

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

**CONSOLIDATED  
FINANCIAL STATEMENTS**

**DECEMBER 31, 2005 and 2004**

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

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# 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 subsidiary (a nonprofit organization) as of December 31, 2005 and 2004 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 subsidiary as of December 31, 2005 and 2004 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 March 17, 2006, 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 17 through 19 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  
March 17, 2006

**AFFORDABLE HOUSING RESOURCES, INC. AND SUBSIDIARY****CONSOLIDATED STATEMENTS OF FINANCIAL POSITION  
DECEMBER 31, 2005 AND 2004**

|  | <u>2005</u>                 | <u>2004</u>                 |
|--|-----------------------------|-----------------------------|
| <b><u>ASSETS</u></b>   |                             |                             |
| Cash and cash equivalents  | \$ 1,633,849                | \$ 2,248,752                |
| Accounts receivable:   |                             |                             |
| The Resource Foundation  | 203,619                     | 44,289                      |
| Other  | 324,600                     | 488,725                     |
| Prepaid expenses and other assets  | 13,712                      | 15,976                      |
| Notes receivable, net of allowance for uncollectible<br>loans of \$226,884 in 2005 and \$183,961 in 2004 | 3,885,609                   | 4,015,881                   |
| Inventory - housing units  | 11,701,871                  | 9,751,803                   |
| Property, building and equipment, net  | 564,347                     | 478,271                     |
| Escrow funds held  | 18,883                      | 48,085                      |
| <b>TOTAL ASSETS</b>  | <b><u>\$ 18,346,490</u></b> | <b><u>\$ 17,091,782</u></b> |
| <b><u>LIABILITIES AND NET ASSETS</u></b>   |                             |                             |
| Accounts payable   | \$ 841,144                  | \$ 644,050                  |
| Accrued liabilities  | 157,069                     | 307,277                     |
| Escrow funds   | 38,867                      | 66,874                      |
| Short-term obligations   | 4,984,467                   | 3,308,675                   |
| Long-term obligations  | 4,888,521                   | 5,306,572                   |
| Total liabilities  | <u>10,910,068</u>           | <u>9,633,448</u>            |
| <b>COMMITMENTS AND CONTINGENCIES</b>   | -                           | -                           |
| <b>NET ASSETS:</b>   |                             |                             |
| Unrestricted   | 2,136,569                   | 2,161,211                   |
| Temporarily restricted   | 3,300,606                   | 3,503,873                   |
| Permanently restricted   | 1,999,247                   | 1,793,250                   |
| Total net assets   | <u>7,436,422</u>            | <u>7,458,334</u>            |
| <b>TOTAL LIABILITIES AND NET ASSETS</b>  | <b><u>\$ 18,346,490</u></b> | <b><u>\$ 17,091,782</u></b> |

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

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

**CONSOLIDATED STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2005**

|   | <u>Unrestricted</u> | <u>Temporarily<br/>Restricted</u> | <u>Permanently<br/>Restricted</u> | <u>Total</u>        |
|---|---------------------|-----------------------------------|-----------------------------------|---------------------|
| <b>SUPPORT AND REVENUES:</b>  |                     |                                   |                                   |                     |
| Public support:   |                     |                                   |                                   |                     |
| Financial institutions  | \$ 47,540           | \$ -                              | \$ -                              | \$ 47,540           |
| Federal, state and other<br>government grants   | -                   | 398,420                           | 205,997                           | 604,417             |
| Other   | 31,894              | -                                 | -                                 | 31,894              |
| Total public support  | <u>79,434</u>       | <u>398,420</u>                    | <u>205,997</u>                    | <u>683,851</u>      |
| Revenues:   |                     |                                   |                                   |                     |
| Rental income   | 26,500              | -                                 | -                                 | 26,500              |
| Counseling and mortgage fees  | 110,677             | -                                 | -                                 | 110,677             |
| Loan servicing fees   | 66,370              | -                                 | -                                 | 66,370              |
| Interest income   | 252,841             | 2,740                             | -                                 | 255,581             |
| Gain on sale of rental property<br>and housing units                                    | 480,658             | -                                 | -                                 | 480,658             |
| Total revenues  | <u>937,046</u>      | <u>2,740</u>                      | <u>-</u>                          | <u>939,786</u>      |
| Net assets released from<br>restrictions due to satisfaction<br>of program restrictions | <u>604,427</u>      | <u>(604,427)</u>                  | <u>-</u>                          | <u>-</u>            |
| Total support and revenues  | <u>1,620,907</u>    | <u>(203,267)</u>                  | <u>205,997</u>                    | <u>1,623,637</u>    |
| <b>EXPENSES:</b>  |                     |                                   |                                   |                     |
| Program services:   |                     |                                   |                                   |                     |
| Low-income housing assistance   | 1,448,888           | -                                 | -                                 | 1,448,888           |
| Supporting services:  |                     |                                   |                                   |                     |
| Management and general  | 196,661             | -                                 | -                                 | 196,661             |
| Total expenses  | <u>1,645,549</u>    | <u>-</u>                          | <u>-</u>                          | <u>1,645,549</u>    |
| CHANGE IN NET ASSETS  | (24,642)            | (203,267)                         | 205,997                           | (21,912)            |
| <b>NET ASSETS:</b>  |                     |                                   |                                   |                     |
| Beginning of year   | <u>2,161,211</u>    | <u>3,503,873</u>                  | <u>1,793,250</u>                  | <u>7,458,334</u>    |
| End of year   | <u>\$ 2,136,569</u> | <u>\$ 3,300,606</u>               | <u>\$ 1,999,247</u>               | <u>\$ 7,436,422</u> |

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

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

**CONSOLIDATED STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2004**

|   | <u>Unrestricted</u> | <u>Temporarily<br/>Restricted</u> | <u>Permanently<br/>Restricted</u> | <u>Total</u>        |
|---|---------------------|-----------------------------------|-----------------------------------|---------------------|
| <b>SUPPORT AND REVENUES:</b>  |                     |                                   |                                   |                     |
| Public support:   |                     |                                   |                                   |                     |
| Financial institutions  | \$ 64,258           | \$ -                              | \$ -                              | \$ 64,258           |
| Federal, state and other<br>government grants   | -                   | 1,120,389                         | 182,000                           | 1,302,389           |
| Other   | 84,077              | -                                 | -                                 | 84,077              |
| Total public support  | <u>148,335</u>      | <u>1,120,389</u>                  | <u>182,000</u>                    | <u>1,450,724</u>    |
| Revenues:   |                     |                                   |                                   |                     |
| Rental income   | 13,220              | -                                 | -                                 | 13,220              |
| Counseling and mortgage fees  | 180,972             | -                                 | -                                 | 180,972             |
| Loan servicing fees   | 49,445              | -                                 | -                                 | 49,445              |
| Management fees   | 12,155              | -                                 | -                                 | 12,155              |
| Interest income   | 185,657             | 10,702                            | -                                 | 196,359             |
| Gain on sale of rental property<br>and housing units                                    | 791,575             | -                                 | -                                 | 791,575             |
| Total revenues  | <u>1,233,024</u>    | <u>10,702</u>                     | <u>-</u>                          | <u>1,243,726</u>    |
| Net assets released from<br>restrictions due to satisfaction<br>of program restrictions | <u>391,942</u>      | <u>(391,942)</u>                  | <u>-</u>                          | <u>-</u>            |
| Total support and revenues  | <u>1,773,301</u>    | <u>739,149</u>                    | <u>182,000</u>                    | <u>2,694,450</u>    |
| <b>EXPENSES:</b>  |                     |                                   |                                   |                     |
| Program services:   |                     |                                   |                                   |                     |
| Low-income housing assistance   | 1,494,788           | -                                 | -                                 | 1,494,788           |
| Supporting services:  |                     |                                   |                                   |                     |
| Management and general  | <u>202,852</u>      | <u>-</u>                          | <u>-</u>                          | <u>202,852</u>      |
| Total expenses  | <u>1,697,639</u>    | <u>-</u>                          | <u>-</u>                          | <u>1,697,639</u>    |
| CHANGE IN NET ASSETS  | 75,662              | 739,149                           | 182,000                           | 996,811             |
| <b>NET ASSETS:</b>  |                     |                                   |                                   |                     |
| Beginning of year   | <u>2,085,549</u>    | <u>2,764,724</u>                  | <u>1,611,250</u>                  | <u>6,461,523</u>    |
| End of year   | <u>\$ 2,161,211</u> | <u>\$ 3,503,873</u>               | <u>\$ 1,793,250</u>               | <u>\$ 7,458,334</u> |

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

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

**CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

|  | <u>2005</u>         | <u>2004</u>         |
|--|---------------------|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES:  |                     |                     |
| Change in net assets   | \$ (21,912)         | \$ 996,811          |
| Adjustments to reconcile change in net assets<br>to net cash provided by (used in) operating activities: |                     |                     |
| Depreciation   | 29,633              | 29,645              |
| Amortization of notes receivable   | 223,860             | 205,054             |
| Provision for uncollectible notes receivable   | 60,000              | 95,000              |
| Net changes in other assets and liabilities:   |                     |                     |
| Accounts receivable  | 4,795               | (61,584)            |
| Prepaid expenses and other assets  | 3,459               | 73,159              |
| Inventory - housing units  | (1,950,068)         | 154,773             |
| Accounts payable and accrued liabilities   | 46,886              | 81,618              |
| Net cash provided by (used in) operating activities  | <u>(1,603,347)</u>  | <u>1,574,476</u>    |
| CASH FLOWS FROM INVESTING ACTIVITIES:  |                     |                     |
| Collection of notes receivable   | 732,490             | 432,703             |
| Issuance of notes receivable   | (886,078)           | (1,533,751)         |
| Purchases of property and equipment  | <u>(115,709)</u>    | <u>(18,220)</u>     |
| Net cash used in investing activities  | <u>(269,297)</u>    | <u>(1,119,268)</u>  |
| CASH FLOWS FROM FINANCING ACTIVITIES:  |                     |                     |
| Proceeds from short-term obligations   | 4,204,601           | 1,143,786           |
| Proceeds from long-term obligations  | 1,100,000           | 4,015,057           |
| Principal payments on debt obligations   | <u>(4,046,860)</u>  | <u>(4,998,812)</u>  |
| Net cash provided by financing activities  | <u>1,257,741</u>    | <u>160,031</u>      |
| NET CHANGE IN CASH AND CASH EQUIVALENTS  | (614,903)           | 615,239             |
| CASH AND CASH EQUIVALENTS, BEGINNING   | <u>2,248,752</u>    | <u>1,633,513</u>    |
| CASH AND CASH EQUIVALENTS, ENDING  | <u>\$ 1,633,849</u> | <u>\$ 2,248,752</u> |

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

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

**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2005**

|   | <u>Program<br/>Services</u>                  | <u>Supporting<br/>Services</u>        |                     |
|---|--|---------------------------------------|---------------------|
|   | <u>Low-Income<br/>Housing<br/>Assistance</u> | <u>Management<br/>and<br/>General</u> | <u>Totals</u>       |
| Payroll and related costs                         | \$ 726,514                                   | \$ 128,208                            | \$ 854,722          |
| Specific projects - Community Service             | 8,500  | -                                     | 8,500               |
| Automobile  | 18,490                                       | -                                     | 18,490              |
| Provision for uncollectible notes receivable      | 60,000                                       | -                                     | 60,000              |
| Assistance to homebuyers                          | 5,695  | -                                     | 5,695               |
| Depreciation                                      | 23,920                                       | 4,221                                 | 28,141              |
| Amortization of notes receivable                  | 223,860                                      | -                                     | 223,860             |
| Direct program expenses related to houses rented: |  |                                       |                     |
| Insurance   | (701)  | -                                     | (701)               |
| Interest  | 1,730  | -                                     | 1,730               |
| Depreciation                                      | 1,492  | -                                     | 1,492               |
| Utilities   | -  | -                                     | -                   |
| Maintenance and repairs                           | -  | -                                     | -                   |
| Taxes   | 1,050  | -                                     | 1,050               |
| Equipment rental and maintenance                  | 7,943  | 1,402                                 | 9,345               |
| Insurance   | 26,721                                       | 4,715                                 | 31,436              |
| Professional fees                                 | 52,811                                       | 9,320                                 | 62,131              |
| Occupancy   | 84,933                                       | 14,988                                | 99,921              |
| Office expense                                    | 24,492                                       | 4,322                                 | 28,814              |
| Contract labor                                    | 46,183                                       | 8,150                                 | 54,333              |
| Promotion   | 32,053                                       | 5,656                                 | 37,709              |
| Communications                                    | 13,912                                       | 2,455                                 | 16,367              |
| Training  | 14,348                                       | -                                     | 14,348              |
| Travel and food                                   | 31,983                                       | 5,644                                 | 37,627              |
| Miscellaneous                                     | 42,959                                       | 7,580                                 | 50,539              |
| Total expenses                                    | <u>\$ 1,448,888</u>                          | <u>\$ 196,661</u>                     | <u>\$ 1,645,549</u> |

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



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

**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2004**

|   | <u>Program<br/>Services</u>                  | <u>Supporting<br/>Services</u>        |                     |
|---|--|---------------------------------------|---------------------|
|   | <u>Low-Income<br/>Housing<br/>Assistance</u> | <u>Management<br/>and<br/>General</u> | <u>Totals</u>       |
| Payroll and related costs                         | \$ 797,872                                   | \$ 140,801                            | \$ 938,673          |
| Specific projects - Community Service             | 18,059                                       | -                                     | 18,059              |
| Automobile  | 11,329                                       | -                                     | 11,329              |
| Provision for uncollectible notes receivable      | 95,000                                       | -                                     | 95,000              |
| Depreciation                                      | 23,930                                       | 4,223                                 | 28,153              |
| Amortization of notes receivable                  | 205,054                                      | -                                     | 205,054             |
| Direct program expenses related to houses rented: |  |                                       |                     |
| Insurance   | 200  | -                                     | 200                 |
| Interest  | 1,503  | -                                     | 1,503               |
| Depreciation                                      | 1,492  | -                                     | 1,492               |
| Utilities   | -  | -                                     | -                   |
| Maintenance and repairs                           | -  | -                                     | -                   |
| Taxes   | 948  | -                                     | 948                 |
| Equipment rental and maintenance                  | 7,671  | 1,354                                 | 9,025               |
| Insurance   | 24,370                                       | 4,301                                 | 28,671              |
| Professional fees                                 | 47,567                                       | 8,394                                 | 55,961              |
| Occupancy   | 60,836                                       | 10,736                                | 71,572              |
| Office expense                                    | 21,179                                       | 3,738                                 | 24,917              |
| Contract labor                                    | 37,706                                       | 6,654                                 | 44,360              |
| Promotion   | 56,135                                       | 9,906                                 | 66,041              |
| Communications                                    | 14,241                                       | 2,513                                 | 16,754              |
| Training  | 11,716                                       | -                                     | 11,716              |
| Travel and food                                   | 23,438                                       | 4,136                                 | 27,574              |
| Miscellaneous                                     | 34,542                                       | 6,096                                 | 40,637              |
| Total expenses                                    | <u>\$ 1,494,788</u>                          | <u>\$ 202,852</u>                     | <u>\$ 1,697,639</u> |

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

## **AFFORDABLE HOUSING RESOURCES, INC. AND SUBSIDIARY**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2005 AND 2004**

#### **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"). These consolidated financial statements include the accounts of AHR and THC, collectively referred to as the "Agency".

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.

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 and THC. All intercompany balances and transactions have been eliminated.

##### **Accounting Periods**

All references to 2005 and 2004 in these consolidated financial statements refer to the years ended December 31, 2005 and 2004, respectively, unless otherwise noted.

##### **Basis of Accounting**

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

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2005 AND 2004**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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.

**Inventory – Housing Units**

The Agency is responsible for rehabilitation and construction of single-family housing projects. Accordingly, all land, construction, and rehabilitation or renovation costs are reported as inventory until such time as the units are sold.

## **AFFORDABLE HOUSING RESOURCES, INC. AND SUBSIDIARY**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2005 AND 2004**

#### **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 SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2005 AND 2004

### 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 \$1,330,335 and \$1,520,078 in 2005 and 2004, 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 2005 and 2004, amortization of these notes amounted to \$223,860 and \$205,054, respectively.

Notes receivable (excluding the noninterest-bearing notes mentioned above) consisted of the following at December 31, 2005:

|                                      | <u>Waller</u> | <u>Home</u> | <u>MDHA</u> | <u>NRC &amp;<br/>Section 8</u> | <u>Second<br/>Mortgages</u> | <u>Total</u> |
|--------------------------------------|---------------|-------------|-------------|--------------------------------|-----------------------------|--------------|
| Total notes receivable               | \$644,523     | \$135,995   | \$158,458   | \$1,102,302                    | \$741,190                   | \$2,782,468  |
| Number of loans                      | 115           | 27          | 28          | 70                             | 71                          | 311          |
| Loan delinquency status:             |               |             |             |                                |                             |              |
| Current and up to 90 days delinquent | \$629,994     | \$117,721   | \$124,566   | \$1,097,221                    | \$730,453                   | \$2,699,955  |
| Percent of total                     | 98%           | 87%         | 79%         | 99%                            | 99%                         | 97%          |
| Over 90 days delinquent              | \$14,529      | \$18,274    | \$33,892    | \$5,081                        | \$10,737                    | \$82,513     |
| Percent of total                     | 2%            | 13%         | 21%         | 1%                             | 1%                          | 3%           |

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, 2005 and 2004:

|                                      | <u>2005</u>      | <u>2004</u>      |
|--------------------------------------|------------------|------------------|
| Rental property:                     |                  |                  |
| Land                                 | \$ 10,000        | \$ 10,000        |
| Structures                           | 42,397           | 42,397           |
| Land                                 | 53,500           | 53,500           |
| Building and improvements            | 529,121          | 420,605          |
| Furniture, equipment and autos       | <u>108,237</u>   | <u>101,043</u>   |
| Total cost                           | 743,255          | 627,545          |
| Accumulated depreciation             | <u>(178,908)</u> | <u>(149,274)</u> |
| Net property, building and equipment | <u>\$564,347</u> | <u>\$478,271</u> |

**AFFORDABLE HOUSING RESOURCES, INC. AND SUBSIDIARY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2005 AND 2004****NOTE 5 – NOTES PAYABLE**

Notes payable consisted of the following as of December 31, 2005 and 2004:

|   | <u>2005</u> | <u>2004</u> |
|---|-------------|-------------|
| Note payable to a financial institution, matures April, 2006, interest at an annual rate of the bank's prime rate                     | \$1,980,000 | \$ -        |
| Notes payable to bank, maturing at various dates through December, 2006, interest at an annual rate of the bank's prime rate minus 1% | 1,161,544   | 1,363,733   |
| Notes payable to bank, maturing at various dates through December, 2006, interest at an annual rate of the bank's prime rate minus 1% | 921,659     | 949,112     |
| Note payable to bank, matures December, 2006, interest at an annual rate of the bank's prime rate minus 1%                            | 691,561     | 873,571     |
| Note payable to a financial institution, matures September, 2007, interest an annual rate of 4.5%                                     | 500,000     | 500,000     |
| Note payable to bank, matures December, 2012, interest at an annual rate of 4%  | 499,124     | 499,124     |
| Note payable to Heron Foundation, matures September, 2008, interest an annual rate of 4.5%  | 400,000     | 400,000     |
| Note payable to bank, matures September, 2010, interest at an annual rate of 5.75%  | 309,213     | 312,518     |
| Note payable to bank, matures December, 2014, interest at an annual rate of 4.5%  | 300,000     | 300,000     |
| Note payable to bank, matures June, 2011, interest at an annual rate of 3%  | 250,000     | 250,000     |
| Note payable to bank, matures November, 2012, interest at an annual rate of 4%  | 250,000     | 250,000     |
| Note payable to bank, matures June, 2013, interest at an annual rate of 4%  | 250,000     | 250,000     |
| Note payable to bank, matures May, 2015, interest at an annual rate of 4.5%   | 250,000     | -           |

Continued on next page

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2005 AND 2004**

**NOTE 5 – NOTES PAYABLE (CONTINUED)**

|   | <u><b>2005</b></u> | <u><b>2004</b></u> |
|---|--------------------|--------------------|
| Note payable to bank, matures September, 2015,<br>interest at an annual rate of 4.5%                              | \$ 250,000         | \$ -               |
| Note payable to bank, matures October, 2015,<br>interest at an annual rate of 4.5%                                | 250,000            | -                  |
| Note payable to bank, matures October, 2015,<br>interest at an annual rate of 4.5%                                | 250,000            | -                  |
| Note payable to Metropolitan Department of<br>Housing Association, matures November, 2022,<br>noninterest bearing | 250,000            | 250,000            |
| Note payable to financial institution, matures April,<br>2023, noninterest bearing                                | 250,000            | 250,000            |
| Note payable to Nashville Housing Fund, matures<br>May, 2006, interest at an annual rate of 5%                    | 166,349            | -                  |
| Note payable to financial institution, matures May,<br>2019, interest at an annual rate of 4%                     | 153,956            | 200,000            |
| Note payable to financial institution, matures March,<br>2018, interest at an annual rate of 4%                   | 119,396            | 346,544            |
| Note payable to bank, matures December, 2012,<br>interest at an annual rate of 4%                                 | 100,000            | 100,000            |
| Note payable to bank, matures December, 2013,<br>interest at an annual rate of 4%                                 | 100,000            | 100,000            |
| Note payable to bank, matures December, 2015,<br>interest at an annual rate of 4.5%                               | 100,000            | -                  |
| Note payable to Tennessee Housing Development<br>Agency, matures July, 2034, noninterest bearing                  | 56,832             | 58,999             |
| Notes payable to bank, matures November, 2006,<br>interest at an annual rate of the bank's prime rate<br>plus ½%  | 38,113             | -                  |

Continued on next page

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2005 AND 2004**

**NOTE 5 – NOTES PAYABLE (CONTINUED)**

|  | <u>2005</u>        | <u>2004</u>        |
|--|--------------------|--------------------|
| Note payable to bank, matures December, 2006,<br>interest at an annual rate of the bank's prime rate<br>plus ½%                              | \$ 25,241          | \$ 28,312          |
| Note payable to bank, matures July, 2006,<br>interest at an annual rate of the bank's prime rate<br>plus ½%                                  | -                  | 918,179            |
| Notes payable to bank, maturing at various dates<br>through September, 2005, interest at an annual rate<br>of the bank's prime rate minus 1% | -                  | 241,112            |
| Note payable to Nashville Housing Fund, matures<br>September, 2005, interest at an annual rate of 4%   | -                  | 89,043             |
| Note payable to Nashville Housing Fund, matures<br>February, 2005, interest at an annual rate of 4%  | <u>-</u>           | <u>85,000</u>      |
| Total  | 9,872,988          | 8,615,247          |
| Notes with short-term maturities   | <u>(4,984,467)</u> | <u>(3,308,675)</u> |
| Long-term notes  | <u>\$4,888,521</u> | <u>\$5,306,572</u> |

The prime rate of interest at December 31, 2005 was 7.25%. Most of the above notes are secured by deeds of trust on the related real estate.

Following is schedule of future principal payments on long-term notes as of December 31, 2005:

|                           |                    |
|---------------------------|--------------------|
| Year ending December 31,: |                    |
| 2006                      | \$ 27,593          |
| 2007                      | 628,802            |
| 2008                      | 330,069            |
| 2009                      | 31,385             |
| 2010                      | 291,182            |
| Thereafter                | <u>3,579,490</u>   |
| Total                     | <u>\$4,888,521</u> |



## AFFORDABLE HOUSING RESOURCES, INC. AND SUBSIDIARY

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2005 AND 2004

#### NOTE 6 – 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.

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

#### NOTE 7 – RESTRICTED NET ASSETS

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

|              | <u>2005</u>      | <u>2004</u>      |
|--------------|------------------|------------------|
| NRC grants   | \$250,840        | \$ 95,187        |
| HOME funds   | 257,787          | 296,755          |
| Other grants | 95,800           | -                |
| Total        | <u>\$604,427</u> | <u>\$391,942</u> |

Temporarily restricted net assets consisted of the following at December 31, 2005 and 2004:

|   | <u>2005</u>        | <u>2004</u>        |
|---|--------------------|--------------------|
| HOME investment grants  | \$ 484,487         | \$ 484,487         |
| HOME subrecipient grants for revolving construction fund                              | 2,175,081          | 2,387,123          |
| NRC grants  | -                  | 54,500             |
| Revolving loans and available cash for low-income housing and down payment assistance | 566,038            | 572,763            |
| FNMA grant  | 70,000             | -                  |
| Other   | 5,000              | 5,000              |
| Total   | <u>\$3,300,606</u> | <u>\$3,503,873</u> |

Permanently restricted net assets consisted of the following at December 31, 2005 and 2004:

|                    | <u>2005</u>        | <u>2004</u>        |
|--------------------|--------------------|--------------------|
| NRC capital grants | <u>\$1,999,247</u> | <u>\$1,793,250</u> |

## **AFFORDABLE HOUSING RESOURCES, INC. AND SUBSIDIARY**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)** **DECEMBER 31, 2005 AND 2004**

#### **NOTE 8 – ESCROW FUNDS HELD**

In September, 1999, the Agency assumed the management and administrative responsibilities for the existing MDHA lease purchase program. The Agency's duties included administration of the program, collection of the lease payments, homebuyer counseling, and collection and eviction activities. Funds collected under the lease purchase program were held in escrow until applied toward the down payment at the time the property is purchased, or refunded if the tenant ceases to participate in the program. The Agency received 8% of the gross rents as an administrative fee for these activities. This program was discontinued during 2004.

#### **NOTE 9 - CONTIGENCIES**

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 10 – 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 11 – SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION**

Cash payments for interest totaled \$445,845 and \$257,343 for 2005 and 2004, respectively.

**AFFORDABLE HOUSING RESOURCES, INC. AND SUBSIDIARY****SUPPLEMENTAL SCHEDULES - NEIGHBORHOOD REINVESTMENT CAPITAL FUND  
(PERMANENTLY RESTRICTED NET ASSETS)**

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**SCHEDULES OF FINANCIAL POSITION AS OF DECEMBER 31, 2005 AND 2004:**

|  | <u>2005</u>                | <u>2004</u>                |
|--|----------------------------|----------------------------|
| <b><u>ASSETS</u></b>                     |                            |                            |
| Cash and cash equivalents                | \$ 684,959                 | \$ 434,533                 |
| Grant receivable                         | 166,986                    | 182,000                    |
| Loans receivable                         | 1,102,302                  | 1,131,717                  |
| Property, plant and equipment            | <u>45,000</u>              | <u>45,000</u>              |
| <b>TOTAL ASSETS</b>                      | <b><u>\$ 1,999,247</u></b> | <b><u>\$ 1,793,250</u></b> |
| <b><u>LIABILITIES AND NET ASSETS</u></b> |                            |                            |
| Net assets - permanently restricted      | <b><u>\$ 1,999,247</u></b> | <b><u>\$ 1,793,250</u></b> |

**SCHEDULES OF ACTIVITIES FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004:**

|                              | <u>2005</u>                | <u>2004</u>                |
|------------------------------|----------------------------|----------------------------|
| <b>SUPPORT AND REVENUES:</b> |                            |                            |
| Capital grant - NRC          | <u>\$ 205,997</u>          | <u>\$ 182,000</u>          |
| Change in net assets         | 205,997                    | 182,000                    |
| <b>NET ASSETS, BEGINNING</b> | <u>1,793,250</u>           | <u>1,611,250</u>           |
| <b>NET ASSETS, ENDING</b>    | <b><u>\$ 1,999,247</u></b> | <b><u>\$ 1,793,250</u></b> |

**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 SUBSIDIARY****SUPPLEMENTAL CONSOLIDATING STATEMENT OF FINANCIAL POSITION  
DECEMBER 31, 2005**

|   | <b>Affordable<br/>Housing<br/>Resources,<br/>Inc.</b> | <b>AHR<br/>Development,<br/>Inc. (d/b/a The<br/>Home Company)</b> | <b>Eliminations</b>   | <b>Consolidated</b>  |
|---|---|---|-----------------------|----------------------|
| <b><u>ASSETS</u></b>                        |   |   |                       |                      |
| Cash and cash equivalents                   | \$ 1,600,812  | \$ 33,037   | \$ -                  | \$ 1,633,849         |
| Accounts receivable:                        |   |   |                       |                      |
| The Resource Foundation                     | 111,621   | 91,998  | -                     | 203,619              |
| Other                                       | 2,752,219   | 1,585,897   | (4,013,516)           | 324,600              |
| Prepaid expenses and<br>other assets        | 11,770  | 1,942   | -                     | 13,712               |
| Notes receivable                            | 2,555,274   | 1,330,335   | -                     | 3,885,609            |
| Inventory - housing units                   | -   | 11,701,871  | -                     | 11,701,871           |
| Property, building and<br>equipment, net    | 513,002   | 51,345  | -                     | 564,347              |
| Escrow funds held                           | 18,883  | -   | -                     | 18,883               |
| <b>TOTAL ASSETS</b>                         | <b>\$ 7,563,581</b>                                   | <b>\$ 14,796,425</b>  | <b>\$ (4,013,516)</b> | <b>\$ 18,346,490</b> |
| <b><u>LIABILITIES AND NET ASSETS</u></b>    |   |   |                       |                      |
| Accounts payable                            | \$ 1,452,325  | \$ 3,402,335  | \$ (4,013,516)        | \$ 841,144           |
| Accrued liabilities                         | 140,795   | 16,274  | -                     | 157,069              |
| Escrow funds                                | 38,867  | -   | -                     | 38,867               |
| Notes payable                               | 4,888,521   | 4,984,467   | -                     | 9,872,988            |
| Total liabilities                           | 6,520,508   | 8,403,076   | (4,013,516)           | 10,910,068           |
| <b>NET ASSETS</b>                           | <b>1,043,073</b>                                      | <b>6,393,349</b>  | <b>-</b>              | <b>7,436,422</b>     |
| <b>TOTAL LIABILITIES AND<br/>NET ASSETS</b> | <b>\$ 7,563,581</b>                                   | <b>\$ 14,796,425</b>  | <b>\$ (4,013,516)</b> | <b>\$ 18,346,490</b> |

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

**SUPPLEMENTAL CONSOLIDATING STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2005**

|  | <b>Affordable<br/>Housing<br/>Resources,<br/>Inc.</b> | <b>AHR<br/>Development,<br/>Inc. (d/b/a The<br/>Home Company)</b> | <b>Eliminations</b> | <b>Consolidated</b> |
|--|---|---|---------------------|---------------------|
| <b>SUPPORT AND REVENUES:</b>                         |   |   |                     |                     |
| Public support:                                      |   |   |                     |                     |
| Financial institutions                               | \$ 47,540   | \$ -  | \$ -                | \$ 47,540           |
| Federal, state and<br>other government grants        | 359,351   | 245,066   | -                   | 604,417             |
| Other  | 31,894  | -   | -                   | 31,894              |
| Total public support                                 | <u>438,785</u>  | <u>245,066</u>  | <u>-</u>            | <u>683,851</u>      |
| Revenues:  |   |   |                     |                     |
| Rental income  | -   | 26,500  | -                   | 26,500              |
| Counseling and<br>mortgage fees                      | 110,677   | -   | -                   | 110,677             |
| Loan servicing fees                                  | 66,370  | -   | -                   | 66,370              |
| Interest income                                      | 253,932   | 1,649   | -                   | 255,581             |
| Gain on sale of rental<br>property and housing units | -   | 480,658   | -                   | 480,658             |
| Total revenues                                       | <u>430,979</u>  | <u>508,807</u>  | <u>-</u>            | <u>939,786</u>      |
| Total support and revenues                           | 869,764   | 753,873   | -                   | 1,623,637           |
| TOTAL EXPENSES                                       | <u>1,090,328</u>                                      | <u>555,221</u>  | <u>-</u>            | <u>1,645,549</u>    |
| CHANGE IN NET ASSETS                                 | <u>\$ (220,564)</u>                                   | <u>\$ 198,652</u>   | <u>\$ -</u>         | <u>\$ (21,912)</u>  |