

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

### **TABLE OF CONTENTS**

Independent Auditors' Report .....	1
Consolidated Financial Statements as of and for the Years Ended December 31, 2006 and 2005:	
Statements of Financial Position .....	2
Statements of Activities .....	3 - 4
Statements of Cash Flows .....	5
Statements of Functional Expenses .....	6 - 7
Notes to Consolidated Financial Statements .....	8 - 17
Additional Information:	
Supplemental Schedule of Financial Position – Neighborhood Reinvestment Capital Fund (Permanently Restricted Net Assets) .....	18
Supplemental Consolidating Statement of Financial Position as of December 31, 2006 .....	19
Supplemental Consolidating Statement of Activities for the Year Ended December 31, 2006 .....	20
Independent Auditors' Report on Compliance and on Internal Control Over Financial Reporting Required by <i>Government Auditing Standards</i> .....	21

# MULLINS CLEMMONS & MAYES, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated statements of financial position of Affordable Housing Resources, Inc. and subsidiaries (a nonprofit organization) as of December 31, 2006 and 2005 and the related consolidated statements of activities, cash flows and functional expenses for the years then ended. These consolidated financial statements are the responsibility of management of Affordable Housing Resources, Inc. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Affordable Housing Resources, Inc. and subsidiaries as of December 31, 2006 and 2005 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 May 30, 2007, on our consideration of Affordable Housing Resources, Inc. and subsidiary's internal control over financial reporting and our tests of their compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

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

*Mullins Clemmons & Mayes, PLLC*

Brentwood, Tennessee  
May 30, 2007

**AFFORDABLE HOUSING RESOURCES, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF FINANCIAL POSITION  
DECEMBER 31, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
<b><u>ASSETS</u></b>		
Cash and cash equivalents	\$ 1,408,813	\$ 1,633,849
Accounts receivable:		
The Resource Foundation	188,405	203,619
Other	393,455	324,600
Prepaid expenses and other assets	13,434	13,712
Notes receivable, net of allowance for uncollectible loans of \$211,459 in 2006 and \$226,884 in 2005	3,360,733	3,885,609
Receivable from Village Real Estate	23,242	-
Development in progress	15,939,396	11,701,871
Interest escrow account - 5th and Main Project	114,211	-
Contractor retainage fund - 5th and Main Project	363,750	-
Property, building and equipment, net	541,561	564,347
Escrow funds held	40,771	18,883
<b>TOTAL ASSETS</b>	<b><u>\$ 22,387,771</u></b>	<b><u>\$ 18,346,490</u></b>
<b><u>LIABILITIES AND NET ASSETS</u></b>		
Accounts payable	\$ 1,058,637	\$ 841,144
Accrued liabilities	254,661	157,069
Escrow funds	70,416	38,867
Short-term obligations	2,678,457	4,984,467
Long-term obligations	11,277,515	4,888,521
Total liabilities	<u>15,339,686</u>	<u>10,910,068</u>
<b>COMMITMENTS AND CONTINGENCIES</b>	-	-
<b>NET ASSETS:</b>		
Unrestricted	1,813,932	2,136,569
Temporarily restricted	3,014,906	3,300,606
Permanently restricted	2,219,247	1,999,247
Total net assets	<u>7,048,085</u>	<u>7,436,422</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 22,387,771</u></b>	<b><u>\$ 18,346,490</u></b>

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

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

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

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

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

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

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

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>SUPPORT AND REVENUES:</b>				
Public support:				
Financial institutions	\$ 47,540	\$ -	\$ -	\$ 47,540
Federal, state and other 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 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 restrictions due to satisfaction 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 SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (388,337)	\$ (21,912)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	31,823	29,633
Amortization of notes receivable	350,917	223,860
Provision for uncollectible notes receivable	60,000	60,000
Net changes in other assets and liabilities:		
Accounts receivable	(53,641)	4,795
Prepaid expenses and other assets	9,939	3,459
Development in progress and related assets	(4,715,486)	(1,950,068)
Accounts payable and accrued liabilities	315,085	46,886
Net cash used in operating activities	<u>(4,389,700)</u>	<u>(1,603,347)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Collection of notes receivable	626,054	732,490
Issuance of notes receivable	(535,337)	(886,078)
Purchases of property and equipment	(9,037)	(115,709)
Net cash provided by (used in) investing activities	<u>81,680</u>	<u>(269,297)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from short-term obligations	4,726,898	4,204,601
Proceeds from long-term obligations	6,072,289	1,100,000
Principal payments on debt obligations	(6,716,203)	(4,046,860)
Net cash provided by financing activities	<u>4,082,984</u>	<u>1,257,741</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(225,036)	(614,903)
CASH AND CASH EQUIVALENTS, BEGINNING	<u>1,633,849</u>	<u>2,248,752</u>
CASH AND CASH EQUIVALENTS, ENDING	<u>\$ 1,408,813</u>	<u>\$ 1,633,849</u>

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

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

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

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

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

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

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

	<b>Program Services</b>	<b>Supporting Services</b>	
	<b>Low-Income Housing Assistance</b>	<b>Management and General</b>	<b>Totals</b>
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 SUBSIDIARIES**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2006 AND 2005**

#### **NOTE 1 – THE ENTITY**

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

The purpose of the Agency is to "create affordable housing and strong neighborhoods" by increasing home ownership opportunities for families and individuals who are unable to obtain assistance through traditional public and private funding sources in the greater Nashville area. The Agency is supported principally by service fees, sale of single-family homes, private and public contributions and grants from the U.S Department of Housing and Urban Development (through the Metropolitan Development and Housing Agency - "MDHA") and the Neighborhood Reinvestment Corporation.

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

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

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

#### **NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

##### **Principles of Consolidation**

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

##### **Accounting Periods**

All references to 2006 and 2005 in these consolidated financial statements refer to the years ended December 31, 2006 and 2005, respectively, unless otherwise noted.

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

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2006 AND 2005**

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

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

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

##### **Contributions and Support**

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

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

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

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

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

##### **Cash and Cash Equivalents**

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

##### **Development in Progress**

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

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

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)** **DECEMBER 31, 2006 AND 2005**

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

##### **Property, Building and Equipment**

Property, building and equipment additions, major renewals and betterments are recorded at cost at the date of purchase, at fair value at the date of gift if the value is readily determinable, or other reasonable basis, as determined by the Board of Directors, if cost is unknown. Expenditures for maintenance and repairs are charged to expense as incurred. Depreciation is computed by using the straight-line method over the estimated useful lives of the assets. See Note 4 for further details.

##### **Deferred Revenue**

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

##### **Donated Materials and Services**

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

##### **Income Taxes**

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

##### **Provision for Uncollectible Notes**

A note receivable is considered impaired when, based on current information, it is probable that all amounts of principal and interest due will not be collected according to the terms of the note agreement. Generally, a note receivable is considered impaired when the individual debtor cannot be located or has declared bankruptcy. The allowance for uncollectible notes is established by charges to program services expense and is maintained at an amount, which management believes will be adequate to absorb losses on existing loans. Uncollectible loans are charged to the allowance account in the period in which such a determination is made.

##### **Functional Allocation of Expenses**

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

##### **Estimates**

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

# AFFORDABLE HOUSING RESOURCES, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2006 AND 2005

### 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 \$1,044,487 and \$1,330,335 in 2006 and 2005, 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 2006 and 2005, amortization of these notes amounted to \$350,917 and \$223,860, respectively.

Notes receivable (excluding the noninterest-bearing notes mentioned above) consisted of the following at December 31, 2006:

	<u>Waller</u>	<u>Home</u>	<u>MDHA</u>	<u>NRC &amp; Section 8</u>	<u>Second Mortgages</u>	<u>First Mortgage</u>	<u>Total</u>
Total notes receivable	\$670,983	\$97,097	\$118,691	\$996,319	\$626,354	\$17,798	\$2,527,242
Number of loans	116	22	22	64	80	1	305
Loan delinquency status:							
Current and up to 90 days delinquent	\$651,386	\$63,806	\$84,673	\$970,476	\$599,620	\$17,798	\$2,387,759
Percent of total	97.1%	65.7%	71.3%	97.4%	95.7%	100%	94.5%
Over 90 days delinquent	\$19,597	\$33,291	\$34,018	\$25,843	\$26,734	\$ -	\$139,483
Percent of total	2.9%	34.3%	28.7%	2.6%	4.3%	0%	5.5%

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, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Rental property:		
Land	\$ 10,000	\$ 10,000
Structures	42,397	42,397
Land	53,500	53,500
Building and improvements	530,222	529,121
Furniture, equipment and autos	116,173	108,237
Total cost	752,292	743,255
Accumulated depreciation	(210,731)	(178,908)
Net property, building and equipment	<u>\$541,561</u>	<u>\$564,347</u>

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2006 AND 2005**

**NOTE 5 – NOTES PAYABLE**

Notes payable consisted of the following as of December 31, 2006 and 2005:

	<u><b>2006</b></u>	<u><b>2005</b></u>
Note payable to The Housing Fund, matures June, 2008, interest at an annual rate of 8%	\$ 3,500,000	\$ -
Note payable to Fannie Mae, matures June, 2009, interest payable at rate equal to the 3-month Libor rate plus 190 basis points, adjusted quarterly	1,500,000	-
Note payable to bank, maturing at various dates through December, 2007, interest at an annual rate of the bank's prime rate minus 1%	744,502	691,561
Notes payable to bank, maturing at various dates through October, 2007, interest at an annual rate of the bank's prime rate minus 1%	738,534	921,659
Notes payable to bank, maturing at various dates through December, 2007, interest at an annual rate of the bank's prime rate minus 1%	689,201	612,438
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 bank, matures February, 2008, interest at an annual rate of the bank's prime rate minus 1%	400,005	549,106
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%	301,786	309,213
Note payable to bank, matures December, 2014, interest at an annual rate of 4.5%	300,000	300,000
Note payable to bank, matures August, 2007, interest at an annual rate of the bank's prime rate minus .5%	286,803	-

Continued on next page

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2006 AND 2005**

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

	<u><b>2006</b></u>	<u><b>2005</b></u>
Note payable to bank, matures June, 2008, interest at an annual rate of the bank's prime rate minus .5%	\$ 280,000	\$ -
Note payable to bank, matures June, 2008, interest at an annual rate of 4%	277,751	-
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	250,000
Note payable to bank, matures September, 2015, interest at an annual rate of 4.5%	250,000	250,000
Note payable to bank, matures October, 2015, interest at an annual rate of 4.5%	250,000	250,000
Note payable to bank, matures October, 2015, interest at an annual rate of 4.5%	250,000	250,000
Note payable to Metropolitan Department of Housing Association, matures November, 2022, noninterest bearing	250,000	250,000
Note payable to financial institution, matures April, 2023, noninterest bearing	250,000	250,000
Note payable to bank, matures February, 2016, interest at an annual rate of 4.5%	250,000	-
Note payable to bank, matures March, 2016, interest at an annual rate of 4.5%	250,000	-
Note payable to Nashville Housing Fund, matures May, 2007, interest at an annual rate of 5%	196,990	166,349

Continued on next page

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2006 AND 2005**

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

	<u><b>2006</b></u>	<u><b>2005</b></u>
Note payable to financial institution, matures May, 2019, interest at an annual rate of 4%	\$ 114,408	\$ 153,956
Note payable to bank, matures December, 2012, interest at an annual rate of 4%	100,000	100,000
Note payable to bank, matures December, 2013, interest at an annual rate of 4%	100,000	100,000
Note payable to bank, matures December, 2015, interest at an annual rate of 4.5%	100,000	100,000
Note payable to financial institution, matures March, 2018, interest at an annual rate of 4%	83,856	119,396
Note payable to Tennessee Housing Development Agency, matures July, 2034, noninterest bearing	56,047	56,832
Note payable to bank, matures December, 2007, interest at an annual rate of the bank's prime rate plus ½%	22,426	25,241
Note payable to bank, matures November, 2008, interest at an annual rate of the bank's prime rate minus 1%	14,539	-
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, matures November, 2006, interest at an annual rate of the bank's prime rate plus ½%	<u>-</u>	<u>38,113</u>
Total	13,955,972	9,872,988
Notes with short-term maturities	<u>(2,678,457)</u>	<u>(4,984,467)</u>
Long-term notes	<u><b>\$11,277,515</b></u>	<u><b>\$4,888,521</b></u>

The prime rate of interest at December 31, 2006 was 8.25%. Most of the above notes are secured by deeds of trust on the related real estate and letters of credit.

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

## AFFORDABLE HOUSING RESOURCES, INC. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2006 AND 2005

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

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

ROI and COI have entered into agreements with certain lenders for future borrowings under notes payable totaling over \$32 million to provide funds for the development of the 5<sup>th</sup> and Main Project. No balances are outstanding under any of these notes at December 31, 2006.

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

Following is schedule of future principal payments on long-term notes as of December 31, 2006:

Year ending December 31,:	
2007	\$ 625,111
2008	4,798,521
2009	1,527,386
2010	288,629
2011	267,886
Thereafter	<u>3,769,982</u>
Total	<u>\$11,277,515</u>

#### 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.



**AFFORDABLE HOUSING RESOURCES, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2006 AND 2005****NOTE 6 – AFFILIATIONS (CONTINUED)**

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>2006</u>	<u>2005</u>
NRC grants	\$147,765	\$ 250,840
HOME funds	318,194	257,787
Other grants	<u>106,607</u>	<u>95,800</u>
Total	<u>\$572,566</u>	<u>\$604,427</u>

Temporarily restricted net assets consisted of the following at December 31, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
HOME investment grants	\$ 484,487	\$ 484,487
HOME subrecipient grants for revolving construction fund	1,884,466	2,175,081
Revolving loans and available cash for low-income housing and down payment assistance	530,394	566,038
NRC expendable grants	81,500	-
FNMA grant	11,667	70,000
Other	<u>22,392</u>	<u>5,000</u>
Total	<u>\$3,014,906</u>	<u>\$3,300,606</u>

Permanently restricted net assets consisted of the following at December 31, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
NRC capital grants	<u>\$2,219,247</u>	<u>\$1,999,247</u>

**NOTE 8 - CONTINGENCIES**

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

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2006 AND 2005**

**NOTE 9 – 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  $\frac{1}{2}\%$  of the amounts collected in connection with these services.

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

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

Cash payments for interest totaled \$649,879 and \$445,845 for 2006 and 2005, respectively.

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

---

**SCHEDULES OF FINANCIAL POSITION AS OF DECEMBER 31, 2006 AND 2005:**

	<u>2006</u>	<u>2005</u>
<b><u>ASSETS</u></b>		
Cash and cash equivalents	\$ 987,928	\$ 684,959
Grant receivable	190,000	166,986
Loans receivable	996,319	1,102,302
Property, plant and equipment	<u>45,000</u>	<u>45,000</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 2,219,247</u></u>	<u><u>\$ 1,999,247</u></u>
<b><u>LIABILITIES AND NET ASSETS</u></b>		
Net assets - permanently restricted	<u><u>\$ 2,219,247</u></u>	<u><u>\$ 1,999,247</u></u>

**SCHEDULES OF ACTIVITIES FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005:**

	<u>2006</u>	<u>2005</u>
<b>SUPPORT AND REVENUES:</b>		
Capital grant - NRC	<u>\$ 220,000</u>	<u>\$ 205,997</u>
Change in net assets	220,000	205,997
<b>NET ASSETS, BEGINNING</b>	<u>1,999,247</u>	<u>1,793,250</u>
<b>NET ASSETS, ENDING</b>	<u><u>\$ 2,219,247</u></u>	<u><u>\$ 1,999,247</u></u>

**NOTES:**

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

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

**SUPPLEMENTAL CONSOLIDATING STATEMENT OF FINANCIAL POSITION  
DECEMBER 31, 2006**

	Affordable Housing Resources, Inc.	AHR Development, Inc. (d/b/a The Home Company)	5th & Main Residential Owner, Inc.	5th & Main Commercial Owner, Inc.	Eliminations	Consolidated
<b>ASSETS</b>						
Cash and cash equivalents	\$ 893,670	\$ 476,806	\$ 38,157	\$ 180	\$ -	\$ 1,408,813
Accounts receivable:						
The Resource Foundation	106,007	82,398	-	-	-	188,405
Other	5,521,236	2,089,356	205,030	-	(7,422,167)	393,455
Prepaid expenses and other assets	6,601	6,833	-	-	-	13,434
Notes receivable	2,316,246	1,044,487	-	-	-	3,360,733
Receivable - Village Real Estate			23,242	-	-	23,242
Development in progress and related assets	-	7,934,635	8,004,511	250	-	15,939,396
Interest escrow account - 5th and Main Project	-	-	114,211	-	-	114,211
Contractor retainage fund - 5th and Main Project	-	-	363,750	-	-	363,750
Property, building and equipment, net	494,843	46,718	-	-	-	541,561
Escrow funds held -	40,771	-	-	-	-	40,771
<b>TOTAL ASSETS</b>	<b>\$ 9,379,374</b>	<b>\$ 11,681,233</b>	<b>\$ 8,748,901</b>	<b>\$ 430</b>	<b>\$ (7,422,167)</b>	<b>\$ 22,387,771</b>
<b>LIABILITIES AND NET ASSETS</b>						
Accounts payable	\$ 1,749,883	\$ 2,039,944	\$ 4,690,477	\$ 500	\$ (7,422,167)	\$ 1,058,637
Accrued liabilities	158,643	79,694	16,324	-	-	254,661
Escrow funds	70,416	-	-	-	-	70,416
Notes payable	6,805,221	3,650,751	3,500,000	-	-	13,955,972
Total liabilities	8,784,163	5,770,389	8,206,801	500	(7,422,167)	15,339,686
<b>NET ASSETS</b>	<b>595,211</b>	<b>5,910,844</b>	<b>542,100</b>	<b>(70)</b>	<b>-</b>	<b>7,048,085</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 9,379,374</b>	<b>\$ 11,681,233</b>	<b>\$ 8,748,901</b>	<b>\$ 430</b>	<b>\$ (7,422,167)</b>	<b>\$ 22,387,771</b>

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

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

	Affordable Housing Resources, Inc.	AHR Development, Inc. (d/b/a The Home Company)	5th & Main Residential Owner, Inc.	5th & Main Commercial Owner, Inc.	Eliminations	Consolidated
<b>SUPPORT AND REVENUES:</b>						
Public support:						
Financial institutions	\$ 69,333	\$ -	\$ -	\$ -	\$ -	\$ 69,333
Federal, state and other government grants	159,358	-	289,908	-	-	449,266
Other	61,472	1,000	50,000	-	-	112,472
Total public support	290,163	1,000	339,908	-	-	631,071
<b>Revenues:</b>						
Rental income	-	14,200	-	-	-	14,200
Counseling and mortgage fees	99,371	-	-	-	-	99,371
Loan servicing fees	67,259	-	-	-	-	67,259
Interest income	260,770	321	2,360	-	-	263,451
Gain on sale of rental property and housing units	-	349,577	-	-	-	349,577
Total revenues	427,400	364,098	2,360	-	-	793,858
Total support and revenues	717,563	365,098	342,268	-	-	1,424,929
<b>TOTAL EXPENSES</b>	1,165,434	644,208	3,554	70	-	1,813,266
<b>CHANGE IN NET ASSETS</b>	\$ (447,871)	\$ (279,110)	\$ 338,714	\$ (70)	\$ -	\$ (388,337)