerging infectious disease (COVID-19) outbreak, impacting individuals, governments, businesses and financial markets with unprecedented disruption and risk. While it is not possible to predict the long-term impacts of the outbreak on the Agency's financial condition and results of operations, significant future disruptions to key business drivers, such as customer demand and workforce are possible. As of the date of this report, the Agency has not experienced any significant adverse effects. Management is closely monitoring the situation and developing strategies designed to mitigate any possible future impacts.

AFFORDABLE HOUSING RESOURCES, INC.

Schedules of Financial Position and Changes in Net Assets - Neighborhood Reinvestment Revolving Loan and Capital Projects Fund (Net Assets With Donor Restrictions)

Schedules of Financial Position as of December 31, 2019 and 2018

	2019	2018
Assets		
Cash	$ 232,588	$ 85,533
Notes receivable	104,560	111,615
Development in progress / Property held for sale	120,000	260,000
Total Assets	$ 457,148	$ 457,148
Liabilities and Net Assets		
Net assets with donor restrictions, held in perpetuity	$ 457,148	$ 457,148

Schedules of Changes in Net Assets for the Years Ended December 31, 2019 and 2018

	2019	2018
Change in net assets - released from restrictions	$ -	$ (114,287)
Net assets, beginning	457,148	571,435
Net assets, ending	$ 457,148	$ 457,148

Notes:

Investment income and interest on outstanding loans were 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 net assets without donor restrictions 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. Amounts released from restriction represents amounts formally approved for release by NeighborWorks® America.