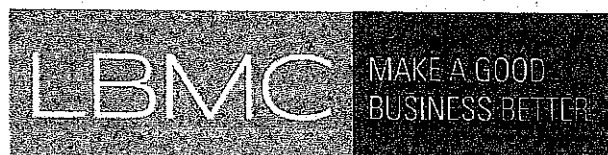


AFFORDABLE HOUSING RESOURCES, INC.

Financial Statements and Supplementary Information

December 31, 2021 and 2020

(With Independent Auditors' Report Thereon)



AFFORDABLE HOUSING RESOURCES, INC.

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Affordable Housing Resources, Inc.:

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Affordable Housing Resources, Inc. (the "Agency"), which comprise the statements of financial position as of December 31, 2021 and 2020, and the related statements of activities and changes in net assets, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Agency as of December 31, 2021 and 2020, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Agency and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Agency's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Agency's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 22, 2022 on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Agency's internal control over financial reporting and compliance.

LBMC, PC

Brentwood, Tennessee
June 22, 2022

AFFORDABLE HOUSING RESOURCES, INC.

Statements of Financial Position

December 31, 2021 and 2020

Assets

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 1,641,297	\$ 349,780
Restricted cash and cash equivalents	2,503,496	1,725,094
Restricted certificates of deposit	-	481,337
Grants and accounts receivable	245,900	477,924
Prepaid expenses and other current assets	58,044	44,551
Investment in joint venture	250,000	250,000
Receivable from joint venture	1,741,121	152,962
Notes receivable, net of allowance for uncollectible notes of \$629,658 and \$618,095 as of December 31, 2021 and 2020, respectively	12,989,588	12,415,959
Property, buildings and equipment, net	661,627	686,708
Property held for sale	<u>3,946,741</u>	<u>4,394,809</u>
Total assets	\$ <u>24,037,814</u>	\$ <u>20,979,124</u>

Liabilities and Net Assets

Accounts payable	\$ 195,871	\$ 95,065
Accrued expenses	69,883	35,628
Agency payable	838,550	1,377,800
Notes payable and lines of credit	<u>3,026,534</u>	<u>2,259,128</u>
Liabilities before equity equivalent obligations	4,130,838	3,767,621
Other liabilities - equity equivalent obligations	<u>13,786,791</u>	<u>13,689,666</u>
Total liabilities	<u>17,917,629</u>	<u>17,457,287</u>
Net assets:		
Without donor restrictions	2,346,583	1,352,889
With donor restrictions	<u>3,773,602</u>	<u>2,168,948</u>
Total net assets	<u>6,120,185</u>	<u>3,521,837</u>
	\$ <u>24,037,814</u>	\$ <u>20,979,124</u>

See accompanying notes to the financial statements.

AFFORDABLE HOUSING RESOURCES, INC.

Statements of Activities and Changes in Net Assets

Year ended December 31, 2021

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Support and revenues:			
Public support:			
Grants - NeighborWorks America	\$ 540,326	\$ -	\$ 540,326
Other contributions and grants	<u>623,479</u>	<u>2,047,421</u>	<u>2,670,900</u>
Total public support	<u>1,163,805</u>	<u>2,047,421</u>	<u>3,211,226</u>
Program revenue:			
Rental income	34,733	-	34,733
Counseling and mortgage fees	140,607	-	140,607
Loan interest income	332,398	-	332,398
Developer fees	195,000	-	195,000
Other interest income	<u>11,171</u>	<u>-</u>	<u>11,171</u>
Total program revenue	<u>713,909</u>	<u>-</u>	<u>713,909</u>
Total public support and revenues	<u>1,877,714</u>	<u>2,047,421</u>	<u>3,925,135</u>
Expenses:			
Program services -			
Low-income housing assistance	1,746,588	-	1,746,588
Supporting services -			
Management and general	<u>306,202</u>	<u>-</u>	<u>306,202</u>
Total expenses	<u>2,052,790</u>	<u>-</u>	<u>2,052,790</u>
Change in net assets from operations	<u>(175,076)</u>	<u>2,047,421</u>	<u>1,872,345</u>
Other changes in net assets:			
Net assets released from restrictions	442,767	(442,767)	-
Gain on sale of property, buildings, and equipment and property held for sale	664,131	-	664,131
Gain on extinguishment of debt	48,678	-	48,678
Other income	<u>13,194</u>	<u>-</u>	<u>13,194</u>
Total other changes in net assets	<u>1,168,770</u>	<u>(442,767)</u>	<u>726,003</u>
Change in net assets	<u>993,694</u>	<u>1,604,654</u>	<u>2,598,348</u>
Net assets at beginning of year	<u>1,352,889</u>	<u>2,168,948</u>	<u>3,521,837</u>
Net assets at end of year	<u>\$ 2,346,583</u>	<u>\$ 3,773,602</u>	<u>\$ 6,120,185</u>

See accompanying notes to the financial statements.

AFFORDABLE HOUSING RESOURCES, INC.

Statements of Activities and Changes in Net Assets

Year ended December 31, 2020

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Support and revenues:			
Public support:			
Grants - NeighborWorks America	\$ 514,497	\$ -	\$ 514,497
In-kind donations of property	1,083,700	-	1,083,700
Other contributions and grants	<u>1,411,821</u>	<u>-</u>	<u>1,411,821</u>
Total public support	<u>3,010,018</u>	<u>-</u>	<u>3,010,018</u>
Program revenue:			
Rental income	19,999	-	19,999
Counseling and mortgage fees	274,259	-	274,259
Loan interest income	327,323	-	327,323
Other interest income	<u>11,107</u>	<u>-</u>	<u>11,107</u>
Total program revenue	<u>632,688</u>	<u>-</u>	<u>632,688</u>
Total public support and revenues	<u>3,642,706</u>	<u>-</u>	<u>3,642,706</u>
Expenses:			
Program services -			
Low-income housing assistance	1,665,348	-	1,665,348
Supporting services -			
Management and general	<u>293,351</u>	<u>-</u>	<u>293,351</u>
Total expenses	<u>1,958,699</u>	<u>-</u>	<u>1,958,699</u>
Change in net assets from operations	<u>1,684,007</u>	<u>-</u>	<u>1,684,007</u>
Other changes in net assets:			
Release from restriction	457,148	(457,148)	-
Gain on sale of property, buildings, and equipment and property held for sale	137,686	-	137,686
Gain on extinguishment of debt	<u>30,169</u>	<u>-</u>	<u>30,169</u>
Total other changes in net assets	<u>625,003</u>	<u>(457,148)</u>	<u>167,855</u>
Change in net assets	<u>2,309,010</u>	<u>(457,148)</u>	<u>1,851,862</u>
Net assets (deficit) at beginning of year	<u>(956,121)</u>	<u>2,626,096</u>	<u>1,669,975</u>
Net assets at end of year	<u>\$ 1,352,889</u>	<u>\$ 2,168,948</u>	<u>\$ 3,521,837</u>

See accompanying notes to the financial statements.

AFFORDABLE HOUSING RESOURCES, INC.

Statement of Functional Expenses

Year ended December 31, 2021

	<u>Program Services</u>	<u>Supporting Services</u>	
	<u>Low-Income Housing Assistance</u>	<u>Management and General</u>	<u>Totals</u>
Advertising and communication	\$ 58,869	\$ 8,797	\$ 67,666
Automobile	14,033	2,097	16,130
Contract labor	75,544	11,288	86,832
Depreciation	24,856	3,390	28,246
Repairs and maintenance	40,139	5,998	46,137
Direct expenses of developed properties	98,290	-	98,290
Insurance	16,402	2,237	18,639
Interest	1,278	-	1,278
Direct expenses for disaster relief and COVID-19 related assistance programs	830,567	-	830,567
Occupancy and rental	65,788	9,830	75,618
Office expenses	39,982	5,974	45,956
Payroll and related costs	377,372	241,642	619,014
Professional fees	73,054	10,916	83,970
Taxes, licenses and fees	5,158	771	5,929
Training	3,427	-	3,427
Travel and entertainment	14,411	2,153	16,564
Utilities	7,418	1,109	8,527
	<u>\$ 1,746,588</u>	<u>\$ 306,202</u>	<u>\$ 2,052,790</u>

See accompanying notes to the financial statements.

AFFORDABLE HOUSING RESOURCES, INC.

Statement of Functional Expenses

Year ended December 31, 2020

	<u>Program Services</u>	<u>Supporting Services</u>	
	<u>Low-Income Housing Assistance</u>	<u>Management and General</u>	<u>Totals</u>
Advertising and communication	\$ 43,576	\$ 6,511	\$ 50,087
Automobile	12,425	1,857	14,282
Contract labor	64,604	9,654	74,258
Depreciation	20,037	2,732	22,769
Repairs and maintenance	38,174	5,704	43,878
Direct expenses of developed properties	73,086	-	73,086
Insurance	16,776	2,288	19,064
Interest	8,284	-	8,284
Direct expenses for disaster relief and COVID-19 related assistance programs	728,684	-	728,684
Occupancy and rental	65,735	9,822	75,557
Office expenses	61,821	9,238	71,059
Payroll and related costs	379,471	237,538	617,009
Professional fees	37,707	5,634	43,341
Provision for uncollectible notes	96,000	-	96,000
Taxes, licenses and fees	2,580	386	2,966
Training	3,087	-	3,087
Travel and entertainment	9,659	1,443	11,102
Utilities	3,642	544	4,186
	<u>\$ 1,665,348</u>	<u>\$ 293,351</u>	<u>\$ 1,958,699</u>

See accompanying notes to the financial statements.

AFFORDABLE HOUSING RESOURCES, INC.

Statements of Cash Flows

Years ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities:		
Change in net assets	\$ <u>2,598,348</u>	\$ <u>1,851,862</u>
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	28,246	22,769
Provision for uncollectible notes receivable, net of recoveries	11,563	96,000
Gain on extinguishment of debt	(48,678)	(30,169)
In-kind contributions of property	-	(1,083,700)
Gain on sale of property, buildings, and equipment and property held for sale	(664,131)	(137,686)
(Increase) decrease in operating assets:		
Grants and accounts receivable	232,024	(398,093)
Receivable from joint venture	(1,588,159)	(61,006)
Prepaid expense and other assets	(13,493)	(20,225)
Increase (decrease) in operating liabilities:		
Accounts payable	100,806	(18,418)
Accrued liabilities	<u>34,255</u>	<u>(7,222)</u>
Total adjustments	<u>(1,907,567)</u>	<u>(1,637,750)</u>
Net cash provided by operating activities	<u>690,781</u>	<u>214,112</u>
Cash flows from investing activities:		
Proceeds from sale of property, buildings, and equipment and property held for sale	3,253,492	933,479
Purchases of property, buildings and equipment	(4,256)	(308,690)
Purchases of property held for sale	(2,140,202)	(1,095,536)
Purchases of certificates of deposit and reinvested interest	-	(10,261)
Redemptions of certificates of deposit	481,337	238,058
Advances of notes receivable	(1,839,894)	(2,450,502)
Collections from notes receivable	<u>715,452</u>	<u>340,202</u>
Net cash provided (used) by investing activities	<u>465,929</u>	<u>(2,353,250)</u>
Cash flows from financing activities:		
Proceeds from notes payable and lines of credit	1,616,231	600,102
Payments of notes payable and lines of credit	(848,825)	(358,234)
Proceeds from equity equivalent obligations	250,000	711,000
Repayments of equity equivalent obligations	<u>(104,197)</u>	<u>-</u>
Net cash provided by financing activities	<u>913,209</u>	<u>952,868</u>
Increase in cash and cash equivalents and restricted cash	2,069,919	(1,186,270)
Cash, cash equivalents and restricted cash and cash equivalents at beginning of year	<u>2,074,874</u>	<u>3,261,144</u>
Cash, cash equivalents and restricted cash and cash equivalents at end of year	<u>\$ 4,144,793</u>	<u>\$ 2,074,874</u>
Reconciliation of cash, cash equivalents and restricted cash to the accompanying statements of financial position:		
	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 1,641,297	\$ 349,780
Restricted cash and cash equivalents	<u>2,503,496</u>	<u>1,725,094</u>
Total	<u>\$ 4,144,793</u>	<u>\$ 2,074,874</u>

See accompanying notes to the financial statements.

AFFORDABLE HOUSING RESOURCES, INC.

Notes to the Financial Statements

December 31, 2021 and 2020

(1) Nature of activities

Affordable Housing Resources, Inc. (the "Agency") was chartered in 1989 as a Tennessee not-for-profit corporation. The purpose of the Agency is to "create affordable housing and strong neighborhoods" by increasing home ownership opportunities for families and individuals who are unable to obtain assistance through traditional public and private funding sources in the greater Nashville area. The Agency is supported principally by service fees, sale of single-family homes, private and public contributions and grants from the U.S. Department of Housing and Urban Development through the Metropolitan Development and Housing Agency ("MDHA"), the Tennessee Housing Development Agency ("THDA") and the Neighborhood Reinvestment Corporation, dba NeighborWorks® America ("NWA").

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

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

During 2021 and 2020, the Agency received certain governmental and other grants to provide assistance to victims of natural disasters in the Middle Tennessee area for home repairs and to provide housing assistance to those impacted by the COVID-19 pandemic.

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

(2) Summary of significant accounting policies

The financial statements of the Agency are presented on the accrual basis. The significant accounting policies followed are described below.

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

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

AFFORDABLE HOUSING RESOURCES, INC.

Notes to the Financial Statements

December 31, 2021 and 2020

Additionally, at December 31, 2021 and 2020, the Agency had cash, cash equivalents and certificates of deposit restricted for future investments in income producing properties and mortgage loans.

(b) Grants and accounts receivable and provision for uncollectible items

The Agency reports grants and accounts receivable, net of an allowance for doubtful accounts, at the amount which represents management's estimate of the amount that ultimately will be realized. The Agency reviews the adequacy of its allowance for uncollectible accounts on an ongoing basis, using historical payment trends, as well as review of specific accounts, and makes adjustments in the allowance as necessary. As of December 31, 2021 and 2020, no allowance for doubtful accounts was considered necessary.

(c) Notes receivable and provision for uncollectible items

The Agency holds various notes receivable under programs in conjunction with its defined mission. These notes are secured by the properties for which the loans were originally provided to purchase or assist with the down payment and are due to the Agency upon sale of the related property. Notes receivable are considered impaired when, based on current information, it is probable that all amounts or a portion of principal and interest due will not be collected according to the terms of the note agreement. Generally, a note receivable is considered impaired when the individual debtor cannot be located or has declared bankruptcy. The allowance for uncollectible notes is established by charges to program services expense and is maintained at an amount which management believes will be adequate to absorb losses on existing loans. Uncollectible loans are charged to the allowance account in the period in which such a determination is made.

(d) Property, buildings and equipment

Property, buildings and equipment additions, major renewals and betterments are recorded at cost at the date of purchase, at fair value on the date of gift if the value is readily determinable, or other reasonable basis, as determined by the Board of Directors, if cost is unknown. Depreciation is computed by using the straight-line method over the estimated useful lives of the assets. When property is retired or sold, the cost and the related accumulated depreciation are removed from the accounts, and the resulting gain or loss is included in changes in net assets.

(e) Property held for sale

Property held for sale is recorded at the lower of cost or fair market value. The Agency's management has approved a plan to sell its existing housing and commercial development properties. As a result, the assets have been classified as property held for sale at December 31, 2021 and 2020 and includes properties in the process of being constructed for sale as well as completed properties.

AFFORDABLE HOUSING RESOURCES, INC.

Notes to the Financial Statements

December 31, 2021 and 2020

(f) Joint venture

During 2019, the Agency entered into an unincorporated joint venture agreement with a third party to develop single bedroom low-income housing units. Subject to the agreement, the other joint venture partner transferred land to be used for development of the project to the joint venture and the Agency invested \$250,000 cash in exchange for a 50% ownership interest. Under the terms of the joint venture, the Agency is responsible for managing the project and obtaining financing. As such, the Agency obtained a construction line of credit with a bank for up to \$2,000,000, which was amended during 2020 for up to \$2,800,000, to fund development costs that is available through August 2022. All costs incurred by the Agency on behalf of the joint venture are recorded as a receivable from the joint venture in the accompanying statement of financial position. The line of credit is secured by the underlying constructed property. Approximately \$1,600,000 and \$193,000 was outstanding on the line of credit at December 31, 2021 and 2020, respectively. Once the development project is complete and all housing units are sold, the related line of credit or other loans will be repaid and the joint venture parties will be reimbursed for any additional cash contributions made to the project prior to distribution of any remaining profits, which shall be shared equally between the Agency and the other joint venture partner.

(g) Net assets

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Agency and changes therein are classified and reported as follows:

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

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

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

AFFORDABLE HOUSING RESOURCES, INC.

Notes to the Financial Statements

December 31, 2021 and 2020

(h) Agency transactions

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

(i) Revenue recognition

Agency revenues are generated primarily from fees for services, processing, and servicing fees. A performance obligation is a contractual promise to transfer a distinct good or service, or a bundle of goods or services, to the customer, and is the unit of accounting. A contract's transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied. The Agency's contracts typically have a single performance obligation.

Loan programs and other related fees:

Loan application fees are earned and recorded as revenue at a point in time when the loan application is completed by the applicant with all required documentation and accepted by the Agency. Loan origination fees are earned on loan closings and recorded as revenue at a point in time when the performance obligation is met which is determined to be when the loan closes and funds are advanced to the customer. Loan late fees on outstanding loans are recognized as revenue at a point in time when the payments are due and the customer has not paid the payments under the contract terms. Development fees are earned by the Agency when the related property is constructed and sold to a homeowner.

Interest Income:

Interest income is recognized over time based on the life of a loan. The Agency has a signed promissory note with all borrowers which constitutes a contract with the customer, contains the loan terms, and documents the obligations of the Agency and the borrower. Each loan receivable is considered separately and has its own specific terms. The agency recognizes interest income over the time of the loan at the applicable interest rates in each loan agreement.

AFFORDABLE HOUSING RESOURCES, INC.

Notes to the Financial Statements

December 31, 2021 and 2020

Contributions:

Contributions and other public support are generally recognized at the time of receipt as there are no performance obligations that are required to be satisfied. The Agency reports any gifts of property, equipment or materials as unrestricted support unless explicit donor restrictions specify how the assets must be used and no performance obligations exist. Gifts of long-lived assets with explicit restrictions as to how the assets are to be used or funds restricted for the acquisition of long-lived assets are reported as restricted support. Expirations of donor restrictions are recognized when the donated or acquired long-lived assets are placed in service as the performance obligation is considered to be met at that point in time.

Grants:

Grants are recorded and recognized as revenue when grant funds are received or unconditionally pledged, if there are no performance requirements in the grant agreement. In accordance with industry guidance, revenue from lending program grants are recognized as revenue and support when the funds are received. For any grant agreements that include performance obligations, revenue is recognized when the related performance obligations are met. Funds from grants with a performance requirement which are received in advance are recorded as a refundable government grant and recognized as revenue when the performance requirements are met.

(j) Income taxes

The Agency is exempt from federal income taxes under the provisions of Internal Revenue Code ("IRC") Section 501(c)(3), and, accordingly, no provision for income taxes is included in the financial statements.

As of December 31, 2021 and 2020, the Agency has accrued no interest and no penalties related to uncertain tax positions. It is the Agency's policy to recognize interest and/or penalties related to income tax matters in income tax expense.

The Agency files a U.S. Federal information tax return.

(k) Functional allocation of expenses

Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are charged to programs and supporting services based upon various allocation methods, including time spent on various functions by employees. General and administrative expenses include those expenses that are not directly identifiable with any other specific functions but provide for the overall support and direction of the Agency.

AFFORDABLE HOUSING RESOURCES, INC.

Notes to the Financial Statements

December 31, 2021 and 2020

(l) Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(m) Events occurring after reporting date

Management of the Agency has evaluated events and transactions that occurred between December 31, 2021 and June 22, 2022 which is the date the financial statements were available to be issued for possible recognition or disclosure in the financial statements. No such events or transactions were noted requiring recognition or disclosure in the financial statements.

(n) New accounting standards, not yet adopted

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

(o) Reclassifications

Certain items in the 2020 financial statements have been reclassified to conform to the presentation of the 2021 financial statements. These reclassifications had no effect on the statement of activities and changes in net assets as previously reported.

(3) Credit risk and other concentrations

The Agency periodically maintains cash on deposit at banks in excess of federally insured amounts. The Agency has not experienced any losses in such accounts and management believes the Agency is not exposed to any significant credit risk related to cash.

AFFORDABLE HOUSING RESOURCES, INC.

Notes to the Financial Statements

December 31, 2021 and 2020

The Agency received approximately 13% of its total public support and revenues from NeighborWorks® America during 2021. Additionally, the Agency received approximately 21% and 38% of its public support and revenues from one-time grants related to the Coronavirus pandemic as COVID-19 relief funds, tornado mitigation, and construction of homes during 2021 and 2020, respectively. The Agency received approximately 15% of its total public support and revenues from NeighborWorks® America and 31% from in-kind donations during 2020.

(4) Liquidity and availability

A summary of the Agency's financial assets as of December 31, 2021 and 2020, reduced by amounts not available for general use because of donor-imposed restrictions, within one year of the statement of financial position date is as follows:

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 1,641,297	\$ 349,780
Grants and accounts receivable	<u>245,900</u>	<u>477,924</u>
Financial assets available to meet cash needs for general expenditures within one year	\$ <u>1,887,197</u>	\$ <u>827,704</u>

As part of the Agency's liquidity management plan, we invest cash in excess of daily requirements is invested in short-term investments, CDs, and money market funds.

(5) Notes receivable

First and second mortgage loans to homebuyers are made for terms of 4 to 15 years, at annual interest rates ranging from 3% to 7.5%. There were no material notes receivable with payments greater than 90 days past due as of December 31, 2021 and 2020. The notes receivable are collateralized by real estate. At December 31, 2021 and 2020, the balance of such loans totaled \$6,454,867 and \$6,535,778, respectively. Additionally, the Agency recorded an allowance for loan losses totaling \$629,658 and \$618,095 at December 31, 2021 and 2020, respectively.

Notes receivable also include non-interest bearing notes that are grants that are forgiven over a period of up to 15 years, as long as the homeowner continues to own the property, or repaid upon the future sale of the property ("soft-third mortgages"). The soft third mortgages are secured by liens on the homeowner's property. At December 31, 2021 and 2020, the balance of the soft-third mortgage loans totaled \$7,164,379 and \$6,498,276, respectively.

The soft-third mortgages that are forgiven over time under the LIFT program (Note 12) are reported as agency transactions. As these notes are forgiven, the note receivable is reduced with a corresponding decrease in the balance of the Agency Payable liability. The balance of these notes receivable and the corresponding agency payable liability totaled \$838,550 and \$1,377,800 at December 31, 2021 and 2020, respectively. During 2021 and 2020, approximately \$539,000 and \$618,000 of agency payables were amortized against the corresponding notes receivable balances.

AFFORDABLE HOUSING RESOURCES, INC.

Notes to the Financial Statements

December 31, 2021 and 2020

(6) Property, buildings, and equipment

A summary of property, buildings and equipment at December 31, 2021 and 2020 is as follows:

	<u>2021</u>	<u>2020</u>
Land	\$ 160,000	\$ 160,000
Buildings and improvements	495,410	495,410
Furniture and equipment	<u>101,267</u>	<u>98,102</u>
Total cost	756,677	753,512
Accumulated depreciation	<u>(95,050)</u>	<u>(66,804)</u>
Property, buildings and equipment, net	\$ <u>661,627</u>	\$ <u>686,708</u>

(7) Notes payable

A summary of notes payable as of December 31, 2021 and 2020 is as follows:

	<u>2021</u>	<u>2020</u>
Two notes payable to the Community Development Financial Institutions Fund, maturing in April 2023, non-interest bearing.	\$ 250,000	\$ 250,000
Note payable to MDHA, maturing in November 2022, non-interest bearing.	250,000	250,000
Note payable to THDA, repaid during 2021.	-	22,754
Note payable to a bank, repaid during 2021.	-	98,100

Various construction lines of credit requiring monthly interest payments at variable rates (0% - 4.0% as of December 31, 2021) and fixed rates (3.50% at December 31, 2021) with total maximum borrowings of approximately \$6,774,000 at December 31, 2021. Total borrowings under the lines of credit are to be used for construction of single-family homes and single-bedroom low-income housing units. All lines of credit generally are for one to two year terms and mature between August 2022 and August 2023 and are secured by the constructed property and real estate. The agency expects to extend the terms of outstanding lines of credit as they become due until completion of the respective construction projects.

1,606,900	333,835
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AFFORDABLE HOUSING RESOURCES, INC.

Notes to the Financial Statements

December 31, 2021 and 2020

Note payable to a bank, matured and paid off in June 2021.	-	250,000
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Notes payable to banks, matured and paid off in July 2021.	<u>-</u>	<u>5,117</u>
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Total notes payable with defined maturities	2,106,900	1,209,806
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Notes payable to banks with interest at an annual rate of the Prime Rate minus 4.00% (0% at December 31, 2021). These notes payable have no defined maturities (see below).	<u>919,634</u>	<u>1,049,322</u>
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Total notes payable	\$ <u>3,026,534</u>	\$ <u>2,259,128</u>
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Notes payable without defined maturities are collateralized by certain notes receivable held by the Agency (the "Collateral Notes"). The notes payable are due only when principal payment on the Collateral Notes has been received or the homes acting as security interest for the Collateral Notes have been sold.

With the exception of the notes payable without defined maturities discussed above, most of the above notes are secured by deeds of trust on the related real estate. Additionally, management of the Agency determined that the imputation of interest on non-interest bearing notes payable was immaterial.

Following is a schedule of required future principal payments on notes payable with defined maturities as of December 31, 2021:

<u>Year</u>	<u>Amount</u>
2022	\$ 1,826,491
2023	250,000
2027 and later years	<u>30,409</u>
	\$ <u>2,106,900</u>

No amount of principal due was in arrears at December 31, 2021 or 2020.

AFFORDABLE HOUSING RESOURCES, INC.

Notes to the Financial Statements

December 31, 2021 and 2020

(8) Equity equivalent obligations

The Agency carries certain obligations to banks that are classified as Equity Equivalent ("EQ2") funds. These obligations are shown under Other Liabilities on the statements of financial position in order to represent more clearly the nature of the payable and to adhere to industry practice. The EQ2 is defined by having six attributes as follows:

- (1) The EQ2 investment is carried as an investment on the investor's statement of financial position in accordance with GAAP;
- (2) The EQ2 investment is a general obligation of the Agency that is not secured by any of the Agency's assets;
- (3) The EQ2 investment is fully subordinated to the right of repayment of all the Agency's other creditors;
- (4) The EQ2 investment does not give the investor the right to accelerate payment unless the Agency ceases its normal operations;
- (5) The EQ2 investment carries an interest rate that is not tied to any income received by the Agency; and
- (6) The EQ2 investment has a rolling term, and therefore, an indeterminate maturity (also known as an evergreen provision).

These obligations either carry a zero interest rate or an interest rate of Prime minus 4% at December 31, 2021 and 2020.

(9) Net assets with donor restrictions

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

	<u>2021</u>	<u>2020</u>
Subject to expenditure for specified purposes:		
Housing and low-income down payment assistance	\$ <u>3,773,602</u>	\$ <u>2,168,948</u>

Net assets with donor restrictions include funds utilized for the purchase or construction of low-income housing as restricted by donors. Certain grants do not address if or when restrictions expire or are released upon forgiveness of loan balances or losses incurred from the disposition of such properties. The Agency has maintained the restrictions that existed on the original grants unless otherwise indicated by the donors. At December 31, 2021, the net assets with donor restrictions also include \$1,500,000 received from a governmental grant for financial assistance to low-income recipients and other low-income housing projects for which no amounts had been expended at December 31, 2021.

AFFORDABLE HOUSING RESOURCES, INC.

Notes to the Financial Statements

December 31, 2021 and 2020

(10) Employee benefit plan

The Agency has a defined contribution employee benefit plan for eligible employees under provisions of section 403(b) of the IRC. Eligible employees may elect to contribute a percentage of their compensation, subject to certain limitations, to the plan on a pre-tax basis. The Agency will match one-half of each employee's contributions, up to a maximum matching contribution of 3% of the employee's eligible compensation. The Agency expensed employer contributions of \$15,661 and \$14,772 in 2021 and 2020, respectively.

(11) Operating leases

The Agency utilizes office space under an operating lease. Rent expense under this lease totaled \$68,080 and \$68,081 during 2021 and 2020, respectively. Future minimum payment under this lease is expected to total approximately \$68,000 over the next year.

(12) Neighborhood LIFT and similar programs

The Agency participates in the Neighborhood LIFT program. The program is a collaboration between Wells Fargo Foundation, NWA and local non-profit organizations, including the Agency. Grants under the LIFT program are used to assist low-to-moderate income persons through down payment assistance grants. Under the LIFT program, grants to beneficiaries are forgiven over a period of five years and any recaptured funds not forgiven must be granted to other eligible beneficiaries during the program which was in effect through May 2022. Agency payable in the accompanying statements of financial position represents the total cash available for grant to beneficiaries plus the outstanding unamortized notes receivable from beneficiaries under the LIFT program.

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

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

(13) Commitments and contingencies

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

AFFORDABLE HOUSING RESOURCES, INC.

Notes to the Financial Statements

December 31, 2021 and 2020

(14) Supplemental disclosures of cash flow statement information

	<u>2021</u>	<u>2020</u>
Interest paid	\$ <u>1,267</u>	\$ <u>8,278</u>

(15) Related party transactions

The Agency contracted with an affiliated general contractor during 2021 and 2020 to construct certain property held for sale. Payments made during 2021 and 2020 to the affiliate totaled approximately \$119,000 and \$336,000, respectively.

AFFORDABLE HOUSING RESOURCES, INC.

Schedule of Expenditures of Federal Awards

Year ended December 31, 2021

<u>FALN</u>	<u>Federal Grantor / Pass-through Grantor / Program Title</u>	<u>Grant Number</u>	<u>Expenditures</u>
	U.S. Dept. of Treasury		
21.000	NeighborWorks® America	N/A	\$ 185,000
21.000	NeighborWorks® America	N/A	290,000
21.000	NeighborWorks® America	N/A	20,000
21.000	NeighborWorks® America	N/A	9,000
21.000	NeighborWorks® America	N/A	5,000
21.000	NeighborWorks® America	N/A	1,500
21.000	NeighborWorks® America	N/A	<u>500</u>
	Total program 21.000		<u>511,000</u>
21.019	Passed through from Metropolitan Government of Nashville and Davidson County and Administered by United Way of Greater Nashville: Coronavirus Relief Fund - COVID-19	N/A	<u>246,251</u>
	Total U.S. Dept. of Treasury		<u>757,251</u>
	U.S. Dept. of Housing and Urban Development		
14.218	Passed through from Metropolitan Development and Housing Agency: Community Development Block Grant - COVID-19	CDBG-CV	554,688
14.218	Passed through from NeighborWorks® America: Housing Counseling Assistance Program	N/A	<u>29,326</u>
	Total U.S. Dept. of Housing and Urban Development		<u>584,014</u>
	Total federal awards		<u>\$ 1,341,265</u>

See accompanying notes to the Schedule of Expenditures of Federal Grant Awards

AFFORDABLE HOUSING RESOURCES, INC.

Notes to the Schedule of Expenditures of Federal Awards

Year ended December 31, 2021

(1) Basis of Presentation

The accompanying Schedule of Expenditures of Federal Grant Awards (the "Schedule") includes the federal grant activity of Affordable Housing Resources, Inc. (the "Agency"). The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance") as codified by HHS at 45 CFR Part 75 and the State of Tennessee. Because the Schedule presents only a selected portion of the operations of the Agency, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Agency.

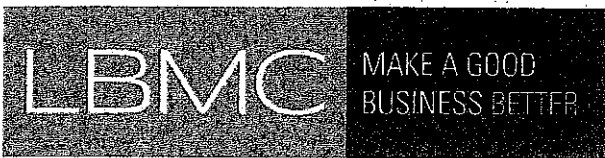
(2) Summary of Significant Accounting Policies

The expenditure threshold for classification as a Type A program is \$750,000.

For purposes of the Schedule, expenditures of federal grant awards are recognized on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

The Agency did not receive or expend any Federal awards during fiscal year 2021 in the form of non-cash assistance or provide any funds to subrecipients.

The Agency has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.



Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

The Board of Directors
Affordable Housing Resources, Inc.:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Affordable Housing Resources, Inc. (the "Agency"), which comprise the statement of financial position as of December 31, 2021, and the related statements of activities and changes in net assets, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 22, 2022.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Agency's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Agency's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Agency's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

LBM, PC

Brentwood, Tennessee
June 22, 2022



**Independent Auditors' Report on Compliance For Each Major Federal Program and on Internal Control
Over Compliance Required by the Uniform Guidance**

**The Board of Directors
Affordable Housing Resources, Inc.:**

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Affordable Housing Resources, Inc.'s (the "Agency") compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of the Agency's major federal programs for the year ended December 31, 2021. The Agency's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Agency complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2021.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Agency and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on compliance for each major federal program. Our audit does not provide a legal determination of the Agency's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grants agreements applicable to the Agency's federal programs.

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Agency's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Agency's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards* and the uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Agency's compliance with the compliance requirements referred to above and performing such other procedures as we consider necessary in the circumstances.
- Obtain an understanding of the Agency's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate to those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control over Compliance

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

LBM, PC

Brentwood, Tennessee
June 22, 2022

AFFORDABLE HOUSING RESOURCES, INC.

Schedule of Findings and Questioned Costs and Prior Audit Findings

Year Ended December 31, 2021

(1) SUMMARY OF INDEPENDENT AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? ☐ Yes ☒ No
 Significant deficiency(ies) identified? ☐ Yes ☒ None reported

Noncompliance material to financial statements noted? ☐ Yes ☒ No

Federal Awards

Internal control over major programs:

Material weakness(es) identified? ☐ Yes ☒ No
 Significant deficiency(ies) identified? ☐ Yes ☒ None reported

Type of auditors' report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a) of the Uniform Guidance? ☐ Yes ☒ No

Identification of major programs for the Agency for the fiscal year ended December 31, 2021 are as follows:

<u>Federal Assistance Listing Number</u>	<u>Grantor</u>	<u>Programs</u>
14.218	U.S. Dept. of Housing and Urban Development	Community Development Block Grants/Entitlement Grants
21.019	U.S. Dept. of Treasury	Coronavirus Relief Fund

Dollar threshold to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee? ☐ Yes ☒ No

(2) FINANCIAL STATEMENT FINDINGS

None

(3) FINDINGS AND QUESTIONED COSTS RELATING TO FEDERAL AWARDS

None

(4) SUMMARY OF PRIOR AUDIT FINDINGS

None

AFFORDABLE HOUSING RESOURCES, INC.

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

Schedules of Financial Position as of December 31, 2021 and 2020

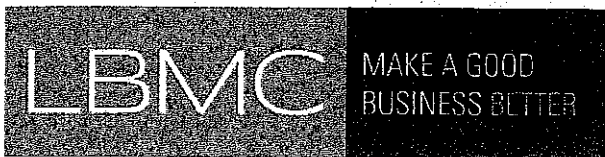
	<u>2021</u>	<u>2020</u>
<u>Assets</u>		
Cash	\$ -	\$ -
Notes receivable	-	-
Development in progress / Property held for sale	-	-
Total Assets	\$ -	\$ -
<u>Liabilities and Net Assets</u>		
Net assets with donor restrictions, held in perpetuity	\$ -	\$ -

Schedules of Changes in Net Assets for the Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Change in net assets - released from restrictions	\$ -	\$ (457,148)
Net assets, beginning	-	<u>457,148</u>
Net assets, ending	<u>\$ -</u>	<u>\$ -</u>

Notes:

Investment income and interest on outstanding loans were earned on the net assets of the Neighborhood Reinvestment Capital Fund ("NRC") and were available for unrestricted use by the Agency. All of these amounts were transferred to the net assets without donor restrictions during those years. There were no proceeds from capital projects in excess of the amount of funds necessary to maintain the net assets at a level disclosed in the Capital Funds Agreement with NRC. Accordingly, no funds were transferred from NRC for that purpose. Amounts released from restriction represents amounts formally approved for release by NeighborWorks® America.



**Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and
Other Matters Based on an Audit of Financial Statements Performed in Accordance with
*Government Auditing Standards***

The Board of Directors
Affordable Housing Resources, Inc.:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Affordable Housing Resources, Inc. (the "Agency"), which comprise the statement of financial position as of December 31, 2021, and the related statements of activities and changes in net assets, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 22, 2022.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Agency's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the 's internal control. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Agency's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Agency's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

LBMC, PC

Brentwood, Tennessee
June 22, 2022



**Independent Auditors' Report on Compliance For Each Major Federal Program and on Internal Control
Over Compliance Required by the Uniform Guidance**

**The Board of Directors
Affordable Housing Resources, Inc.:**

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Affordable Housing Resources, Inc.'s (the "Agency") compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Agency's major federal programs for the year ended December 31, 2021. The Agency's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Agency complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2021.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Agency and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on compliance for each major federal program. Our audit does not provide a legal determination of the Agency's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grants agreements applicable to the Agency's federal programs.

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Agency's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Agency's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards* and the uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Agency's compliance with the compliance requirements referred to above and performing such other procedures as we consider necessary in the circumstances.
- Obtain an understanding of the Agency's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate to those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control over Compliance

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

LBMC, PC

Brentwood, Tennessee
June 22, 2022

AFFORDABLE HOUSING RESOURCES, INC.

Schedule of Findings and Questioned Costs and Prior Audit Findings

Year Ended December 31, 2021

(1) SUMMARY OF INDEPENDENT AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? ☐ Yes ☒ No
 Significant deficiency(ies) identified? ☐ Yes ☒ None reported

Noncompliance material to financial statements noted? ☐ Yes ☒ No

Federal Awards

Internal control over major programs:

Material weakness(es) identified? ☐ Yes ☒ No
 Significant deficiency(ies) identified? ☐ Yes ☒ None reported

Type of auditors' report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to
 be reported in accordance with 2 CFR
 200.516(a) of the Uniform Guidance? ☐ Yes ☒ No

Identification of major programs for the Agency for the fiscal year ended December 31, 2021
 are as follows:

<u>Federal Assistance Listing Number</u>	<u>Grantor</u>	<u>Programs</u>
14.218	U.S. Dept. of Housing and Urban Development	Community Development Block Grants/Entitlement Grants
21.019	U.S. Dept. of Treasury	Coronavirus Relief Fund

Dollar threshold to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee? ☐ Yes ☒ No

(2) FINANCIAL STATEMENT FINDINGS

None

(3) FINDINGS AND QUESTIONED COSTS RELATING TO FEDERAL AWARDS

None

(4) SUMMARY OF PRIOR AUDIT FINDINGS

None

AFFORDABLE HOUSING RESOURCES, INC.

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

Schedules of Financial Position as of December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
<u>Assets</u>		
Cash	\$ -	\$ -
Notes receivable	-	-
Development in progress / Property held for sale	<u>-</u>	<u>-</u>
Total Assets	\$ <u>-</u>	\$ <u>-</u>
<u>Liabilities and Net Assets</u>		
Net assets with donor restrictions, held in perpetuity	\$ <u>-</u>	\$ <u>-</u>

Schedules of Changes in Net Assets for the Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Change in net assets - released from restrictions	\$ -	\$ (457,148)
Net assets, beginning	<u>-</u>	<u>457,148</u>
Net assets, ending	\$ <u>-</u>	\$ <u>-</u>

Notes:

Investment income and interest on outstanding loans were earned on the net assets of the Neighborhood Reinvestment Capital Fund ("NRC") and were available for unrestricted use by the Agency. All of these amounts were transferred to the net assets without donor restrictions during those years. There were no proceeds from capital projects in excess of the amount of funds necessary to maintain the net assets at a level disclosed in the Capital Funds Agreement with NRC. Accordingly, no funds were transferred from NRC for that purpose. Amounts released from restriction represents amounts formally approved for release by NeighborWorks® America.

LBMIC

MAKE A GOOD
BUSINESS BETTER

Affordable Housing Resources, Inc.

2021 Client Service Communication

The Board of Directors:

We have audited the financial statements of Affordable Housing Resources, Inc. (the "Agency") as of and for the year ended December 31, 2021 and have issued our report thereon dated June 22, 2022. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter dated November 15, 2021. Professional standards also require that we communicate to you certain other matters related to our audit.

This report is intended solely for the information and use of the board of directors and management of the Agency and is not intended to be, and should not be used by anyone other than these specified parties.

We appreciate the confidence you place in LBMC as your business advisor. We strive to help you stay compliant, manage risk, and improve performance in every way as you grow your business.

LBMC, PC

Brentwood, Tennessee
June 22, 2022

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Overview of the Audit and Responsibilities

Scope of Attest Services	LBMC was engaged to perform an audit of the Agency's 2021 financial statements including subjecting certain supplementary information to auditing procedures.
The Agency's Responsibilities	Management is responsible for the preparation and fair presentation of the financial statements and supplementary information and maintaining internal controls.
Attest Deliverable	LBMC issued an unmodified opinion on the Agency's financial statements and communicated certain matters relating to the audited financial statements and supplemental information.
Other Services	<p>LBMC performed certain nonattest services including drafting financial statements, drafting supplementary information, and providing accounting consultation. LBMC will also prepare the Agency's tax returns.</p> <p>We provided management with any and all accounting records that were prepared by LBMC in connection with the nonattest services set forth above. Management is responsible for retaining these accounting records, including supporting schedules as an integral part of the Company's accounting records such as the classified trial balance utilized for financial statement preparation and detail of functional expense allocations.</p>

Qualitative Assessments and Corrected and Uncorrected Misstatements

Area	Detail
Qualitative Aspects of Accounting Practices – Accounting Policies	<p>Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Agency are described in Note 2 to the financial statements. No new significant accounting policies were adopted and the application of existing policies was not changed during 2021. We are not aware of any transactions entered into by the Agency during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.</p>
Qualitative Aspects of Accounting Practices – Estimates	<p>Accounting estimates are an integral part of the Agency's financial statements and are based on management's knowledge and experience, as well as certain assumptions. Certain accounting estimates are particularly sensitive due to: (i) their significance to the financial statements; and (ii) uncertainties inherent in the estimation process. The most sensitive estimates affecting the financial statements relate to:</p> <ul style="list-style-type: none"> • <i>Collectability and allowance for uncollectible notes and accounts receivable</i> • <i>Depreciable lives of property, buildings and equipment</i> • <i>Proper presentation of debt, including accrued interest</i> • <i>Impairment of long-lived assets, including property held for sale</i> • <i>Classification of restricted net assets and related releases of net assets from restrictions during the year</i> <p>We evaluated the key factors and assumptions used to develop each of these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.</p>
Qualitative Aspects of Accounting Practices – Disclosures	<p>Financial statement disclosures are neutral, consistent, and clear.</p>
Corrected and Uncorrected Misstatements	<p>Misstatements identified during the audit that are more than clearly trivial in nature and magnitude have been communicated to management. Management has corrected all such misstatements. The following misstatement detected through our audit procedures and corrected by management is considered to be material:</p>

	Description	Income / (Loss)
Adjustment	Adjustments to record prior year entries to roll net assets	(180,277)

Interaction with Management, Independence, and Other Matters

Area	Detail
Difficulties Encountered in Performing the Audit	<p>For purposes of this report, "difficulties" may include matters such as:</p> <ul style="list-style-type: none"> • the unavailability of, or significant delays in management providing information, • an unreasonable time frame within which to complete the audit, • extensive unexpected effort required to obtain audit evidence, or • restrictions imposed on the auditor by management. <p>We encountered no significant difficulties in performing and completing our audit.</p>
Disagreements with Management	<p>For purposes of this report "disagreements with management" include matters that, individually or in the aggregate, could be significant to the Agency's financial statements or the auditors' report, regardless of whether they were satisfactorily resolved. Examples of such matters include, but are not limited to, the application of accounting principles to a specific transaction, the basis for management's judgments about accounting estimates, and the scope of the audit. We are pleased to report that no such disagreements arose during the course of our audit.</p>
Management Consultations with other Independent Accountants	<p>If management were to consult with other accountants about the application of an accounting principle to the Agency's financial statements or the type of auditors' opinion that may be expressed on those statements, professional standards require the consulting accountant to confer with us to determine that the consultant has all relevant facts. To our knowledge, there were no such consultations with other accountants.</p>
Management Representations	<p>We have requested certain representations from management that are included in the management representation letter dated June 22, 2022.</p>
Independence	<p>We are not aware of any relationships between our firm and the Agency that, in our professional judgment, may reasonably be thought to bear on our independence that have occurred during the period from January 1, 2021 through the date of this report.</p>
Other Findings or Issues	<p>We generally discuss a variety of matters, including the application of accounting principles and auditing standards with management each year both prior to, and subsequent to retention as the Agency's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition of our retention.</p>
Information Accompanying the Financial Statements	<p>With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with U.S. generally accepted accounting principles, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.</p>

Internal Control Related Matters

In planning and performing our audit of the financial statements, we considered the Agency's internal control over financial reporting ("internal control") as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control.

We identified the following item during our audit as an opportunity for improving controls and operating efficiency:

Segregation of Duties

Because of the limited number of available personnel, it is not always possible to adequately segregate certain incompatible duties, so that no one employee has access to both physical assets and the related accounting records, or to all phases of a transaction. Consequently, the possibility exists that unintentional or intentional errors or irregularities could exist and not be promptly detected. While our audit did not reveal any significant errors or irregularities resulting from this lack of segregation of employee duties and responsibilities, the Finance Committee should continue to review the monthly financial statements and significant activities of the Agency, including budgeted amounts for revenues and expenses.

Additionally, we issued the following reports in conjunction with the audit that address internal control related matters:

Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Independent Auditors' Report on Compliance for Each Major Federal Program and on Internal Control Over Compliance Required by the Uniform Guidance

Recent Accounting Pronouncement

Leases

The Financial Accounting Standards Board ("FASB")'s new lease accounting standard, which was issued in 2016, will generally require recognition for all leases with terms that exceed twelve months on the Agency's statement of financial position. The new lease accounting model will continue to reflect two types of leases. Under the new rules, a lessee would account for most existing capital leases as finance leases (that is, recognizing amortization of the right-of-use (ROU) asset, as well as separately recognizing interest on the lease liability in the statement of activities and changes in net assets). Most existing operating leases will remain as operating leases (that is, recognizing a single total lease expense). Both finance leases and operating leases will result in the lessee recognizing a ROU asset and a lease liability. The new standard will be effective for the Agency on January 1, 2022.

Client Service is a Priority

For additional information or if you have questions please contact the Audit Client Shareholder.

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